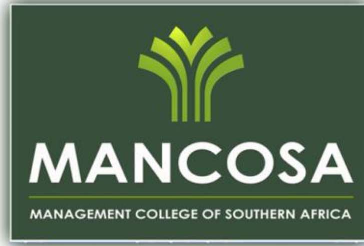

MARKETING MANAGEMENT

STUDY GUIDE

PROGRAMME	**:**	**MBA Year 1**
CREDIT POINTS	**:**	**20 points**
NOTIONAL LEARNING	**:**	**200 hours over 1 semester**
TUTOR SUPPORT	**:**	**mark1@mancosa.co.za**

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REF: MARK1 2011

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Course Description:

Marketing Management develops a structured approach to understanding and managing the marketing function. By learning how to successfully integrate the elements of the marketing function into a strategic, cohesive plan the student will cover the following topics: the marketing mix, segmentation methods, consumer behaviour, product positioning alternatives, branding and life-cycle concepts, channels of distribution, promotional strategies, sales management, and pricing.

Broad Outcomes:

Upon completion of the module the student should:

- Display an understanding of designing and implementing Marketing Strategies and their application in the business environment
- Have the ability to formulate strategic planning as a primary tool in business development
- Display conceptual skills obtained by integration of marketing knowledge and work experience.

HOW TO USE THIS MODULE

This module, *Marketing Management*, should be studied using this Study Guide together with the prescribed text.

Prescribed Text

The prescribed textbook for *Marketing Management* is:

Kotler, P and Keller, KL.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall.

Recommended Reading

The relevant pages in your prescribed texts, which you are required to read, will be indicated at the beginning of each section in the study guide. A number of recommended texts will also be listed. You are encouraged to read the recommended texts to enhance your knowledge and your learning experience.

Learning Outcomes

At the beginning of each section in this Study Guide you will find a list of learning outcomes. These outcomes detail the competence which you should have achieved on completion of the section.

Exercises

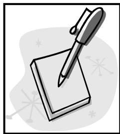
Throughout this Study Guide you will find exercises with which you need to engage. The purpose of these exercises is to:

- facilitate your engagement with the prescribed texts
- develop your critical and reflective thinking abilities
- provide you with opportunities to apply your knowledge
- assess what you have learnt.

The exercises, which you will be required to complete, are: 'Activities', 'Talking Points', 'Reading Activities' and 'Marketing Spotlight'.

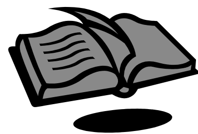
TALKING POINT

'Talking Points' require that you stop and think about an issue. Talking points are usually based on areas where uncertainties and controversies exist in marketing. They may require you to think about your own experience or provide an example. They require critical analysis and evaluation.



ACTIVITY

An 'Activity' provides you with an opportunity to apply what you have learnt. In most cases there are no right or wrong answers to these activities. Suggested responses are provided at the end of the chapter.



READING ACTIVITY

A 'Reading Activity' requires that you read, reflect on and summarise a journal article, text or other relevant matter to the subject matter being studied.

MARKETING SPOTLIGHT

This is an in-depth examination of some of the world's most successful marketing companies. You are asked to examine the marketing strategies of companies and answer the questions. Each case appears in the prescribed text. Answers are provided at the end of the chapter.

CHAPTER 1

INTRODUCTION TO MARKETING

CHAPTER ONE: INTRODUCTION

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Explain the importance of marketing
- Outline the scope of marketing
- Apply some fundamental marketing concepts
- Describe the changing nature of marketing
- Identify and apply the necessary tasks for successful marketing management

PRESCRIBED READING

Chapter 1 - Kotler, P and Keller, KL.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall.

RECOMMENDED READING

Chapter 1- Blythe, J (2006). Principles and Practice of Marketing. London: Thomson.

Chapter 1 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè JC (2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

Chapter 1 -Van der Walt, A Strydom, W.J Marx S and Jooste CJ (1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd.

OPENING NOTE

Marketing is everywhere. Formally or informally, people and organisations engage in a vast number of activities that could be called marketing. Good marketing is no accident, but a result of careful planning and execution. Marketing is both an "art" and a "science"- there is constant tension between the formulated side of marketing and the creative side.

What Is Marketing?

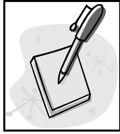
Marketing deals with identifying and meeting human and social needs. One of the shortest definitions of marketing is "meeting needs profitably" (Kotler and Keller, 2009:45).

The American Marketing Association offers the following formal definition: "Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organisational goals" (Kotler and Keller, 2009:45).

Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value. A social definition of marketing is that "marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others" (Kotler and Keller, 2009:45).

Marketing is too often confused and identified with advertising or selling techniques, and our practices and theories are all too often invisible to the average consumer. Marketing is everywhere. Formally or informally, people and organisations engage in a vast number of activities that could be called marketing. Good marketing is no accident, but a result of careful planning and execution. Marketing is both an "art" and a "science" - there is constant tension between the formulated side of marketing and the creative side. Financial success often depends on marketing ability. Many firms have created a Chief Marketing Officer (CMO) to put marketing on an equal footing with other Chief Executives such as a CFO and CEO. Marketing is tricky and making the right decisions is not always easy. Skilful marketing is a never-ending pursuit. Marketing, according to Van der Walt, Strydom, Marx and Jooste (1996:3), is an important and wide-ranging task of profit-seeking enterprises, which must succeed at all costs in order to survive and grow in a highly competitive market.

Marketing is an organisational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders (Kotler and Keller, 2009:45).



ACTIVITY 1.1

Consider the broad shifts in marketing. Are there any themes that emerge from these shifts?
Can they be related to the major societal forces?

Response at the end of this Section

Exchange and Transactions

Exchange is the process of obtaining a desired product from someone by offering something in return. For exchange potential to exist, Kotler and Keller (2006:6) insist that the following conditions must be satisfied:

- There are at least two parties.
- Each party has something that might be of value to the other party
- Each party is capable of communication and delivery
- Each party is free to accept or reject the exchange offer
- Each party believes it is appropriate or desirable to deal with the other party
- Exchange is a value-creating process because it normally leaves both parties better off

A transaction is a trade of values between two or more parties and involves several dimensions that include:

- At least two things of value
- Agreed upon conditions
- A time of agreement
- A place of agreement (Kotler and Keller, 2006:7).

A transaction differs from a transfer. In a transfer, A gives X to B but does not receive anything tangible in return. Marketers seek to elicit a behavioural response from another party.

According to Mullins, Walker, Boyd and Larrèchè (2006:6), the following questions need to be answered when assessing conditions necessary for exchange:

- Who are the parties involved in exchange relationships? Which organisations and people market things, and who are the customers?
- Which needs and wants do parties try to satisfy through exchange, and what is the difference between the two?
- What is exchanged?
- How does exchange create value? Why is a buyer better off and more satisfied following an exchange?
- How do potential exchange partners become a market for a particular good or service?

What Is Marketed?

Marketing people, according to Kotler and Keller (2009:46-47), are involved in marketing ten types of entities. The list below outlines these entities:

Goods
Physical goods constitute the bulk of production and marketing efforts.

Services
Non-tangible -A growing portion of business activities are focused on the production of services.

Events
Marketers promote time-based events such as trade shows, artistic performances, and sporting events.

Experiences
By orchestrating several services and goods, a firm can create and market experiences such as Walt Disney World's Magic Kingdom.

Persons
Celebrity marketing is a major business.

Places
Cities, states, regions, and whole nations compete actively to attract tourists, factories, and new residents.

Properties
Are intangible rights of ownership of either real property (real estate) or financial property (stocks and bonds)

Organisations

Actively work to build a strong, favourable, and unique image in the minds of their target publics.

Information

Can be produced and marketed as a product. Schools, universities, and others produce information and then market it.

Ideas

Every market offering includes a basic idea. Products and services are platforms for delivering some idea or benefit (Kotler and Keller, 2009:47).

Who Markets?

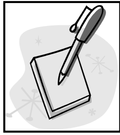
A marketer is someone seeking a response (attention, purchase, vote, donation, etc.) from another party called the prospect.

Marketers are responsible for stimulating demand for a company's product. Marketing managers seek to influence the level, timing, and composition of demand to meet the organisation's objectives. Eight demand states are possible:

- **Negative demand -** consumers dislike the product and may even pay a price to avoid it.
- **Non-existent demand -** consumers may be unaware of or uninterested in the product.
- **Latent demand -** consumers may share a strong need that cannot be satisfied by an existing product.
- **Declining demand -** consumers begin to buy the product less frequently or not at all.
- **Irregular demand** - consumer purchases vary on a seasonal, monthly, daily, or even an hourly basis.
- **Full demand -** consumers are adequately buying all products put into the marketplace.
- **Overfull demand -** too many consumers would like to buy the product that can be satisfied.
- **Unwholesome demand -** consumers may be attracted to products that have undesirable social consequences (Kotler and Keller, 2009:48).

Markets

Kotler and Keller (2009:48) assert that economists describe a market as a collection of buyers and sellers who transact over a particular product or product class. Marketers use the term " market" to cover various groups of customers. They view the sellers as constituting the industry and the buyers as constituting the market. They talk about need markets, product markets, demographic markets, and geographic markets.



ACTIVITY 1.2

Distinguish between consumer markets, business markets and global markets and the characteristics of the consumers within each market.

Response at the end of this Section

MARKETPLACES, MARKETSPACES, AND METAMARKETS

The marketplace is physical; the market space is digital. Mohan Sawhney (2001) has proposed the concept of meta-markets to describe a cluster of complementary products and services that are closely related in the minds of consumers but are spread across a diverse set of industries. An example is the automobile industry that consists of physical locations (car dealers) and marketspace locations (Internet locations) that consumers use in deciding what car to purchase. Figure 1.1 depicts the forces that impact on the changing nature of businesses and markets.

Figure 1.1 - How Business and Marketing Are Changing

Changing technology

Globalisation

Deregulation

Privatisation

Empowerment

Customisation

Convergence

Disintermediation

Adapted: Kotler,and Keller (2006). Marketing Management. (12th Edition). Upper Saddle River, New Jersey : Prentice Hall. p13-14.

COMPANY ORIENTATIONS TOWARD THE MARKETPLACE

According to Kotler and Keller (2009:58), the competing concepts under which organisations have conducted marketing activities include the production concept, product concept, selling concept, marketing concept, and holistic marketing concept.

Production Concept

The production concept holds that consumers will prefer products that are widely available and inexpensive.

Product Concept

The product concept holds that consumers will favour those products that offer the most quality, performance, or innovative features.

Selling Concept

The selling concept holds that consumers and businesses, will ordinarily not buy enough of the organisation's products, therefore, the organisation must undertake aggressive selling and promotion effort.

Marketing Concept

The marketing concept holds that the key to achieving organisational goals consists of the company being more effective than competitors in creating, delivering, and communicating superior customer value to its chosen target markets.

Reactive Market Orientation

Understanding and meeting consumers' expressed needs. Proactive marketing orientation researching or imagining latent consumers' needs through a "probe-and-learn" process. Companies that practice both reactive and proactive marketing orientation are implementing a total market orientation.

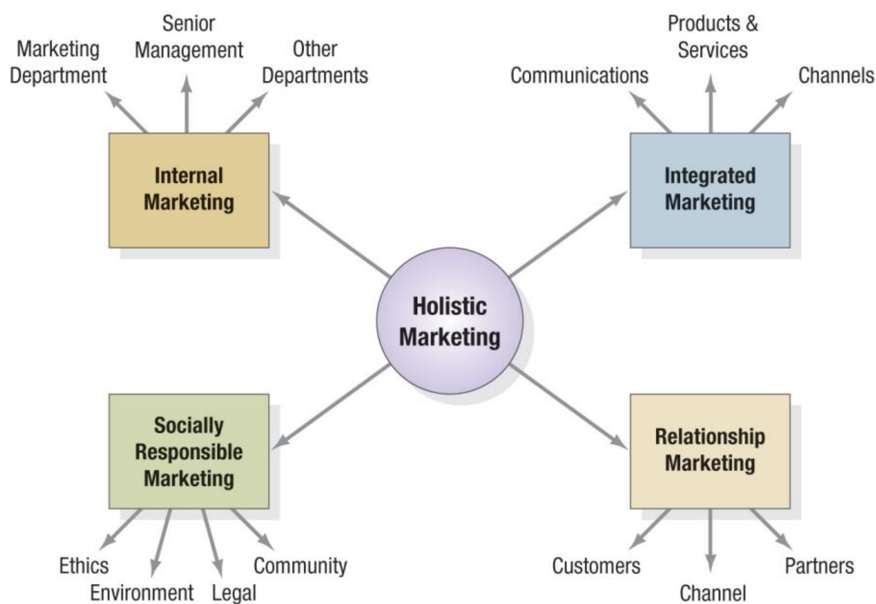
Holistic Marketing Concept

Holistic marketing can be seen as the development, design, and implementation of marketing programmes, processes, and activities that recognises the breath and interdependencies of their efforts. Holistic marketing recognises that "everything matters" with marketing—the consumer, employees, other companies, competition, as well as society as a whole. Figure 1.2 provides a schematic overview of four broad themes characterising holistic marketing.

TALKING POINT

Some writers have taken the view that all employees are marketers now, because everybody in the organisation has a responsibility for customer satisfaction. The problem with this view is a conceptual one : If everybody in the organisation is a marketer, what role remains for the marketing managers? Presumably marketing must have some boundaries (Blythe, 2006:11).

Figure 1.2 – Holistic Marketing Dimensions



Source: Kotler and Keller (2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall. P61.

Relationship Marketing

Relationship marketing has the aim of building mutually satisfying long-term relationships with key parties—customers, suppliers, distributors, and other marketing partners. Relationship marketing builds strong economic, technical, and social ties among the parties. Marketing according to Kotler and Keller (2009:62) must not only do customer relationship management (CRM) but also partnership relationship management (PRM). Four key constituents for marketing are customers, employees, marketing partners (channel partners) and members of the financial community. The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network. A marketing network consists of the company and its supporting stakeholders (customers, suppliers, distributors, retailers, ad agencies, university scientists, and others) with whom it has built mutually profitable business relationships.

Integrated Marketing

The marketer's task is to devise marketing activities and assemble fully integrated marketing programmes to create, communicate, and deliver value for consumers. Figure 1.3 depicts the marketing mix variables that can be integrated into the marketing programmeme.

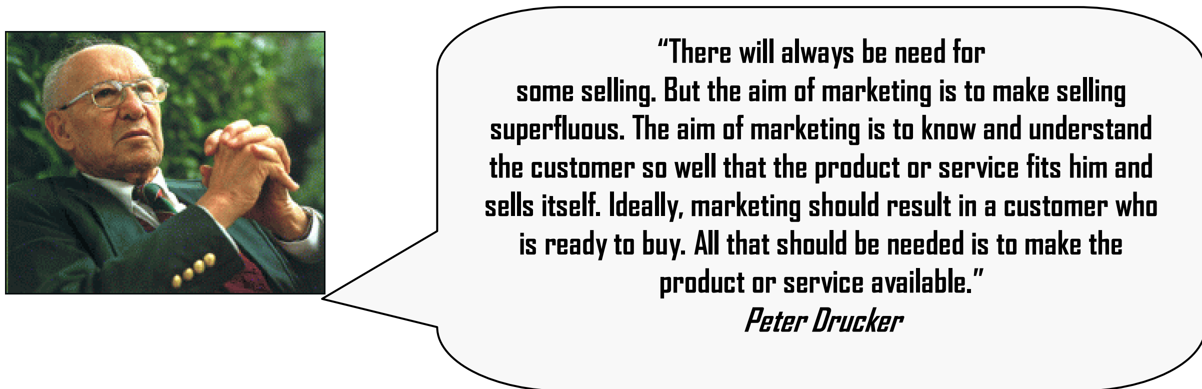


Figure 1.3 – The Four P Components of the Marketing Mix

Source: Kotler and Keller (2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall. pp 63.

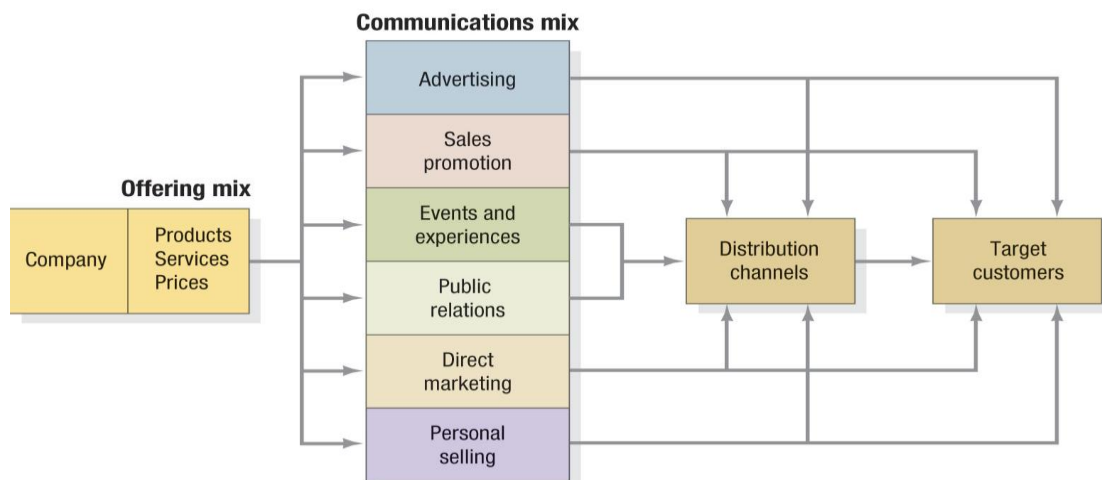
Mullins, Walker, Boyd and Larrèchè (2006:18) describe the marketing mix as the combination of controllable marketing variables that a manager uses to carry out a marketing strategy in pursuit of the firm's objectives in a given target market.

Marketing mix decisions must be made for influencing the trade channels as well as the final consumers. Robert Lauterborn (1990:6) suggests that the seller's 4P's correspond to the customers' 4C's:

4P's	4C's
Product	Customer solution
Price	Customer cost
Place	Convenience
Promotion	Communication

Many different marketing activities are employed to communicate and deliver value. All marketing activities are coordinated to maximise their joint efforts. Figure 1.4 shows the company preparing an offering mix of products, services, and prices and utilising a communications mix of sales promotion, advertising, sales force, public relations, direct mail, telemarketing, and interactive marketing to reach the trade channels and the target customers.

Figure 1.4 – Marketing Mix Strategy



Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall. P64.

Internal Marketing

Kotler and Keller (2009:64) confirm that holistic marketing incorporates internal marketing, ensuring that everyone in the organisation embraces appropriate marketing principles. Internal marketing must take place on two levels:

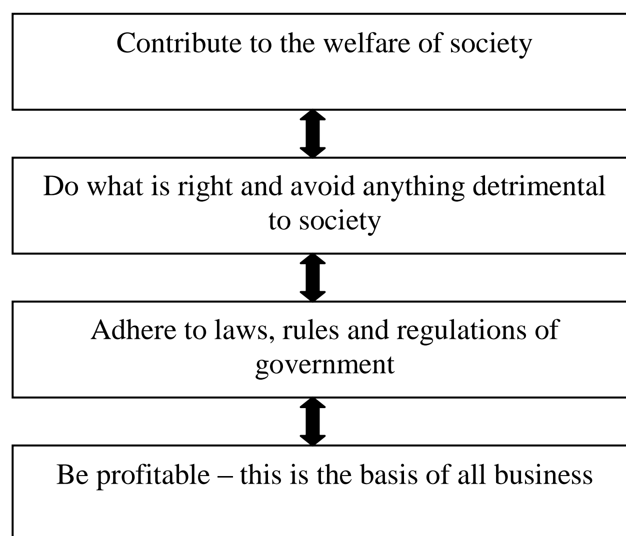
At one level, the various marketing functions (sales force, advertising, customer services, product management, and marketing research) must work together.

Secondly, the other departments must embrace marketing—they must "think customer." Marketing is not a department so much as a company orientation.

Social Responsible Marketing

Holistic marketing incorporates social responsibility marketing and understanding broader concerns, and the ethical, environmental, legal, and social context of marketing activities and programmes. Van der Walt, Strydom, Marx and Jooste(1996:24) identify four main areas of social responsibility depicted in Figure 1.5.

Figure 1.5 – Understanding Social Responsible Marketing



Source: Van der Walt, Strydom, Marx and Jooste (1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd. p24.

FUNDAMENTAL MARKETING CONCEPTS, TRENDS, AND TASKS

To understand the marketing function, Kotler and Keller, (2009: 68-69) argue that we first need to understand certain fundamental concepts and tasks, along with current trends described below:

Target Markets, Positioning, and Segmentation

A marketer can rarely satisfy everyone in a market, therefore the marketers must divide the market into slices or segments. The marketer then decides which segment presents the greatest opportunity - which are its target markets. For each chosen target market, the firm develops a market offering. The offering is positioned in the minds of the target buyers as delivering some central benefit(s).

Offerings and Brands

Companies put forth a value proposition, a set of benefits they offer to customers to satisfy their needs. The intangible value proposition is made physical by an offering that can be a combination of products, services, information, and experiences.

Value and Satisfaction

The offering will be successful if it delivers value and satisfaction to the target buyer.
The buyer chooses between different offerings based on which is perceived to deliver the most value. Value reflects the perceived tangible benefits and costs to customers. Value can be a combination of quality, service, and prices called the customer value triad. Value is a central marketing concept. Marketing can be seen as the identification, creation, communication, delivery, and monitoring of customer value. Satisfaction reflects a person's comparative judgment resulting from a product's perceived performance (or outcome) in relation to his or her expectations.

Marketing Channels (three kinds of marketing channels)

Communication channels deliver and receive messages from target buyers. Distribution channels display, sell, or deliver the physical product or service(s). Service channels carry out transactions with potential buyers (warehouses, transportation companies, banks).

Supply Chain

This describes a longer channel stretching from raw materials to finished goods. It represents a value delivery system.

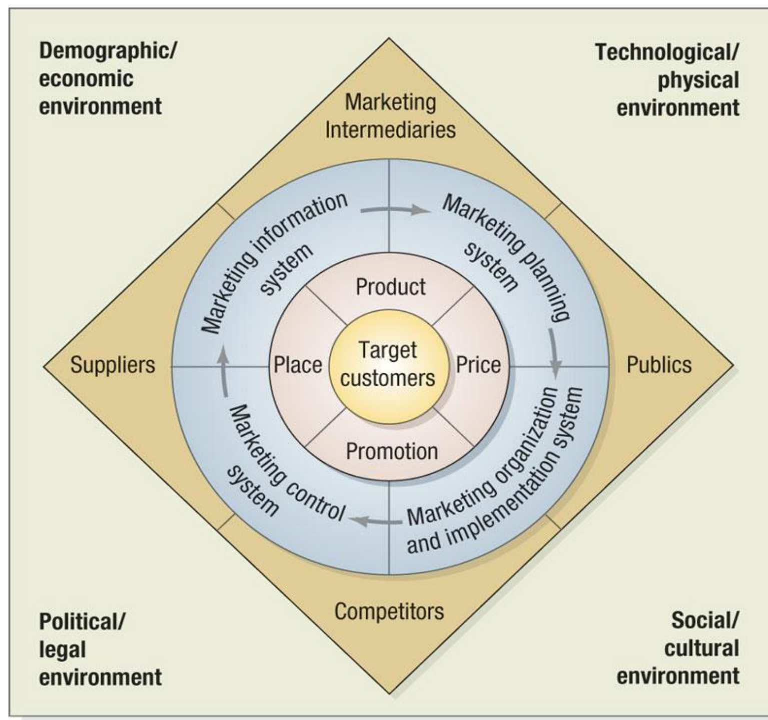
Competition

This includes all the actual and potential rival offering and substitutes that a buyer might consider.

Marketing Environment

This consists of the task environment and the broad environment. Task environment includes the immediate actors involved in producing, distribution, and promoting the offering: suppliers, company, dealers, and target customers. The broad environment consists of six components: Demographic, Economic, Natural, Technological, Political-legal and Social-cultural. Figure 1.6 presents a grand summary of the marketing process and the forces shaping the company's marketing strategy.

Figure 1.6 – Factors Influencing Company Marketing Strategy



Source: Kotler and Keller.(2006). Marketing Management. (12th Edition). Upper Saddle River, New Jersey : Prentice Hall. p27.

Marketing Planning

This process consists of analysing marketing opportunities, selecting target markets, designing marketing strategies, developing marketing programmes and managing the marketing effort.

ACTIVITY 1.3

Assume that you have been given the task of assisting a company in designing its marketing planning process. Identify the components that should be in such a process.

Response at the end of this Section

Shifts in Marketing Management

A number of important trends and forces are eliciting a new set of beliefs and practices on the part of business firms. These fourteen major shifts according to Kotler and Keller (2006:27-28) are:

- From marketing does the marketing to everyone does the marketing
- From organisation by products units to organising by customer segments
- From making everything to buying more goods and services from outside
- From using many suppliers to working with fewer suppliers in a “partnership”
- From relying on old market positions to uncovering new ones
- From emphasising tangible assets to emphasising intangible assets
- From building brands through advertising to building brands through performance and integrated communications
- From attracting customers through stores and salespeople to making products available online
- From selling to everyone to trying to be the best firm serving a well-defined target market
- From focusing on profitable transactions to focusing on customer lifetime value
- From a focus on gaining market share to a focus on building customer share
- From being local to being “global”- both global and local
- From focusing on the financial scorecard to focusing on the marketing scorecard
- From focusing on shareholders to focusing on stakeholders

MARKETING SPOTLIGHT—COCA-COLA

Case Study: Kotler and Keller (2006: 31-32).

- What have been the key success factors for Coca-Cola?
- Where is Coca-Cola vulnerable?
- What should they watch out for?
- What recommendation would you make to their senior marketing executives going forward?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

From a managerial point of view, marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organisational goals. Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value. Marketers are skilled at managing demand. They seek to influence the level, timing, and composition of demand. Marketers are involved in marketing many types of entities: goods, services, events, experiences, persons, places, properties, organisations, information, and ideas. They also operate in four different marketplaces: consumer, business, global, and non-profit. Businesses today face a number of challenges and opportunities including globalisation, the effects of advances in technology, and deregulations. They have responded by changing how they conduct marketing in very fundamental ways. There are five competing concepts under which organisations can choose to conduct their business: the production concept, product concept, selling concept, marketing concept, and the holistic marketing concept. The first three are of limited use today. The holistic marketing concept is based on the development, design, and implementation of marketing programmes, processes, and activities, that recognises their breadth and interdependencies. Holistic marketing recognises that "everything matters" with marketing and that a broad, integrated perspective is often necessary. Four components of holistic marketing are relationship marketing, integrated marketing, internal marketing, and social marketing. Marketing management has experienced a number of shifts in recent years as companies seek marketing excellence. The set of tasks necessary for successful marketing management include developing marketing strategies and plans, connecting with customers, building strong brands, shaping the market offerings, delivering and communicating value, capturing marketing insights and performance, and creating successful long-term growth.

Response to Marketing Spotlight

What have been the key success factors for Coca-Cola?

Its pursuit of always looking for new ways to portray the brand, to keep the brand "fresh" in the minds of current consumers without betraying the "core values."

Where is Coca-Cola vulnerable?

A change in consumer tastes for soft drinks is vulnerability for Coca-Cola. Additionally, as the brand expands into third-world countries, lifestyles and customs provide challenges.

What should Coca-Cola watch out for?

Any demographic, or lifestyle changes that would have long-term consequences would be a threat for the brand. Young consumers must embrace the brand to ensure that they continue to drink Coca-Cola as they age. If Coca-Cola misses a generation, sales will suffer for a long time.

What recommendation would you make to their senior marketing executives going forward?

They should continue to embrace the core values of the brand and expand soft drink sales opportunities, not from the Coca-Cola brand, but from flanker brands or acquisitions. They should preserve the Coke franchise and defend it steadfastly.

What should they be sure to do with their marketing?

It is important to evolve and adapt to changes in the consumer market by constantly monitoring consumer buying habits, purchase intents, and their shifts in lifestyle priorities.

Response to Activity 1.1

The major themes that emerge in these broad shifts are technology, decentralisation, and empowerment. As companies face increased global competition, they are beginning to increase their attention to all aspects of marketing and are beginning to encompass marketing as a corporate goal and not just a departmental function.

The major societal forces at work: two-income families, increased technology, fewer firms, increased consumer education and empowerment are forcing companies and marketers to shift their thinking about marketing and rethink their best business practices.

Response to Activity 1.2

Consumer Markets: Companies selling mass consumer goods and services such as bread, soft drinks, shoes and cosmetics facing the everyday consumer in order to satisfy needs.

Business Markets: Companies selling business goods and services usually facing well trained and well informed buyers who are skilled in evaluating competitive offerings.

Global markets: Companies selling goods and services in a global marketplace are faced with well informed buyers with the added dimension of differences in communication, culture, negotiation and language.

Response to Activity 1.3

The marketing planning process consists of analysing marketing opportunities, selecting target markets, designing strategies, developing marketing programmes, and managing the marketing effort.

CHAPTER 2

DEVELOPING MARKETING STRATEGIES AND PLANS

CHAPTER TWO: DEVELOPING MARKETING STRATEGIES AND PLANS

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Describe the ways marketing affects customer value
- Demonstrate knowledge on how strategic planning is carried out at different levels of the organisation
- Describe and formulate a marketing plan

PRESCRIBED READING

Chapter 2 - Kotler,P and Keller,KL.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall.

RECOMMENDED READING

Chapter 2 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè JC(2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

Chapter 16 -Van der Walt, A Strydom, W.J Marx S and Jooste CJ(1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd.

OPENING NOTE

A key ingredient of the marketing management process is insightful, creative marketing strategies and plans that can guide marketing activities. Marketing has evolved way beyond production and sales. Marketing is now about delivering customer value through innovative and creative strategies while at the same time satisfying the consumers' needs and wants.

Strategy

Mullins, Walker, Boyd and Larrèchè (2006:39) define strategy as a fundamental pattern of present and planned objectives, resource deployments and interactions of an organisation with markets, competitors, and other environmental factors. Van der Walt, Strydom, Marx and Jooste (1996:541) define strategic marketing as the process involving the formulation of appropriate market strategies as inputs in business and corporate strategy. Examining strategic marketing implications involved in creating customer value is a key factor in strategic marketing. Table 2.1 adapted from Van der Walt, Strydom, Marx and Jooste (1996:541) outlines levels of strategy in large enterprises.

Table 2.1 – Levels of Strategy

Corporate Strategy	deals with the allocation of resources between the various departments and business units in the enterprise and the profitable management of these resources.
Business Strategy	deals with the strategies of specific strategic business units (SBU's). All these strategies of the SBUs are combined into the corporate strategy.
Market Strategy	deals with marketing management's contribution to formulating the business strategy
Functional Strategy	deals with the development of the departmental strategies at middle management level.

Source: Van der Walt, A Strydom, W.J Marx S and Jooste CJ (1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd. p541.

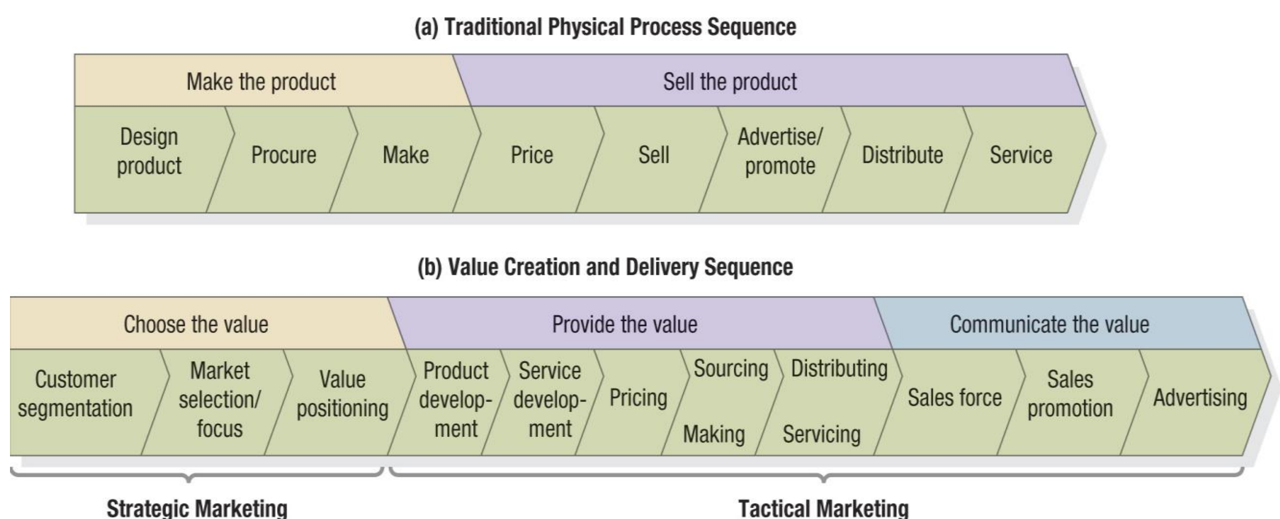
Marketing and Customer Value

Marketing involves satisfying consumers' needs and wants. The task of any business according to Kotler and Keller (2009:74) is to deliver customer value at a profit.

The Value Delivery Process

The traditional view of marketing according to Kotler and Keller (2009:74) is that the firm makes something and then sells it. Marketing will not work in economies where people face abundant choice. The new belief of marketing begins with the planning process. Figure 2.1 depicts the value delivery process.

Figure 2.1(b) – The Value Delivery Process



Source: Kotler and Keller .(2006). Marketing Management. (12th Edition). Upper Saddle River, New Jersey : Prentice Hall. p36

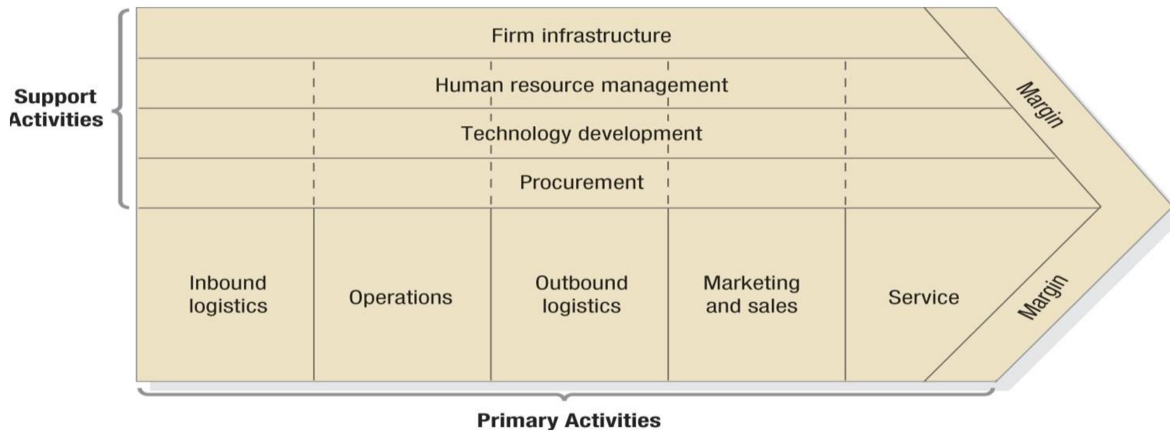
As indicated on Figure 2.1(b), value creation and delivery consists of three parts:

- Choosing the value (segment the market, define target market, develop "offering")
- Providing the value (product features, prices, and distribution channels)
- Communicating the value (sales force, advertising, and promotional tools)

The Value Chain

Michael Porter's Value Chain (Figure 2.2) identifies nine strategically relevant activities that create value and costs (five primary and four support activities).

Figure 2.2 – The Generic Value Chain



Source: Kotler and Keller.(2006). Marketing Management. (12th Edition). Upper Saddle River, New Jersey : Prentice Hall. p39.

A) Primary activities:
   1) Inbound logistics (material procurement)
   2) Operations (turn into final product)
   3) Outbound logistics (shipping and warehousing)
   4) Marketing (marketing and sales)
   5) Servicing (service after the sale)

B) Support activities:
   1) Procurement.
   2) Technology development
   3) Human resource management
   4) Firm infrastructure

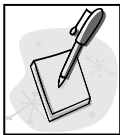
The firm's task is to examine its costs and performance in each value-creating activity and to look for ways to improve performance.

C) Core business processes:
   1) The market sensing process (marketing intelligence)
   2) The new offering realisation process (research and development)
   3) The customer acquisition process (defining target markets and consumers)
   4) The customer relationship management process (deeper understanding of consumers)

Strong companies develop superior capabilities in these core business processes. Strong companies also re-engineer the workflows and build cross-functional teams responsible for each process. Many companies have partnered with suppliers and distributors to create a superior value-delivered network.

D) Value-delivery network (supply chain).

To be successful today, a firm must look for competitive advantages beyond its own operations - to its suppliers and distributors to create a superior value-delivery network (supply chain).



ACTIVITY 2.1

Consider Porter's value chain and the holistic marketing orientation model. What implications do they have for marketing planning? How would you structure a marketing plan to incorporate some of their concepts?

Response at the end of this Section

Core Competencies

Companies need utilise resources (labour, materials, energy, etc.) in the following ways to gain competitive advantage:

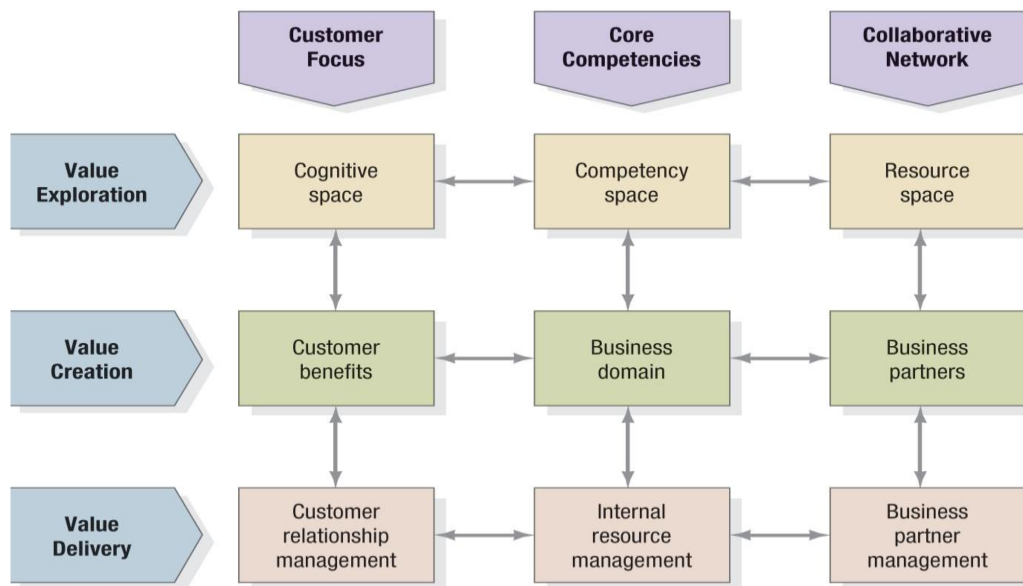
1) Own or nurture the resources and competencies that make up the essence of the business - outsource if competency is cheaper and available.
2) Competitive advantage accrues to companies that possess distinctive capabilities (excellence in broader business processes).
3) Competitive advantage derives from how well the company fits its core competencies and distinctive capabilities into tightly interlocking "activity systems."

Competitive advantage ultimately derives from how well the company "fits" its core competencies and distinctive capabilities into tightly interlocking "activity systems."

A Holistic Marketing Orientation and Customer Value

Holistic Marketing can provide insight into the process of capturing customer value. Figure 2.3 shows the interaction between customers, company, collaborators, and value-based activities (value exploration, value creation, and value delivery) to create, maintain, and renew customer value (Kotler and Keller, 2009:78-79).

Figure 2.3 – The Holistic Marketing Framework



Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall. P78.

Holistic marketing according to Kotler and Keller (2009:59) addresses three key management questions:

- Value exploration - identify new value opportunities
- Value creation - create more promising new value offerings
- Value delivery - deliver the new value offerings more efficiently

Developing strategy requires the understanding of the relationships and interactions among these three spaces.

1) Value Exploration

Developing such a strategy according to Kotler and Keller (2009:79) requires an understanding of the relationships and interactions among three spaces:

- The customer's cognitive space (reflects existing and latent needs and includes participation, stability, freedom, and change).
- The company's competence space (broad versus focused scope of business and depth physical versus knowledge-based capabilities).
- The collaborator resource space (horizontal and vertical partnerships).

2) Value Creation

Marketer's need to identify new customer benefits from the customer's view. They therefore need to utilise core competencies and select and manage business partners from its collaborative networks.

3) Value Delivery - What Companies Must Become?

Value delivery often requires an investment in infrastructure and capabilities. The company must become proficient at customer relationship management, internal resource management and business partnership management (Kotler and Keller, 2009:79).

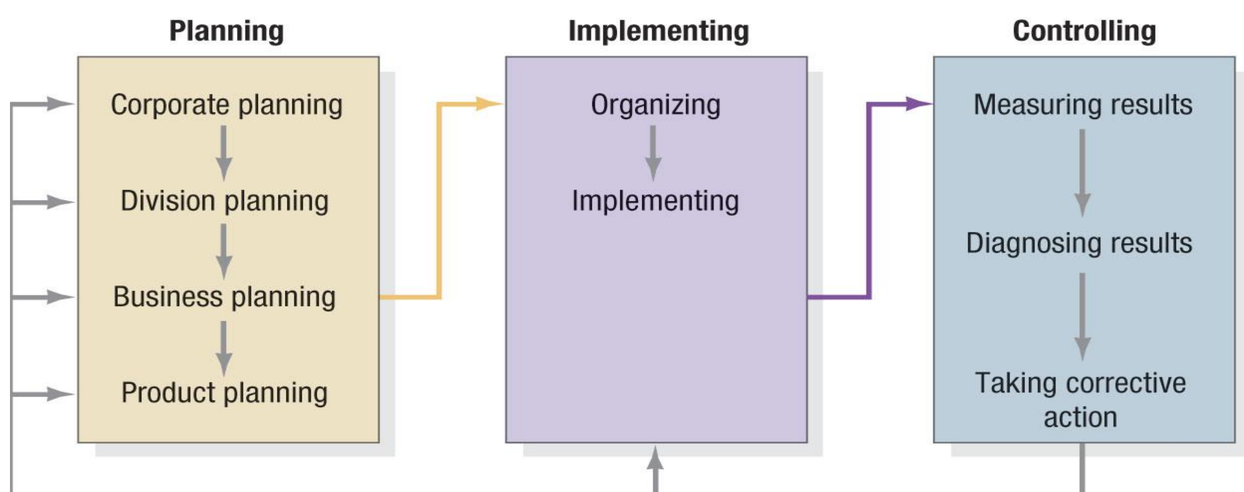
The Central Role of Strategic Planning

Successful marketing requires companies to have capabilities such as understanding customer value, creating customer value, delivering customer value, capturing customer value and sustaining customer value. Strategic planning according to (Kotler and Keller, 2009:79-80) calls for action in three areas:

- Managing a company's businesses as an investment portfolio.
- Assessing each business's strength by the market's growth rate and the company's position and fit in that market.
- Establish strategy.

The marketing plan is the central instrument for directing and coordinating the marketing effort. The marketing plan operates on two levels: strategic and tactical. The strategic marketing plan lays out target markets and the value proposition. The tactical marketing plan specifies the product, promotion, merchandising, pricing, sales channels, and service. Figure 2.4 shows the strategic complete planning, implementation, and control process (Kotler and Keller, 2009:80).

Figure 2.4 – Strategic Planning, Implementation and Controlling



Source: Kotler and Keller (2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall. P80.

CORPORATE AND DIVISION STRATEGIC PLANNING

By preparing statements of mission, policy, strategy and goals, headquarters establishes the framework within which divisions and business units prepare their plans. All corporate headquarters according to Kotler and Keller (2009:81) undertake four planning activities:

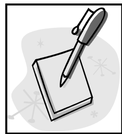
- Defining the corporate mission
- Establishing strategic business units (SBU's)
- Assigning resources to each SBU
- Assessing growth opportunities.

1) Defining the Corporate Mission

To define its mission, a company should address Peter Drucker's classic questions:

- What is our business?
- Who is the customer?
- What is of value to the customer?
- What will our business be?
- What should our business be?

Mission statements are best when guided by a "vision" that provides direction for the company.



ACTIVITY 2.2

Discuss the advantage and disadvantage of corporate mission statements to marketing.

Response at the end of this Section

2) Defining the Business

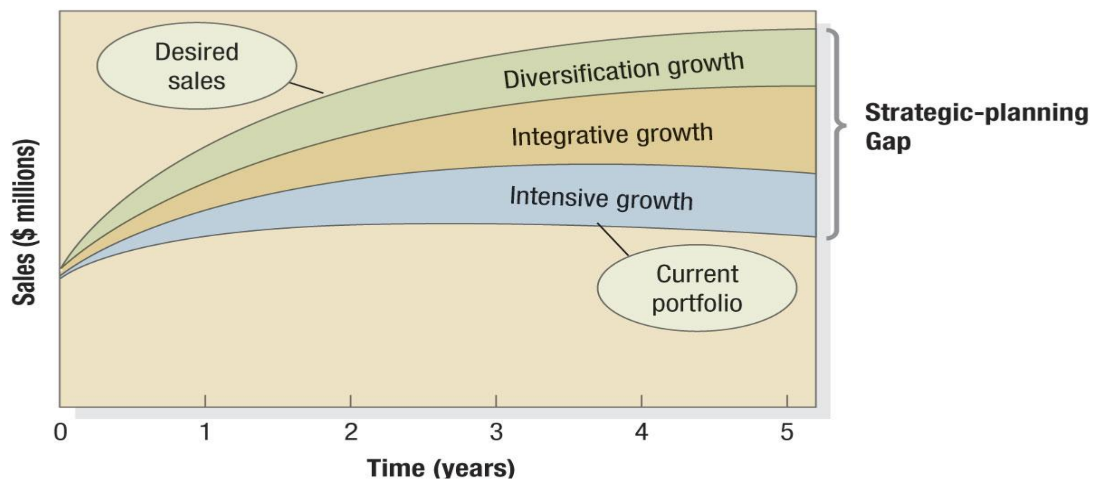
A target market definition tends to focus on selling a product or service (Pepsi® and all who drink cola sodas). A strategic market definition is broader and more encompassing (Pepsi redefines its strategy to everyone who has a "thirst"). A business can be defined in terms of three dimensions:

- Customer groups
- Customer needs.
- Technology

3) Assessing Growth Opportunities

Accessing growth opportunities according to Kotler and Keller (2009:84) involves planning for new businesses and downsizing or terminating old businesses. If there is a gap between future desired sales and projected total sales, corporate management would have to develop or acquire new businesses to fill it. Figure 2.5 illustrates the Strategic Planning Gap used to ascertain desired sales against the current portfolio.

Figure 2.5 – The Strategic Planning Gap



Source: Kotler and Keller(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. P85.

Intensive Growth

The corporate manager's first course of action should be a review of opportunities for improving existing businesses. Figure 2.6 shows Ansoff's "product-market expansion grid."

Figure 2.6 – Ansoff's Product-Market Expansion Grid

	Current Products	New Products
Current Markets	1. Market-penetration strategy	3. Product-development strategy
New Markets	2. Market-development strategy	(Diversification strategy)

Source: Kotler and Keller (2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall. P85.

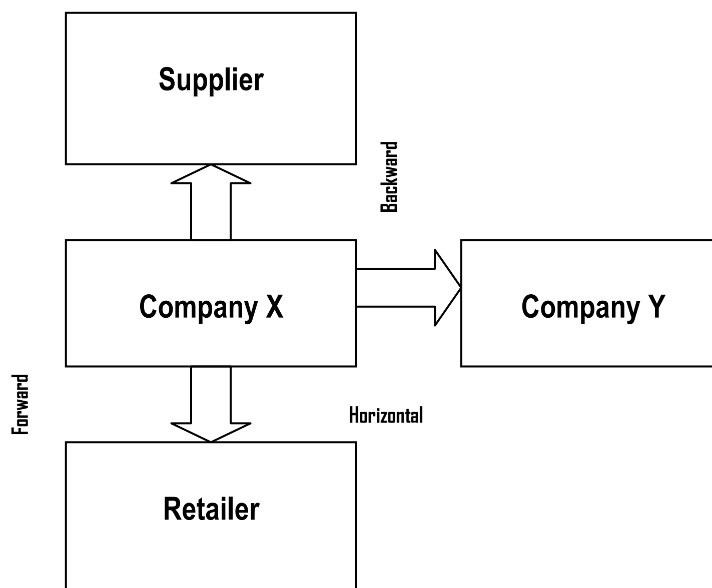
The Ansoff grid is based on the following strategies:

- Market-penetration strategy (gain more market share)
- Market-development strategy (new markets for current products)
- Product-development strategy (new products for current markets)
- Diversification strategy (new products for new markets)

Integrative Growth

A business's sales and profits may be increased through backward, forward, or horizontal integration within its industry. Figure 2.7 provides an example of integrative growth.

Figure 2.7 – Forward and Backward Integration



Company X, usually responsible for manufacturing items, acquires a supplier (Backward integration). It then uses its end product to open up its own retail outlet (forward integration). It also forms a joint venture with Company Y, a market research company (horizontal integration).

Diversification Growth

Diversification growth makes good sense when opportunities are found outside the present business and the company has the right mix of business strengths to be successful. Several types are possible:

1) New products that have technological or marketing synergies with existing product lines.
2) New products unrelated to the current industry.
3) New businesses unrelated (Kotler and Keller, 2009:86).

Downsizing and Divesting Older Businesses

Companies must not only develop new businesses; they must also carefully prune, harvest, or divest tired old businesses in order to release needed resources and reduce costs. Weak businesses require a disproportionate amount of managerial time/talent (Kotler and Keller, 2009:87).

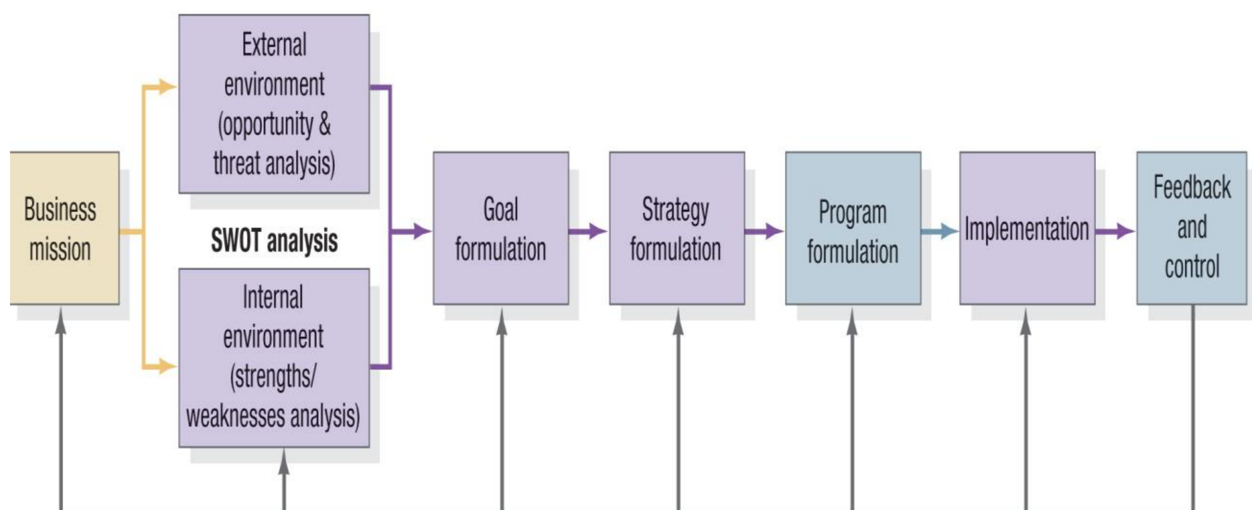
Organisation and Organisational Culture

Organisations according to Kotler and Keller, 2009:87).consist of: structures, policies and corporate culture, all of which can become dysfunctional in a rapidly changing business environment. Whereas structures and policies can be changed, the company's culture is difficult to change. Corporate culture is defined as "the shared experiences, stories, beliefs, and norms that characterise an organisation." Sometimes corporate culture develops organically and is transmitted by the CEO's personality.

BUSINESS UNIT STRATEGIC PLANNING

Figure 2.8 shows the steps in the business unit strategic-planning process

Figure 2.8



Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. Pp88.

Business Mission

Each business unit needs to define its specific mission within the broader company mission.

SWOT Analysis

The aim of SWOT analysis according to Van der Walt, Strydom, Marx and Jooste (1996:547) is to identify a company's strengths, weaknesses, opportunities, and threats. It involves monitoring the external and internal marketing environment.

External Environment (Opportunity and Threat) Analysis

A business unit must monitor key macro environment forces:

- Technology
- Demographic-economic
- Natural
- Technological
- Political-legal
- Social-cultural
- Significant microenvironment factors:
    a. Customers
    b. Competitors
    c. Suppliers
    d. Distributors
    e. Dealers

A major purpose of environmental scanning is to discern new opportunities. A marketing opportunity is an area of buyer need and interest in which there is a high probability that a company can profitably satisfy that need.

Internal Environment (Strengths/Weaknesses) Analysis

It is one thing to find attractive opportunities and another to be able to take advantage of them. Each firm must evaluate its internal strengths and weaknesses. George Stalk suggests that winning companies are those that have achieved superior in-company capabilities, not just core competencies. Stalk calls this capabilities-based competition.

Goal Formulation

Once the company has performed a SWOT analysis, it can proceed to develop specific goals for the planning period. This stage of the process is called goal formulation. Managers use the term "goals" to describe objectives that are specific with respect to magnitude and time.

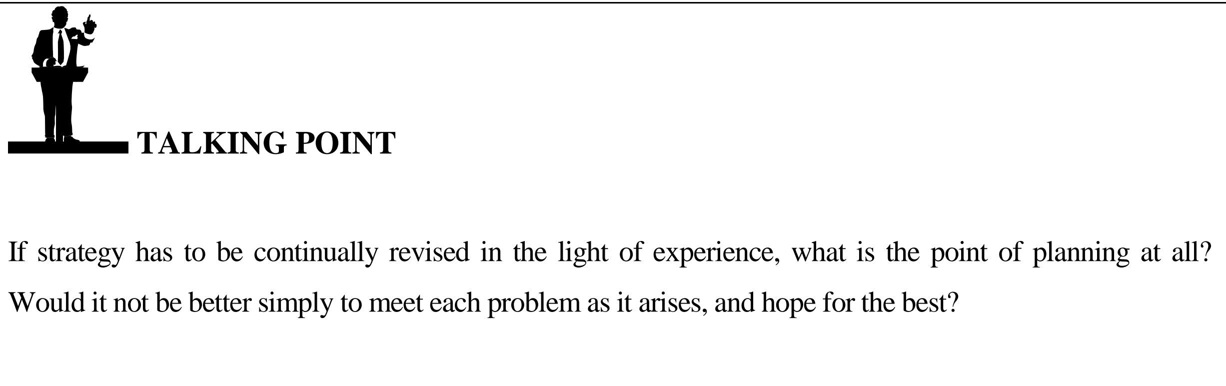
Management by Objectives

The firm sets objectives, and then manages by objectives (MBO). For MBOs to work they must meet four criteria:

- They must be arranged hierarchically, from the most to least important
- Objectives should be stated quantitatively whenever possible
- Goals should be realistic
- Objectives must be consistent

Strategic Formulation

Every business must design a strategy for achieving its goals, consisting of a marketing strategy, and a compatible technology strategy, and sourcing strategy.



TALKING POINT

If strategy has to be continually revised in the light of experience, what is the point of planning at all? Would it not be better simply to meet each problem as it arises, and hope for the best?

Porter's Generic Strategies

Michael Porter has proposed three generic strategies that provide a good starting point for strategic thinking:

- Overall cost leadership
- Differentiation
- Focus

According to Porter, firms pursuing the same strategy to the same target market constitute a strategic group (Kotler and Keller, 2009:94-95).

Strategic Alliances

Companies are discovering that there is a need for strategic partners if they hope to be effective. Many strategic alliances take the form of marketing alliances. These fall into the following four major categories:

- Product or service alliances
- Promotional alliances
- Logistic alliances
- Pricing collaborations.

To keep strategic alliances thriving, corporations have begun to develop organisational structures for support and have come to view the ability to form and manage partnerships as core skills (called Partner Relationship Management, PRM).

Programme Formulation and Implementation

A great marketing strategy can be sabotaged by poor implementation. Marketing must estimate its costs. In implementing strategy, companies must not lose sight of the multiple stakeholders involved and their needs.

THE NATURE AND CONTENTS OF A MARKETING PLAN

Each product level (product line, brand) must develop a marketing plan for achieving its goals. A marketing plan is a written document that summarises what the marketer has learned about the marketplace and indicates how the firm plans to reach its marketing objectives.

Marketing plans are becoming more customer and competitor orientated. The plan draws more input from all the business functions and is team developed.

Structure of a Marketing Plan

Contents of the marketing plan:

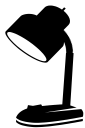
1) Executive summary and table of contents.
2) Situation analysis.
3) Marketing strategy.
4) Financial projections.
5) Implementation controls.

READING ACTIVITY

Study pages 98 - 102- Kotler and Keller (2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall for an example of a typical marketing plan.

MARKETING SPOTLIGHT – NIKE

Case Study: Kotler and Keller (2006: 68)



- What have been the key success factors for Nike?
- Where is Nike vulnerable?
- What should it watch out for?
- What recommendations would you make to the senior marketing executives of NIKE?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

The value delivery process (marketing) involves choosing (or identifying), providing (or delivering), and communicating superior value to the consumer. The value chain is a tool for identifying key activities that create value and costs in a specific business. Strong companies develop superior capabilities in managing core business processes by managing core processes effectively to create a marketing network from suppliers to consumers. Managing these core processes effectively, means creating a marketing network in which the company works closely with all parties in the production and distribution chain, from suppliers of raw materials to retail distributors. Companies no longer compete - marketing networks do. Holistic marketing maximises value exploration by understanding the relationships between the customer's cognitive space, the company's competence space, and the collaborator's resource space. It maximises value creation by identifying new customer benefits from the customer's cognitive space; utilising core competencies from its business domain and selecting and managing business partners from its collaborative networks. Maximised value is delivered by becoming proficient at customer relationship management, internal resource management, and business partnership management. Market-orientated strategic planning is the managerial process of developing and maintaining a viable fit between the organisation's objectives, skills, and resources and its changing market opportunities. The aim of strategic planning is to shape the company's businesses and products so that it yields target profits and growth. Strategic planning takes place at four levels: corporate, division, business unit, and product. The corporate strategy establishes the framework within which the divisions and business units prepare their strategic plans. Setting a corporate strategy entails four activities: defining the corporate mission, establishing strategic business units (SBU's), assigning resources to each SBU based on its market attractiveness and business strength, and planning new business and downsizing older businesses. Strategic planning for individual businesses entails the following activities:

- defining the business mission
- analysing external opportunities and threats
- analysing internal strengths and weaknesses
- formulating goals, formulating strategy
- formulating supporting programmes
- implementing the programmes
- gathering feedback, and
- exercising control.

Each product level within a business unit must develop a marketing plan for achieving its goals. The marketing plan is one of the most important outputs of the marketing process.

Response to Marketing Spotlight - Nike

What have been the key success factors for Nike?

- Consistent advertising programme and selective spokespersons
- Tracking consumer-purchasing behavior.

Where is Nike vulnerable?

- Loss of key sports figures
- Loss of incremental growth in high-end products
- Changes in governmental regulations/rules for production of their products
- Competitive activities that mimic or improve upon technological processes

What should NIKE watch out for?

- Identifying trends and megatrends in the sports apparel industry
- Monitoring the six major environmental forces of:
  - Demographic
  - Economic
  - Social-cultural
  - Natural
  - Technological
  - Political-legal

What recommendations would you make to senior marketing executives going forward?

Understand people's views of themselves, others, organisations, society, nature, and the universe as it pertains to sports.

What should they be sure to do with their marketing?

- Work closely with local and national governments, pressure groups and other environmental arenas to position the company as being socially responsible to the concerns about shoe manufacturing
- Continue to present their advertising showing "fun" in sports and the use of their products

Response to Activity 2.1

Michael Porter's value chain is a tool for identifying ways to create more customer value. This value chain identifies nine strategically relevant activities that create value and cost in a business. There are five primary activities and four support activities in this value chain. The five primary activities are: inbound logistics, operations, outbound logistics, marketing and sales, and service. The four support activities are: procurement, technology development, human resource management, and infrastructure. Before the marketing function begins its planning, it must first examine the costs and performance of the firm in each of these value-creating activities and look for ways to improve or reduce costs/products as needed. Marketing must also force the firm to benchmark itself to the competition in all of these areas. The structure of the marketing plan must take into account each of the five primary activities and each of the four support activities. A marketing plan must incorporate both a "downstream" and "upstream" review in the process to deliver superior customer value. This means that the planning process must include areas for improvement in the five primary areas and the four support areas as part of its strategy and product development. Essentially, the marketing plan becomes an "improvement" document for the firm in each of these nine strategic activities delineating areas for change or modification for the firm.

Response to Activity 2.2

Advantage: A well-crafted corporate mission statement reflects the values of the firm as they relate to the community at large, its stakeholders, its employees, and its customers. Once the firm's positions are delineated in the mission statement, marketing can begin the process of setting its priorities, goals, and objectives derived from the stated priorities of the firm. With the advent of holistic marketing, what the firm believes about the communities at large and what strategic direction the firm wishes to take should be defined through its mission statement.

Disadvantage: Mission statements are written for public consumption and rarely if ever do they reflect the actual goals, objectives, and mission of the firm. These statements are for public consumption and are written to placate the corporate stakeholders, employees, and consumers. Although most mission statements are written with good intentions, the real direction of the firm must be found in the application of its business practices. Marketing should not make the mistake of deriving its goals, objectives, and strategies from these platitudes.

CHAPTER 3

GATHERING INFORMATION AND SCANNING THE ENVIRONMENT

CHAPTER THREE: GATHERING INFORMATION AND SCANNING THE ENVIRONMENT

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Identify the components of a modern marketing information system
- Recognise the importance of internal records
- Discuss the process involved in developing a marketing intelligence system
- Apply key methods for tracking and identifying opportunities in the macro environment
- Explain some important macro environment developments

PRESCRIBED READING

Chapter 3 - Kotler,P and Keller,KL.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall.

RECOMMENDED READING

Chapter 3 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè (2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

Chapter 2 -Van der Walt, A Strydom, W.J Marx S and Jooste CJ(1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd.

OPENING NOTE

In the technological arena, marketers should take into account the accelerating pace of technological change, opportunities for innovation, varying RandD budgets, and the increased governmental regulation brought about by technological change. In the political-legal environment, marketers must work within the many laws regulating business practices and with various special-interest groups. Developing and implementing marketing plans involves a number of decisions. Making those decisions is both an art and a science. To provide insight into and inspiration for marketing decision making, companies must possess comprehensive, up-to-date information on both macro trends as well as more micro effects particular to their business. Holistic marketers recognise that the marketing environment is constantly presenting new opportunities and threats, and they understand the importance of continuously monitoring and adapting to that environment.

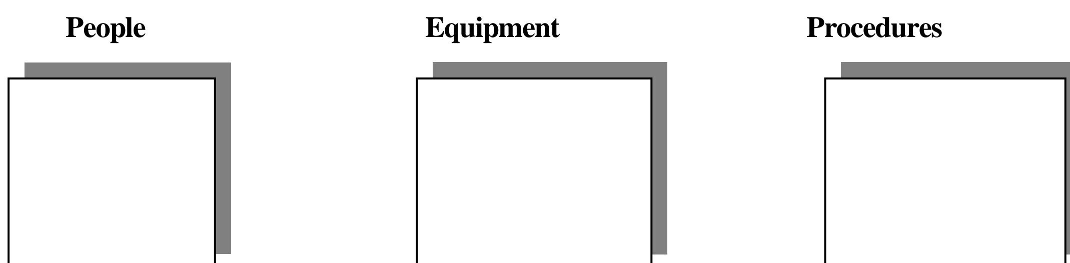
Components of a modern marketing information system

The major responsibility according to Kotler and Keller, (2009:106) for identifying significant marketplace changes falls to the company's marketers. More than any other group in the company, they must be the trend trackers and opportunity seekers. Although every manager in an organisation needs to observe the outside environment, marketers have the following advantages:

- They have disciplined methods for collecting information
- Additionally, they spend more time interacting with customers and observing competition
- Some firms have developed marketing information systems that provide management with rich detail about buyer wants, preferences, and behaviour
- Marketers also have extensive information about how consumption patterns vary across countries
- Many business firms are not sophisticated about gathering information. Many do not have a marketing research department
- Every firm must organise and distribute a continuous flow of information to its marketing manager

A marketing information system (MIS) consists of:

People **Equipment** **Procedures**



A marketing information system is developed from:

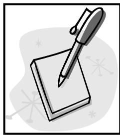
- Internal company records
- Marketing intelligence activities
- Marketing research

The company's marketing information system should be a cross between what managers think they need, what managers really need, and what is economically feasible.

Internal Records and Marketing Intelligence

Marketing managers rely on internal reports on orders, prices, costs, inventory levels, receivables, payables, and so on. By analysing this information, they can spot important opportunities and problems.

Every marketer, not just retailers, needs information about "what's hot, what's not." Unfortunately, accounting systems generally do not collect such data (Mullins, Walker, Boyd and **Larrèchè (2006:163).**



ACTIVITY 3.1

Outline steps to improve marketing intelligence.

Response at the end of this Section

Order-to-Payment Cycle

The heart of the internal records systems is the order-to-payment cycle, which includes the following:

- Sales representatives, dealers, and customers send orders to the firm
- The sales department prepares invoices and transmits copies to various departments
- Shipping and billing documents that are sent to the various departments accompany shipped items
- Today companies need to perform these steps quickly and accurately
- An increasing number of companies are using the Internet and extranets to improve the speed, accuracy, and efficiency of the order-to-payment cycle

Sales Information Systems

Marketing managers need timely and accurate reports on current sales. Companies must carefully interpret the sales data so as not to get the wrong signals. Technological gadgets are revolutionizing sales information systems and allowing representatives to have up-to-the second information.

Databases, Data Warehouses, and Data-Mining

Today companies organise information in databases - customer databases, product databases, salesperson databases - and then combines data from the different databases. Companies warehouse these data for easy accessibility to decision makers. By hiring analysts skilled in sophisticated statistical methods, companies can "mine" the data and garner fresh insights into neglected customer segments and recent customer trends. The customer information can be cross-tabbed with product and salesperson information to yield still deeper insights.

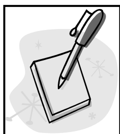
> *Defining marketing databases that take effective advantage of customer data that companies are in a position to collect, requires that several major issues be considered*
>
> **(Mullins, Walker, Boyd and Larrèchè (2006:165).**

Marketing Intelligence System

The internal records systems supplies results data, but the marketing intelligence system supplies happenings data. A marketing intelligence system is a set of procedures and sources managers use to obtain everyday information about developments in the marketing environment (Kotler and Keller, 2009:109-111).

Analysing the Macro environment

Successful companies recognise and respond profitably to unmet needs and trends. Enterprising individuals and companies manage to create new solutions to unmet needs.



ACTIVITY 3.2

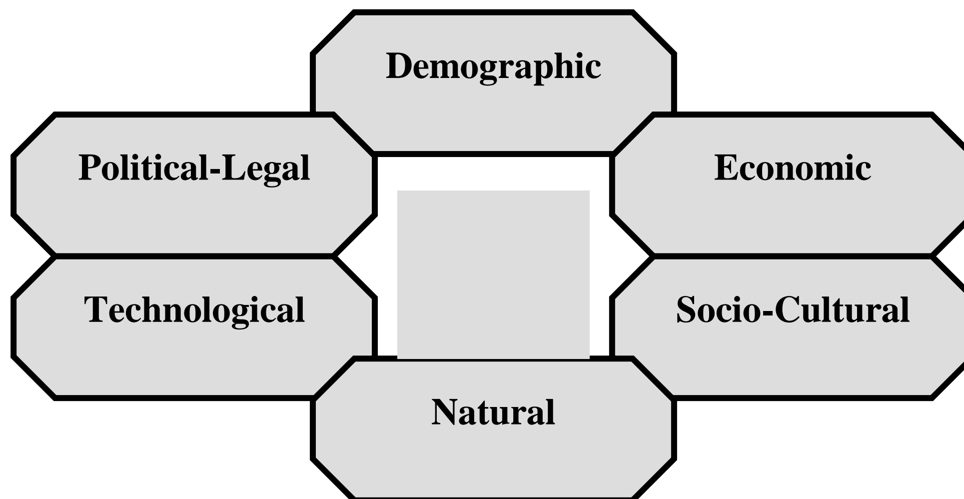
Distinguish between a fad, trend and megatrends.

Response at the end of this Section

Identifying the Major Forces

Kotler and Keller (2009:114) state that those companies and their suppliers, marketing intermediaries, customers, competitors, and publics, all operate in a macro environment of forces and trends that shape opportunities and pose threats. These forces represent "non-controllables" which the company must monitor and to which they should respond. Within the rapidly changing global picture, the firm must monitor six major forces as depicted in figure 3.1.

Figure 3.1 – Major Forces



Does it really matter whether we swim upstream or downstream? How can we be sure we've identified and understood the key environmental trends?

(Mullins, Walker, Boyd and Larrèchè (2006:66).

According to Kotler and Keller (2009:114-115) marketers must pay attention to the interactions of the environmental forces, as these will lead to new opportunities and threats. The environmental forces are discussed below:

Demographic Environment

Demographic trends are highly reliable for the short and intermediate run. The main demographic force that marketers monitor is *population* because people make up markets. Marketers are keenly interested in the:

- Size and growth rate of populations in cities, regions, and nations
- Age distribution and ethnic mix
- Educational levels
- Household patterns
- Regional characteristics and movements

Worldwide Population Growth

The world's population is showing explosive growth: It totaled 6.1 billion in 2000 and will exceed 7.9 billion by the year 2025. The population explosion has been a source of major concern. Explosive population growth has major implications for business. A growing population does not mean growing markets unless these markets have sufficient purchasing power.

Population Age Mix

National populations vary in their age mix. There is a global trend toward an aging population. A population can be subdivided into six age group's: preschool, school-age children, teens, young adults age 25 to 40, middle-aged adults age 40 to 65 and older adults ages 65 and up.

Ethnic and Other Markets

Countries vary in ethnic and racial makeup. A frequently noted mega-trend, the increase in the percentage of Hispanics in the total population, represents a major shift in the nation's centre of gravity. Ethnic groups have certain specific wants and buying habits. Marketers must be careful not to over generalise about ethnic groups. Within each ethnic group are consumers who are quite different from each other. Diversity goes beyond ethnic and racial markets.

Educational Groups

The population in any society falls into five educational groups: illiterates, high school dropouts, high school degrees, college degrees and professional degrees. The level of education within a group spells a high demand for specific goods and services.

Household Patterns

The "traditional household" consists of a husband, wife, and children (sometimes grandparents). Several groups of households exist in Africa. Each group has a distinctive set of needs and buying habits. Marketers must increasingly consider the special needs of nontraditional households, because they are now growing more rapidly than traditional households. Single does not necessarily mean "alone," "friends are the new family." "Neo tribes" of twenty-somethings living communally. This emphasis on friendship can influence marketers in everything from whom they target to how they craft their marketing messages. The gay market is a particularly lucrative segment.

Geographical Shifts in Population

This is a period of great migratory movements between and within countries. Forward-looking companies and entrepreneurs are taking advantage of the growth in immigrant populations and marketing wares specifically to these new members of the population. Within countries, population movement occurs as people migrate from rural to urban areas, and then to suburban areas. Location makes a difference in goods and service preferences. There are also regional differences. Suburban growth and a disdain for commuting has helped those business that cater to the growing SOHO (small office-home office) segment. Marketers also look at where consumers are flocking (Kotler and Keller, 2009:118-119).

Other Major Macro environments

Kotler and Keller (2009: 119–123) identify other macro environment forces that profoundly affect the fortunes of marketers. These include the following :

Economic Environment

Markets require purchasing power as well as people. The available purchasing power in an economy depends upon current income, prices, savings, debt and credit availability. Marketers must pay careful attention to trends affecting purchasing power because they can have a strong impact on business, especially for companies whose products are geared to high-income and price-sensitive consumers.

Income Distribution

There are four types of industrial structures:

- Subsistence economies,
- Raw material exporting economies,
- Industrializing economies, and
- Industrial economies.

In a global economy, marketers need to pay attention to the shifting income distribution in countries around the world, particularly in countries where affluence levels are rising. Marketers often distinguish countries with five different income-distribution patterns: very low incomes, mostly low incomes, very low, very high incomes, low, medium, high incomes and mostly medium incomes.

Outsourcing and Free Trade

An economic issue of increasing importance is the migration of manufacturers and service jobs off-shore. Many domestic workers see outsourcing as a competitive necessity by many firms, but as a cause of unemployment.

Social-Cultural Environment

Purchasing power is directed toward certain goods and services and away from others according to people's tastes and preferences. Society shapes the beliefs, values, and norms that largely define these tastes and preferences. People absorb a worldview that defines their relationships to themselves, others, organisations, society, nature, and to the universe.

High Persistence of Core Cultural Values

The people living in a particular society hold many core beliefs and values that tend to persist. ***Core beliefs*** and values are passed on from parents to children and are reinforced by major social institutions. ***Secondary beliefs*** and values are more open to change. Marketers have some chance of changing secondary values but little chance of changing core values.

Existence of Subcultures

Each society contains ***subcultures,*** groups with shared values emerging from their special life experiences or circumstances. Members of subcultures share common beliefs, preferences, and behaviours. To the extent that sub cultural groups exhibit different wants and consumption behaviour, marketers can choose particular subcultures as target markets.

Marketers sometimes reap unexpected rewards in targeting subcultures.

Natural Environment

The deterioration of the environment is a major global concern. In many world cities, air and water pollution have reached dangerous levels. There is great concern about "greenhouse gases." New regulations have hit certain industries very hard. Consumers often appear conflicted about the natural environment. Marketers need to be aware of the threats and opportunities associated with four trends in the natural environment which include:

- Shortage of raw materials, especially water
- Increased cost of energy
- Increased pollution levels
- Changing role of governments

Technological Environment

One of the most dramatic forces shaping peoples' lives is technology. Every new technology is a force for "creative destruction." The economy's growth rate is affected by how many major new technologies are discovered. New technologies also create major long-run consequences that are not always foreseeable.

The marketer should monitor the following trends in technology:

- Pace of change
- Opportunities for innovation
- Varying Research and Development budgets
- Increased regulation

Accelerating Pace of Change

Many of today's common products were not available 40 years ago. The time between the appearance of new ideas and their successful implementation is all but disappearing. So is the time between introduction and peak production.

Unlimited Opportunities for Innovations

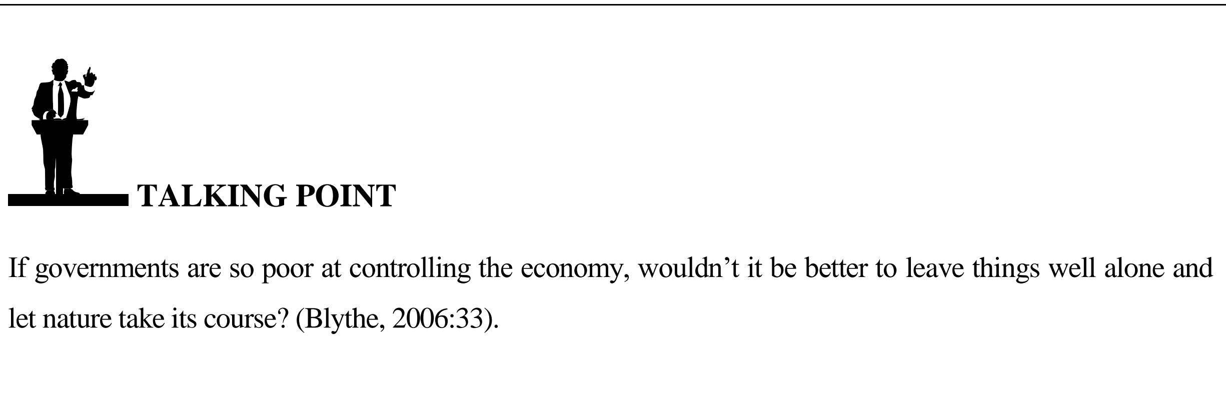
Scientists today are working on a startling range of new technologies that will revolutionize products and production processes. Companies are already harnessing the power of *virtual reality (VR)*, the combination of technologies that allows users to experience three-dimensional, computer-generated environments through sound, sight, and touch.

Varying RandD Budgets

A growing portion of the U.S. RandD expenditures are going into the development side of RandD. Many companies are content to put their money into copying competitors' products and making minor feature and style improvements.

Increased Regulation of Technological Change

As products become more complex, the public needs to be assured of their safety. Government agencies' powers to investigate and ban potentially unsafe products have been expanded. Marketers must be aware of these regulations when proposing, developing, and launching new products.



Political-Legal Environment

Marketing decisions are strongly affected by developments in the political and legal environment. This environment is composed of laws, government agencies, and pressure groups. Sometimes these laws also create new business opportunities. Two major trends deal with the increase in business legislation and the growth of special interest groups.

Increase in Business Legislation

Business legislation has three main purposes to protect companies from unfair competition, to protect consumers from unfair business practices and to protect the interests of society from unbridled business behaviour. A major purpose of business legislation and enforcement is to charge businesses with the social costs created by their products or production processes.

Growth of Special Interest Groups

The number and power of special interest groups have increased over the past three decades. Many companies have established public affairs departments to deal with these groups. An important force affecting business is the *consumerist movement*—an organised movement of citizens and government to strengthen the rights and powers of buyers in relation to sellers. With consumers increasingly willing to swap personal information for customized products from firms, privacy issues will continue to be a public hot button. Several companies have established consumer affairs departments to help formulate policies and respond to consumer complaints. Clearly, new laws and growing numbers of pressure groups have put more restraints on marketers.

Importance of Environmental Scanning

Van der Walt, Strydom, Marx and Jooste (1996) assert that the importance of environmental scanning is clear from the following points:

- The environment is continually changing, so purposeful scanning by management is necessary to keep abreast of change
- Scanning is necessary to determine which factors in the environment pose a threat to the enterprise's present goals and strategy
- Scanning is also necessary to determine which factors in the environment present opportunities for the more effective attainment of the goals of the enterprise by modifying its present strategy
- Enterprises that scan the environment systematically are more successful than those that do not.

MARKETING SPOTLIGHT – BUDWEISER

Case Study: Kotler and Keller (2006: 96-97)

- What have been the key success factors for Budweiser?
- Where is Budweiser vulnerable?
- What should Budweiser watch out for?
- What recommendations would you make to senior marketing executives going forward?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

To carry out their analysis, planning, implementation, and control responsibilities, marketing managers need a marketing information system (MIS). The role of the MIS is to assess the manager's information needs, develop the needed information, and distribute that information in a timely manner. An MIS has three components: (a) an internal records system that includes information on the order-to-payment cycle and sales reporting systems; (b) a marketing intelligence system, a set of procedures and sources used by managers to obtain everyday information about pertinent developments in the marketing environment; and (c) a marketing research system that allows for the systemic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation. Many opportunities are found by identifying trends (directions or sequences of events that have some momentum and durability) and mega trends (major social, economic, political, and technological changes that have long-lasting influence). Within the rapidly changing global picture, marketers must monitor six major environmental forces: demographic, economic, social-cultural, natural, technological, and political-legal. In the demographic environment, marketers must be aware of worldwide population growth; changing mixes of age, ethnic composition, and educational levels; the rise of nontraditional families; large geographic shifts in population; and the move to micro marketing and away from mass marketing. In the economic arena, marketers need to focus on income distribution and levels of savings, debt, and credit availability. In the social-cultural arena, marketers must understand people's views of themselves, others, organisations, society, nature, and the universe. They must market products that correspond to society's core and secondary values, and address the needs of different subcultures within a society. In the natural environment, marketers need to be aware of raw material shortages, increased energy costs and pollution levels, and the changing role of governments in environmental protection.

Response to Marketing Spotlight - Budweiser

What have been the key success factors for Budweiser?

- Decision to become a leader in mining customers' buying patterns
- Timely data: getting information back from wholesalers and retailers on what is selling where and when.
- Creating BudNET and WEARS
- Tracking consumer-purchasing behavior using IRI data
- Using store data, creating targeted marketing material
- Demographic data allows them to know what products sell better in each location
- Use of the EIA to guide product assortment decisions

Where is Budweiser vulnerable?

- Changes in governmental regulations concerning alcoholic products
- Changes in diet preferences/consumer preferences for alcoholic products
- Competitive activities that mimic or improve upon technological processes

What should Budweiser watch out for?

- Identifying trends and megatrends in the alcoholic industry
- Monitor the six major environmental forces:
  - (i) Demographic
  - (ii) Economic
  - (iii) Social-cultural
  - (iv) Natural
  - (v) Technological
  - (vi) Political-legal

What recommendations would you make to senior marketing executives going forward?

- Understand people's views of themselves, others, organisations, society, nature, and the universe as it pertains to alcoholic consumption
- Continue to present a positive corporate education awareness programme regarding responsibility toward alcoholic consumption.

What should they be sure to do with their marketing?

- Work closely with local and national governments, pressure groups and other environmental arenas to position the company as being socially responsible to these concerns.
- Continue to present their advertising showing alcoholic consumption in a responsible manner.

Response to Activity 3.1

- Train sales force to scan for new developments
- Motivate channel members to share intelligence
- Network externally
- Utilise a customer advisory panel
- Utilise government data resources
- Purchase information
- Collect customer feedback online

Response to Activity 3.2

- A ***fad*** is “unpredictable, short-lived, and without social, economic, and political significance.”
- A ***trend*** is a direction or sequence of events that has some momentum and durability
- Trends are more predictable and durable than fads. A trend reveals the shape of the future and provides many opportunities
- ***Megatrends*** have been described as “large social, economic, political, and technological changes [that] are slow to form, and once in place, they influence us for some time - between seven and ten years, or longer

CHAPTER 4

CONDUCTING MARKETING RESEARCH AND FORECASTING DEMAND

CHAPTER FOUR: CONDUCTING MARKETING RESEARCH AND FORECASTING DEMAND

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Explain what constitutes good marketing research
- Explain what are good metrics for measuring marketing productivity
- Demonstrate how marketers can assess their returns on investment of marketing expenditures
- Clarify how companies can more accurately measure and forecast demand

PRESCRIBED READING

Chapter 4 - Kotler,P and Keller,KL.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall.

RECOMMENDED READING

Chapter 7- Blythe, J (2006). Principles and Practice of Marketing. London: Thomson

Chapter 7 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè (2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

Chapter 5 -Van der Walt, A Strydom, W.J Marx S and Jooste CJ(1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd.

OPENING NOTE

In addition to monitoring a changing marketing environment, marketers also need to develop specific knowledge about their particular markets. Good marketers want information to help them interpret past performance as well as plan future activities. Marketers need timely, accurate, and actionable information on consumers, competition, and their brands.

MARKETING RESEARCH SYSTEM

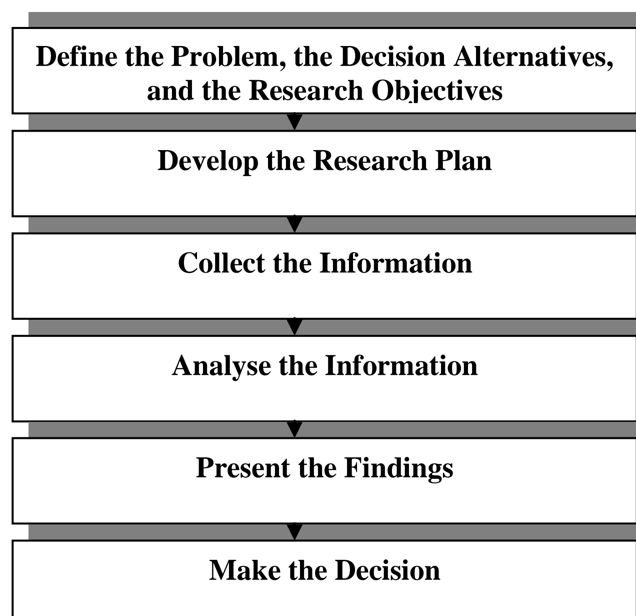
Marketing managers often commission formal marketing studies of specific problems and opportunities. We define ***marketing research*** as the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company. Most large companies have marketing research departments. At smaller companies, marketing research is often carried out by everyone in the company. Companies normally budget marketing research at one to two percent of company sales.

Small companies can hire the services of a marketing research firm or conduct research in creative and affordable ways (Kotler and Keller, 2009:130).

THE MARKETING RESEARCH PROCESS

According to Kotler and Keller (2009:131 – 145), the marketing research process assumes the six steps depicted in Figure 4.1 below:

Figure 4.1 – The Marketing Research process



Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall. P131.

TALKING POINT

If we don't know what the problem is, how do we know we have a problem at all? Is preliminary research really necessary? Surely what we don't know about can't hurt us, so why go looking for trouble?
(Blythe, 2006:214).

Step 1: Define the Problem, the Decision Alternatives, and the Research Objectives

Marketing management must be careful not to define the problem too broadly or too narrowly for the marketing researcher. Some research is exploratory—its goal is to shed light on the real nature of the problem and to suggest possible solutions or new ideas. Some research is descriptive—it seeks to ascertain certain magnitudes. Some research is causal—its purpose is to test a cause-and-effect relationship.

Step 2: Develop the Research Plan

The second stage of the marketing research calls for developing the most efficient plan for gathering the needed information. The marketing manager needs to know the cost of the research plan before approving it. Designing a research plan calls for decisions on the:

- Data sources
- Research approaches
- Research instruments
- Sampling plan
- Contact methods

Data Sources

The research can gather secondary data, primary data, or both. Secondary data are data that were collected for another purpose and already exist. Primary data are data freshly gathered for a specific purpose or for a specific research project. Researchers usually start out their investigation by examining secondary data.. Secondary data provides a starting point and offers the advantages of low cost and ready availability. Most marketing research projects involve some primary data collection. Van der Walt, Strydom, Marx and Jooste (1996:151) provide the different sources of primary and secondary data in Table 4.1:

Table 4.1 – Primary and Secondary data sources

PRIMARY DATA		SECONDARY DATA	
Internal Sources	External Sources	Internal Sources	External Sources
Employees	Consumers Clients Retailers Wholesalers Competitors	Company records	Libraries Industrial associations Chamber of industry and commerce Government bodies Marketing research organisations Universities

Source: Van der Walt, A Strydom, W.J Marx S and Jooste CJ(1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd. p151.

Research Approaches

Primary data can be collected in five main ways: through observation, focus groups, surveys, behavioural data, and experiments.

Observational Research

Fresh data can be gathered by observing the relevant actors and settings.

Focus Group Research

A focus group is a gathering of six to ten people who are carefully selected based on certain demographic, psychographic, or other considerations and brought together to discuss various topics of interest at length.

Survey Research

Companies undertake surveys to learn about people’s knowledge, beliefs, preferences, and satisfaction, and to measure these magnitudes in the general population.

Behavioural Data

Customers leave traces of their purchasing behaviour in store scanning data, catalogue purchases, and customer databases. Much can be learned by analysing these data.

Experimental Research

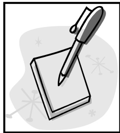
The most scientifically valid research is experimental research. The purpose of experimental research is to capture cause-and-effect relationships by eliminating competing explanations of the observed findings.

Research Instruments

Marketing researchers have a choice of three main research instruments in collecting primary data: questionnaires, qualitative measures, and mechanical devices.

Questionnaires

A questionnaire consists of a set of questions presented to respondents. Because of its flexibility, the questionnaire is by far the most common instrument used to collect primary data. Questionnaires need to be carefully developed, tested, and debugged before being administered.



ACTIVITY 4.1

On a table, list some questionnaire do's and don'ts.

Response at the end of this Section

Qualitative Measures

Some marketers prefer more qualitative methods for gauging consumer opinions because consumer actions do not always match their answers to survey questions. Qualitative research techniques are relatively unstructured measurement approaches that permit a range of possible responses. Qualitative research techniques are a creative means of ascertaining consumer perceptions that may otherwise be difficult to uncover. Because of the freedom afforded both researchers in their probes and consumers in their responses, qualitative research can often be a useful first step in exploring consumers' brand and product perceptions.

Sampling Plan

After deciding on the research approach and instruments, the marketing researcher must design a sampling plan. This calls for three decisions:

- Sampling unit: Who is to be surveyed? Define the target population that will be sampled
- Sample size: How many people should be surveyed? Large samples give more reliable results than small samples
- Sampling procedure: How should the respondents be chosen? Probability sampling allows the calculation of confidence limits for sampling error

Contact Methods

Once the sampling plan has been determined, the marketing researcher must decide how the subject should be contacted: mail, telephone, personal, or online interview.

Mail Questionnaire

The mail questionnaire is the best way to reach people who would not give personal interviews or whose responses might be biased or distorted by the interviewers. Mail questionnaires require simple and clearly worded questions. The response rate is usually low and/or slow.

Telephone Interviews

Telephone interviewing is the best method for gathering information quickly. The interviewer is also able to clarify questions if respondents do not understand them. The response rate is typically higher than in the case of mailed questionnaires. The main drawback is that the interviews have to be short and not too personal.

Personal Interview

Personal interviewing is the most versatile method. The interviewer can ask more questions and record additional observations about the respondent. It is the most expensive method and subject to interviewer bias or distortion. Personal interviewing takes two forms: Arranged interviews and intercept interviews.

Online Interview

There is an increase in the use of online methods. There are so many ways to use the "Net" to do research. A company can include a questionnaire on its Web site, place a banner on some frequently visited site such as Yahoo! sponsor a chat room or bulletin board or even host a real-time panel or virtual focus group.

Step 3: Collect the Information

The data collection phase of marketing research is generally the most expensive and the most prone to error. In the case of survey, four major problems arise:

- Some respondents will not be at home and must be contacted again and again
- Other respondents will refuse to cooperate
- Others will give biased or dishonest answers
- Some interviewers will be biased or dishonest.

Data collection methods are rapidly improving thanks to computers and telecommunications. Some research firms interview from a centralized location and enter information directly into a computer.

Step 4: Analyse the Information

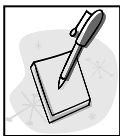
The next-to-last step in the process is to extract findings from the collected data. The researcher tabulates the data and develops frequency distributions. Averages and measures of dispersion are computed for the major variables. The researcher will also apply some advanced statistical techniques and decision models in the hope of discovering additional findings.

Step 5: Present the Findings

The researcher should present findings that are relevant to the major marketing decisions facing management.

Step 6: Make the Decision

The managers who commissioned the research need to weigh the evidence. A growing number of organisations are using a marketing decision support system to help marketing managers make better decisions. A marketing decision support system (MDSS) is defined as a coordinated collection of data, systems, tools, and techniques with supporting software and hardware, by which an organisation gathers, interprets relevant information from business and environment, and turns it into a basis for marketing action.



ACTIVITY 4.2

Provide possible reasons why many marketing research projects fail.

Response at the end of this Section

MEASURING MARKETING PRODUCTIVITY

An important task of marketing research according to Kotler and Keller (2009:146) is to assess the efficiency and effectiveness of marketing activities. Marketers, increasingly, are being held accountable for their investments and must be able to justify marketing expenditures to senior management. Marketing research can help address this increased need for accountability. Two complementary approaches to measure marketing productivity are:

- Marketing metrics to assess marketing effects
- Marketing mix modeling to estimate causal relationships and how marketing activities affect outcomes.

Marketing Metrics

Kotler and Keller (2009:146) describe marketing metrics as a set of measures that help firms to quantify, compare, and interpret marketing performance. Marketing metrics can be used by brand managers to design marketing programmes. Marketing metrics can be used by senior managers to decide on financial allocations. Many marketing metrics relate to customer-level concerns such as their attitudes and behaviour. Others relate to brand-level concerns such as market share, relative price premium, or profitability.

Measuring Marketing Plan Performance

Marketers today have better marketing metrics for measuring the performance of marketing plans. They can use four tools to check on plan performance: sales analysis, market-share analysis, marketing expense-to-sales analysis, and financial analysis.

Sales Analysis

Sales analysis consists of measuring and evaluating actual sales in relation to goals. Two specific tools are used in sales analysis. Sales-variance analysis measures the relative contribution of different factors to a gap in sales performance. Microsales analysis looks at specific products, territories, and so forth that failed to produce expected sales.

Market-Share Analysis

Company sales do not reveal how well the company is performing relative to competitors. For this purpose, management needs to track its market share.

Marketing Expense-to-Sales Analysis

Annual plan control requires making sure that the company is not overspending to achieve its goals. The key ratio to watch is marketing expense-to-sales ratio. The period-to-period fluctuations in each ratio can be tracked on a control chart. The behaviour of successive observations even within the upper and lower control limits should be watched.

Financial Analysis

The expense-to-sales ratios should be analyzed in an overall financial framework to determine how and where the company is making its money. Marketers are increasingly using financial analysis to find profitable strategies beyond sales building (Kotler and Keller, 2006:119-122).

Profitability Analysis

Companies should measure the profitability of:

1) Products
2) Territories
3) Customer groups
4) Segments
5) Trade channels
6) Order sizes

This information can help management determine whether any products or marketing activities should be expanded, reduced, or eliminated.

Marketing-Profitability Analysis

Kotler and Keller (2006:122-123) identify the following steps in marketing profitability analysis:

Step 1: Identifying Functional Expenses

Step 2: Assigning Functional Expenses to Marketing Entities

Step 3: Preparing a Profit and Loss Statement for Each Marketing Entity

Determining Corrective Action

In general, marketing-profitability analysis indicates the relative profitability of different channels, products, territories, or other marketing entities.

Direct Versus Full Costing

Like all information tools, marketing-profitability analysis can lead or mislead marketing executives, depending on how well they understand its methods and limitations. The issue of whether to allocate full costs or only direct and traceable costs in evaluating a marketing entity's performance is a far more serious judgmental element affecting profitability analysis. Three types of costs have to be distinguished:

- Direct costs - these are costs that can be assigned directly to the proper marketing entities
- Traceable common costs - these are costs that can be assigned only indirectly, but on a plausible basis to the marketing entities
- Non-traceable common costs - these are common costs whose allocation to the marketing entities is highly arbitrary

Marketing Mix Modeling

Kotler and Keller (2009:149) explain that marketing mix models analyze data from a variety of sources to understand more precisely the effects of specific marketing activities. Multivariate analyses are conducted to sort through how each marketing element influences marketing outcomes of interest such as brand sales or market share. The findings from marketing mix modeling are used to allocate or reallocate expenditures. Although marketing mix modeling helps to isolate effects, it is less effective at assessing how different marketing elements work in combination.

FORECASTING AND DEMAND MEASUREMENT

One major reason for undertaking marketing research is to identify market opportunities. Once the research is complete, the company must measure and forecast the size, growth, and profit potential of each market opportunity.

Sales forecasts are used by:

- Finance to raise the needed cash for investment and operations
- Manufacturing department to establish capacity and output levels
- Purchasing to acquire the right amount of supplies
- Human resources to hire the needed number of workers
- Sales forecasts are based on estimates of demand.

Market Demand

The marketer's first step in evaluating marketing opportunities is to estimate total market demand.

Market Forecast

Only one level of industry marketing expenditure will actually occur. The market demand corresponding to this level is called the market forecast.

Market Potential

The market forecast shows expected market demand, not maximum market demand. For the latter, we have to visualize the level of market demand resulting from a "very high" level of industry marketing expenditure. Market potential is the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment. The phrase "for a given market environment" is crucial.

Companies cannot do anything about the position of the market demand function but each can influence its particular location on the function when it decides how much to spend on marketing.

Company Demand

Company demand is the company's estimated share of market demand at alternative levels of company marketing effort in a given time period. The company's share of market demand depends on how its products, prices, communications, services, and so on are perceived relative to competitors. All things equal, the company's market share would depend on the size and effectiveness of its market expenditures relative to competitors.

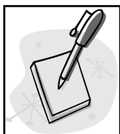
Company Sales Forecast

The company sales forecast is the expected level of company sales based on a chosen marketing plan and an assumed marketing environment. The company sales forecast does not establish a basis for deciding what to spend on marketing. On the contrary, the sales forecast is a result of an assumed marketing expenditure level. A sales quota is the sales goal set for a product line, company division, or sales representative.

A sales budget is a conservative estimate of the expected volume of sales and is used primarily for making current purchasing, production, and cash flow decisions. The sales budget is based on the sales forecast and is generally set slightly lower than the sales forecast.

Company Sales Potential

Company sales potential is the sales limit approached by company demand as the company marketing effort increases relative to that of competitors. The absolute limit of company demand is the market potential. In most cases, company sales potential is less than market potential. Each competitor has a hard core of loyal buyers who are not very responsive to other companies' efforts to woo them (Kotler and Keller, 2009:152).



ACTIVITY 4.3

Africa Mutual Insurance wants to help companies of all sizes and types handle their retirement and insurance needs. According to previous feedback, all business customers "receive the same quality service and care" and "the same freedom of choice" regardless of size.

a. Which research approaches would be most helpful in identifying any problems that customers might have experienced in working with Africa Mutual Insurance consultants?
b. If company marketers decide to collect primary data, would you recommend they use closed-end or open-end questions? Why?
c. Draft a brief questionnaire that Africa Mutual Insurance could use to identify additional needs that the company might try to satisfy with new financial services products or services.

Response at the end of this Section

Estimating Current Demand

Marketing executives want to estimate total market potential, area market potential, and total industry sales and market shares.

Total Market Potential

Total market potential is the maximum amount of sales that might be available to all the firms in an industry during a given period, under a given level of industry marketing effort and environmental conditions.

Area Market Potential

Companies face the problem of selecting the best territories and allocating marketing budget optimally among these territories. Therefore, it needs to estimate the market potential of different cities, states, and nations.

Market-Buildup Method

The market-buildup method calls for identifying all the potential buyers in each market and estimating their potential purchases. This method produces accurate results if we have a list of all potential buyers and a good estimate of what each will buy.

Multiple-Factor Index Method

The method most commonly used in consumer markets is a straightforward index method. A single factor is rarely a complete indicator of sales opportunities thus it makes sense to develop a multiple-factor index, with each factor assigned a weight. Many companies compute other area indexes as a guide to allocating marketing resources.

Industry Sales and Market Shares

Besides estimating total potential and area potential, a company needs to know the actual industry sales taking place in its market. This means identifying competitors and estimating sales.

Estimating Future Demand

Very few products or services lend themselves to easy forecasting. In most markets, total demand and company demand are not stable. Good forecasting becomes a key factor in company success. The more unstable the demand, the more critical is forecast accuracy, and the more elaborate is forecasting procedure.

Survey of Buyers' Intentions

Forecasting is the art of anticipating what buyers are likely to do under a given set of conditions. Because buyer behaviour is so important, buyers should be surveyed.

Composite of Sales Force Opinions

Each sales representative estimates how much each current and prospective customer will buy of each of the company's products.

Expert Opinion

Companies can obtain forecasts from experts, including dealers, distributors, suppliers, marketing consultants, and trade associations. Many companies buy economic and industry forecasts from well-known economic-forecasting firms. Occasionally, companies will invite a group of experts to prepare a forecast using any one of the following methods:

1) Group-discussion method.
2) Pooling of individual estimates.
3) Delphi method.

Past Sales Analysis

Sales forecasts can be developed on the basis of past sales. Time-series analysis consists of breaking down past time series into four components: Trend, Cycle, Seasonal. and Erratic and projecting these components into the future.

Market Test Method

When buyers do not plan their purchases carefully or experts are not available or reliable, a direct-market test is desirable. A direct-market test is especially desirable in forecasting new product sales or established product sales in a new distribution channel or territory (Kotler and Keller, 2009:156).

MARKETING SPOTLIGHT- SONY

Case Study: Kotler and Keller (2006: 135)

- What have been the key success factors for Sony?
- Where is Sony vulnerable?
- What should Sony watch out for?
- What recommendations would you make to senior marketing executives going forward?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

Companies can conduct their own marketing research or hire other companies to do it for them. Good marketing research is characterised by the scientific method, creativity, multiple research methods, accurate model building, cost-benefit analysis, healthy skepticism, and an ethical focus. The marketing research process consists of defining the problem and research objective, developing the research plan, collecting the information, analysing the information, presenting the findings to management, and making the decision. In conducting research, firms must decide whether to collect their own data or use data that already exists. They must also decide which research approach (observational, focus group, survey, behavioural data, or experimental) and which research instruments (questionnaire or mechanical instruments) to use. In addition, they must decide on a sampling plan and contact methods. Analysis should ensure that the company achieves the sales, profits, and other goals established in its annual plan. The main tools are sales analysis, market-share analysis, marketing expense-to-sales analysis, and financial analysis of the marketing plan. Profitability analysis seeks to measure and control the profitability of various products, territories, customer groups, trade channels, and order sizes. An important part of controlling profitability is assigning costs and generating profit-and-loss statements. There are two types of demand: market demand and company demand. To estimate current demand, companies attempt to determine total market potential, area market potential, industry sales, and market share. To estimate future demand, companies survey the buyers' intentions, solicit companies' sales force input, gather expert opinions, or engage in market testing. Mathematical models, advanced statistical techniques, and computerized data collection procedures are essential to all types of demand and sales forecasting.

Response to Marketing Spotlight - Sony

What have been the key success factors for SONY?

- SONY has three types of creativity: to make inventions, creativity in product planning and production, and creativity in marketing
- Creativity in marketing means deep insight into its customers
- SONY also carefully measures the effectiveness of each campaign by pre-testing these campaigns
- Sony's Gen Y youth marketing efforts with its online programme promoting the Internet usage and tracking the respondents "click-throughs"

Where is SONY vulnerable?

- In its belief that the next wave of consumer electronics will come from the integration of numerous devices networked and linked together
- A lapse of marketing research caused by corporate changes or financial setbacks
- Corporate complacency due to success

What should SONY watch out for?

- The effectiveness of its marketing research in identifying emerging trends
- The temptation to expand into other consumer products outside of its core competencies

What recommendations would you make to senior marketing executives going forward?

- Accept your competencies, accept your limitations, and capitalise on your strengths
- Continue to believe that marketing research is the underlying foundation of your product development processes and marketing successes

What should they be sure to do with their marketing?

- Continue to target their marketing to identify those segments of the total market that are receptive to new and innovative products and ideas
- Concentrate on the next generation of consumers - the Millenniums and conduct research into what type of consumers this group is and will become

Response to Activity 4.1

Do's	Don'ts
• Ensure questions are free of bias	• Avoid negatives
• Make questions simple	• Avoid hypothetical descriptions
• Make questions specific	• Avoid words that could be misheard
• Avoid jargon	• Use response bands
• Avoid sophisticated words	• Use mutually exclusive categories
• Avoid ambiguous words	• Allow for "other" in fixed response questions

Response to Activity 4.2

- A narrow conception of the research
- Uneven caliber of researchers
- Poor framing of the problem
- Late and occasionally erroneous findings
- Personality and presentational differences

Response to Activity 4.3

- Africa Mutual Insurance might use focus-group research to get detailed customer comments about its consultants. It might also use customer surveys to ask users what they like and don't like about their consultants, check its internal records for information, and monitor complaint letters and e-mails
- Closed-end questions can be tallied more quickly and conveniently but open-end questions will allow customers more freedom to explain what their problems have been in some detail
- Questionnaires must contain questions that are unbiased, simple, direct, flow in logical order, and elicit the information about customer needs that Africa Mutual Insurance could use in designing new offerings.

CHAPTER 5

CREATING CUSTOMER VALUE, SATISFACTION, AND LOYALTY

CHAPTER FIVE: CREATING CUSTOMER VALUE, SATISFACTION, AND LOYALTY

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Discuss the concepts of customer value, satisfaction, and loyalty, and describe how companies can deliver them
- Discuss the importance of the lifetime value of customers
- Explain how companies can both attract and retain customers
- Demonstrate the ability to cultivate strong customer relationships
- Describe how companies can deliver total quality
- Explain what is database marketing

PRESCRIBED READING

Chapter 5 - Kotler,P and Keller,KL.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall.

RECOMMENDED READING

Chapter 11- Blythe, J (2006). Principles and Practice of Marketing. London: Thomson

Chapter 6 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè (2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

Chapter 3 -Van der Walt, A Strydom, W.J Marx S and Jooste CJ(1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd.

OPENING NOTE

Today, companies face their toughest competition ever. The cornerstone of a well-conceived marketing orientation is strong customer relationships. Marketers must connect with customers—informing, engaging, and energizing them in the process.

BUILDING CUSTOMER VALUE, SATISFACTION, AND LOYALTY

Kotler and Keller (2009:160) argue that managers who believe the customer is the company's only true "profit centre" consider the traditional organisational chart obsolete. With the rise of digital technologies like the Internet, today's increasingly informed consumers expect companies to do more than connect with them, more than satisfy them, and even more than delight them.

Customer Perceived Value (CPV)

Customers tend to be value-maximisers. Customers estimate which offer will deliver the most perceived value and act on it. Customer perceived value (CPV) is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives. Total customer value is the perceived monetary value of the bundle of economic, functional, and psychological benefits customers expect from a given market offering. Total customer cost is the bundle of costs customers expect to incur in evaluating, obtaining, using, and disposing of the given market offering, including monetary, time, energy, and psychic costs. Customer perceived value according to Kotler and Keller (2009:161-169) is based on the difference between what the customer gets and what he or she gives for different possible choices.

Applying Value Concepts

The customer adds up values from the four sources for Caterpillar—product, services, personnel, and image and compares them to Komatsu. The buyer evaluates these elements together with the monetary cost to form a total customer cost.The buyer will choose whichever source he thinks delivers the highest perceived customer value.

Choices and Implications

Buyers operate under various constraints and occasionally make choices that give more weight to their personal benefit than to the company's benefit. In the above example, suppose the customer chooses to buy the Komatsu tractor, there are three possibilities:

- The buyer might be under orders to buy at the lowest price
- The buyer will retire before the company realised that the Komatsu tractor is more expensive to operate
- The buyer enjoys a long-term friendship with the Komatsu salesperson

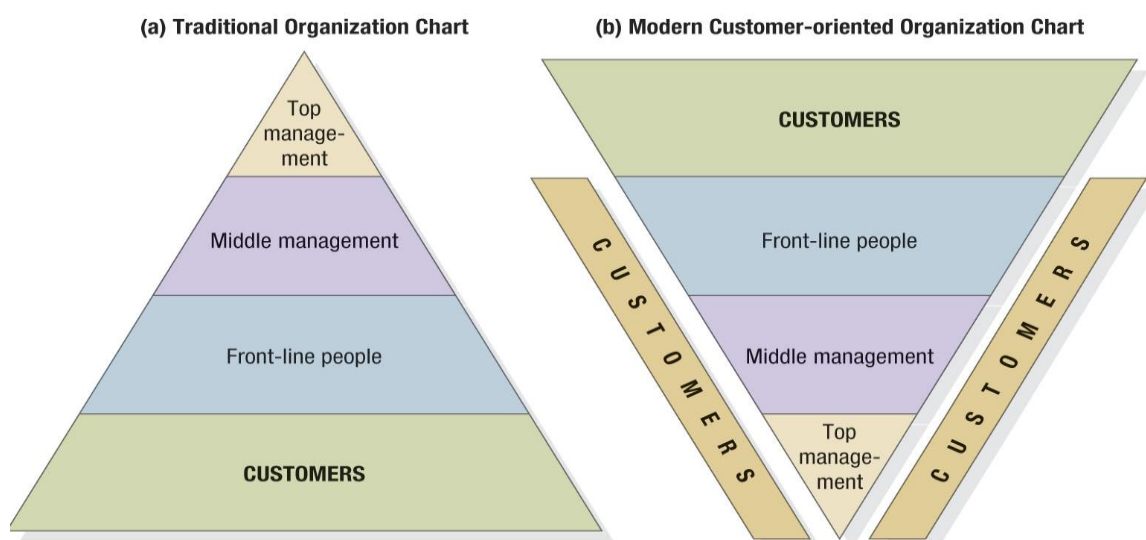
Customer perceived value is a useful framework that applies to many situations and yields rich insights. Its implications are:

First, the seller must assess the total customer value and total customer cost associated with each competitor's offer. Second, the seller who is at a customer perceived value disadvantage has two alternatives:

- To increase total customer value (by strengthening or augmenting the offer's product, services, personnel, and image benefits)
- To decrease total customer cost (by reducing price, simplifying the ordering, and delivery process, or absorbing some buyer risk by offering a warranty).

There has been a distinct change from the way in which organisational charts are structured compared to a modern customer orientated chart. This can be seen in Figure 5.1.

Figure 5.1 – Organisational Charts



Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall. p161

Delivering High Customer Value

Loyalty is defined as “a deeply held commitment to rebuy or repatronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behaviour.” The key to generating high customer loyalty is to deliver high customer value. The value proposition consists of the whole cluster of benefits the company promises to deliver, it is more than the core positioning of the offering. Whether the promise is kept depends on the company’s ability to manage its value-delivery system. The value-delivery system includes all the experiences the customer will have on the way to obtaining and using the offering. Whether customers will actually receive, the promised value proposition will depend upon the marketer’s ability to influence various core business processes.

Total Customer Satisfaction

Whether the buyer is satisfied after the purchase depends on the offer’s performance in relation to the buyer’s expectations. Satisfaction is a person’s feeling of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectations. A company must operate on the philosophy that it is trying to deliver a high level of customer satisfaction subject to delivering acceptable levels of satisfaction to the other stakeholders, given its total resources.

Customer Expectations

How do buyers form their expectations?

- From past buying experiences
- Friends’ and associates’ advice
- Marketers’ and competitors’ information and promises

A customer’s decision to be loyal or to defect is the sum of many small encounters with the company. Companies need to create a “branded customer experience.”

Measuring Satisfaction

Many companies are systematically measuring customer satisfaction and the factors shaping it. A company would be wise to measure customer satisfaction regularly because one key to customer retention is customer satisfaction. The link between customer satisfaction and customer loyalty, however, is not proportional. A number of methods exist to measure customer satisfaction.

Product and Service Quality

Satisfaction will also depend on product and service quality. Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. We can say that a seller has delivered quality whenever the seller’s product or service meets or exceeds the customers’

expectations. Distinguish between conformance quality and performance quality. Total quality is the key to value creation and customer satisfaction. Marketing managers have two responsibilities in a quality-centered company:

- First, they must participate in formulating strategies and policies to help the company win through total quality excellence
- Second, they must deliver marketing quality alongside production quality

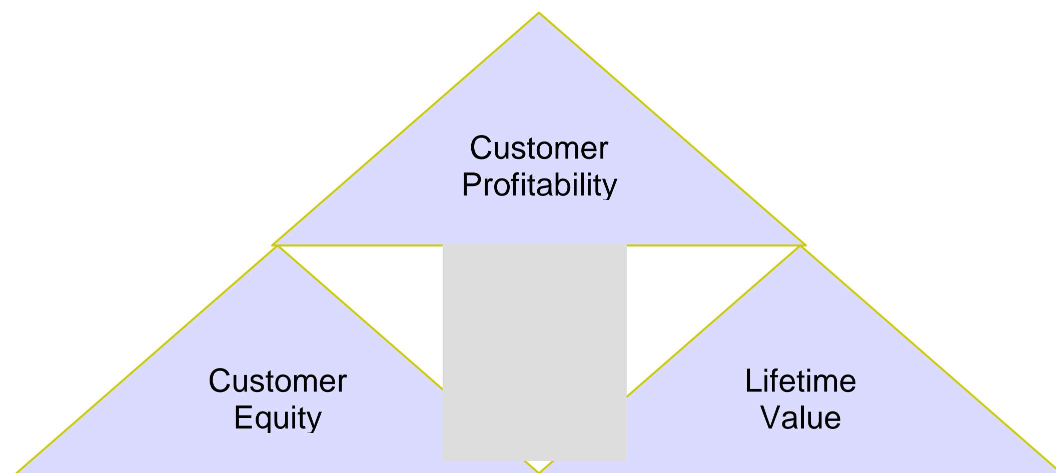
Total Quality Management

Kotler and Keller (2009:170) confirm that total quality management (TQM) is an organisation-wide approach to continuously improve the quality of all the organisation's processes, products, and services. Product and service quality, customer satisfaction, and company profitability are intimately connected. TQM ran into implementation problems as firms became overly focused on how they were doing business and not the why they were in business. Companies lost sight of consumer needs and wants. Companies are now concentrating efforts on "return on quality" or ROQ. ROQ advocates improving quality only on those dimensions that produce tangible customer benefits, lower costs, or increased sales.

MAXIMIZING CUSTOMER LIFETIME VALUE

Marketing is the art of attracting and keeping profitable customers. The 80/20 rule states that the top 20 percent of the customers may generate as much as 80 percent of the company's profits.

Figure 5.2 – Customer Lifetime Value



Customer Profitability

A profitable customer is a person, household, or company that over time yields a revenue stream that exceeds by an acceptable amount the company's cost stream of attracting, selling, and servicing that customer. Customer profitability can be assessed individually, by market segment, or by channel. Most companies fail to measure individual customer profitability.

Competitive Advantage

Competitive advantage is a company's ability to perform in one or more ways that competitors cannot or will not match. Michael Porter urged companies to build a sustainable competitive advantage. Few competitive advantages are sustainable, at best they may be leverageable. A leverageable advantage is one that a company can use as a springboard to new advantages. Any competitive advantage must be seen by customers as a customer advantage.

Measuring Customer Lifetime Value

Customer Lifetime Value (CLV) describes the net present value of the stream of future profits expected over the customer's lifetime purchases. CLV calculations provide a formal quantitative framework for planning customer investment and helps marketers to adopt a long-term perspective (Kotler and Keller, 2009:172 - 173).

CULTIVATING CUSTOMER RELATIONSHIPS

According to Kotler and Keller (2009:173-174) maximizing customer value means cultivating long-term customer relationships. Companies are moving to more precision marketing designed to build strong customer relationships. Mass customization is the ability of a company to meet each customer's requirements - to prepare on a mass basis individually designed products, services, programmes, and communications.

Customer Relationship Management (CRM)

Customer relationship management (CRM) is the process of managing detailed information about individual customers and carefully managing all customer "touch points" to maximise customer loyalty.

A customer "touch point" is any occasion on which a customer encounters the brand and product - from actual experience to personal or mass communications to casual observation. Customer relationship management enables companies to provide excellent real-time customer service through the effective use of individual account information. Peppers and Rogers outlined a four-step framework for one-to-one marketing that can be adapted to CRM marketing:

- Identify your prospects and customers
- Differentiate customers in terms of: (1) their needs and (2) their value to your company
- Interact with individual customers to improve your knowledge about individual needs and to build stronger relationships
- Customize products, services, and messages to each customer

A key driver of shareholder value is the aggregate value of the customer base. Winning companies improve the value of their customer base by excelling at strategies such as:

- Reducing the rate of customer defection
- Increasing the longevity of the customer relationship
- Enhancing the growth potential of each customer through “share-of-wallet, cross-selling, and up-selling”
- Making low-profit customers more profitable or terminating them
- Focusing disproportionate effort on high-value customers

Attracting, Retaining, and Growing Customers

Customers are becoming harder to please. Companies seeking to expand profits and sales have to spend considerable time and resources searching for new customers. Suspects are people or organisations that might conceivably have an interest in buying but may not have the means or real intention to buy. The two main ways to strengthen customer retention are to erect high switching costs and deliver high customer satisfaction.

Most companies now recognise the importance of satisfying and retaining customers. Satisfied customers constitute the company’s customer relationship capital. Acquiring new customers cost five times more than the costs involved in satisfying and retaining current customers. The average company loses 10 percent of its customers each year.

A 5% reduction in customer defection rate can increase profits by 25 percent to 85 percent depending on the industry. Customer profit rate tends to increase over the life of the retained customer.

Building Loyalty

There are five different levels of investment in customer-relationship building:

- Basic marketing
- Reactive marketing
- Accountable marketing
- Proactive marketing
- Partnership marketing

Reducing Customer Defection

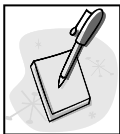
Five main steps a company can take to reduce the defection rate:

- The company must define and measure its retention rate
- The company must distinguish the cause of customer attrition and identify those that can be managed better
- The company needs to estimate how much profit it loses when it loses customers
- The company needs to figure out how much it would cost to reduce the defection rate
- Finally, listening to customers

Forming Strong Customer Bonds

Berry and Parasuraman (1991:136-142) have identified three retention-building approaches:

- Adding financial benefits
- Adding social benefits, and
- Adding structural ties



ACTIVITY 5.1

Consider the lifetime value of customers (CLV).

a) Choose a business and show how you would go about developing a quantitative formulation that captures the concept.

b) How would organisations change if they totally embraced the customer equity concept and maximised CLV?

Response at the end of this Section

TALKING POINT

Marketers are often accused of creating needs where no need previously existed. This they hotly deny – needs were there before marketing, after all (Blythe, 2006:107).

CUSTOMER DATABASES AND DATABASE MARKETING

A customer database is an organised collection of comprehensive information about individual customers or prospects that is current, accessible, and actionable, for such marketing purposes as lead generation, lead qualification, sale of a product or service, or maintenance of customer relationships. Database marketing is the process of building, maintaining, and using customer databases and other databases for the purpose of contacting, transacting, and building customer relationships.

Customer Databases

Customer databases are not customer mailing lists. A customer mailing list is simply a set of names, addresses, and telephone numbers. Ideally, a customer database contains the consumer's past purchases, demographics, income, family members, psychographics, mediagraphics, and other useful information. A business database would contain business customers' past purchases, past volumes, prices, and profits, buyer team members' names, and other useful information.

Data Warehouses and Data mining

Savvy companies are capturing information every time a customer comes into contact with any of its departments. These data are collected by the company's contact centre and organised into a data warehouse. Through data mining, marketing statisticians can extract useful information about individuals, trends, and segments from the mass of data.

A database is typically used to :

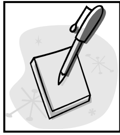
- identify prospects
- decide which customers should receive a particular offer
- deepen customer loyalty
- reactivate customer purchases
- avoid serious customer mistakes

The Downside of Database Marketing and CRM

Four problems can deter a firm from effectively using CRM.

- Building and maintaining a customer database requires a large investment in computer hardware, database software, analytical programmes, communication links, and skilled personnel
- The difficulty of getting everyone in the company to be customer orientated and to use the available information
- Not all customers want a relationship with the company
- The assumptions behind CRM may not always hold true - i.e. it might not be the case that it costs less to serve the more loyal customers

(Kotler and Keller, 2009:182-186).



ACTIVITY 5.2

Describe the main perils of CRM.

Response at the end of this Section

MARKETING SPOTLIGHT – DELL

Case Study: Kotler and Keller (2006: 168-169)

- What have been the key success factors for Dell?
- Where is Dell vulnerable?
- What should Dell watch out for?
- What recommendations would you make to senior marketing executives of Dell?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

Customers are value-maximisers. They form an expectation of value and act on it. Buyers will buy from the firm that they perceive to offer the highest customer-delivered value, defined as the difference between total customer value and total customer cost. A buyer's satisfaction is a function of the product's perceived performance and the buyers' expectations. Recognising that high satisfaction leads to high customer loyalty, many companies today are aiming for TCS - total customer satisfaction. For such companies, customer satisfaction is both a goal and a marketing tool. Losing profitable customers can dramatically affect a firm's profits. The cost of attracting a new customer is estimated to be five times the cost of keeping a current customer happy. The key to retaining customers is relationship marketing. Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. Today's companies have no choice but to implement total quality management programmes if they are to remain solvent and profitable. Marketing managers have two responsibilities in a quality-centred company. First, they must participate in formulating strategies and policies designed to help the company win through total quality excellence. Second, they must deliver marketing quality alongside production quality. Companies are also becoming skilled in Customer Relationship Management (CRM) that focuses on meeting the individual needs of valued customers. The skill requires building a customer database and doing data mining to detect trends, segments, and individual needs.

Response to Marketing Spotlight - Dell

What have been the key success factors for Dell?

- Dell information about its customers
- Its production process
- JIT inventory practices

Where is Dell vulnerable?

- Changes in usage of computers
- Changes in technology that makes the personal computer obsolete
- A lapse of marketing research caused by corporate changes or financial setbacks

What should Dell watch out for?

- Corporate complacency due to success
- The effectiveness of its marketing research in identifying emerging trends
- The temptation to expand into other consumer products outside of its core competencies

What recommendations would you make to senior marketing executives of Dell?

- Accept your competencies, accept your limitations, and capitalise on your strengths
- Continue to believe that marketing research is the underlying foundation of your product development processes and marketing successes

What should they be sure to do with their marketing?

- Continue to target their marketing to identify those segments of the total market that are receptive to new and innovative products and ideas

Response to Activity 5.1

CLV describes the net present value of the stream of future profits expected over the customers' lifetime purchases. The main tenets of each report should include the following:

1) Add:
   a) Profit from a sale (rand or percent)
   b) Number of sales per customer per year
   c) Average age of a customer
   d) Average expected lifespan of a customer

2) Subtract:
    a) Appropriate discount rate
    b) Costs of attracting one customer
    c) Selling one customer
    d) Servicing one customer

Organisations would change by beginning to take a long-term perspective rather than a short-term (quarter-to-quarter view). No longer viewing a customer as a "transaction" but rather as a "lifetime value" solidifies and demonstrates the impact that a single consumer has to a firm in a language they understand—dollars. Firms would begin to customize offerings and messages to each customer, ensure that retention strategies are in place, differentiate customers in terms of needs and value to the company, and build stronger relationships with key customers. Because of a change in the loci of focus for the firm, strategies, and actions based upon which would provide the best return on its marketing investments would be implemented.

Response to Activity 5.2

- Implementing CRM before creating a customer strategy
- Rolling out CRM before changing the organisation to match
- Assuming more CRM technology is better
- Stalking and not wooing customers

CHAPTER 6

ANALYSING CONSUMER AND BUSINESS MARKETS

CHAPTER SIX: ANALYSING CONSUMER AND BUSINESS MARKETS

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Explain the concepts of customer value, satisfaction, and loyalty
- Discuss how consumer characteristics influence buying decisions
- Identify the major psychological processes that influence consumer responses to the marketing programmeme
- Describe how consumers make purchasing decisions and analyze consumer decision-making
- Distinguish between the business market and the consumer market
- Identify who participates in the business-to-business buying process
- Explain how companies can build strong relationships with business customers
- Describe how institutional buyers and government agencies do their buying

PRESCRIBED READING

Chapter 6 and 7 - Kotler,P and Keller,KL.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall.

RECOMMENDED READING

Chapter 6 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè JC(2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

Chapter 3 -Van der Walt, A Strydom, W.J Marx S and Jooste CJ(1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd.

OPENING NOTE

The aim of marketing is to meet and satisfy target customers' needs and wants better than competitors. Consumer behaviour is the study of how individuals, groups, and organisations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and wants. Gaining a thorough in-depth consumer understanding helps to make sure that the right products are marketed to the right consumers in the right way. Business organisations on the other hand do not only sell; each buys vast quantities of raw materials, manufactured components, plant and equipment, suppliers, and business services. Much of basic marketing also applies to business marketers.

ANALYSING CONSUMER MARKETS

WHAT INFLUENCES CONSUMER BEHAVIOUR?

A consumer's buying behaviour is influenced by cultural, social, and personal factors. Cultural factors exert the broadest and deepest influence (Kotler and Keller, 2009:190).

Cultural Factors

Culture is the fundamental determinant of a persons' wants and behaviours. Each culture consists of smaller subcultures that provide more specific identification and socialization for their members.

Subcultures include nationalities, religions, racial groups, and geographic regions. Multicultural marketing grew out of careful marketing research that revealed that different ethnic and demographic niches did not always respond favourably to mass-market advertising. Virtually all human societies exhibit social stratification. Social stratification sometimes takes the form of a caste system where members of different castes are reared for certain roles and cannot change their caste membership. More frequently, it takes the form of social classes, relatively homogeneous and enduring divisions in a society that are hierarchically ordered and whose members share similar values, interests, and behaviour. One class depiction of social classes according to Kotler and Keller (2009:192) defines seven ascending levels:

1) Lower lowers
2) Upper lowers
3) Working class
4) Middle class
5) Upper middles
6) Lower uppers
7) Upper uppers

Social classes have several characteristics:

Those within a class tend to behave more alike than persons from two different social classes. Persons are perceived as occupying inferior or superior positions according to social class. Social class is indicated by a cluster of variables (occupation, income, etc.) rather than by any single variable. Individuals can move up or down the social-class ladder. Social classes show distinct product and brand preferences in many areas. Social classes differ in media preferences. There are language differences among the social classes.

Social Factors

In addition to cultural factors, a consumer's behaviour is influenced by such social factors as reference groups, family, and social roles and statuses. A person's reference groups consist of all the groups that have a direct (face-to-face) or indirect influence on his/her attitudes or behaviour. Groups having a direct influence on a person are called membership groups. Some memberships groups are primary groups such as family, friends, neighbors, and co-workers with whom the person interacts fairly continuously and informally. Some membership groups are secondary groups such as religious or professional groups that tend to be more formal.

People are significantly influenced by their reference groups in at least three ways:

- Reference groups expose an individual to new behaviours and lifestyles, influencing attitudes and self-concept
- They create pressures for conformity that may affect actual product and brand choices
- People are also influenced by groups to which they do not belong:
  - Aspirational groups are those a person hopes to join.
  - Dissociative groups are those whose values or behaviour an individual rejects.

The buyer evaluates these elements together with the monetary cost to form a total customer cost. Manufacturers of products and brands where group influence is strong must determine how to reach and influence opinion leaders in these reference groups. An opinion leader is the person in informal, product-related communications who offers advice or information about a specific product or product category. Marketers try to reach opinion leaders by identifying demographic and psychographic characteristics associated with opinion leadership, identifying the media read by opinion leaders, and directing messages at opinion leaders.

Family

The family is the most important consumer-buying organisation in society, and family members constitute the most influential primary reference group. We can distinguish between the following two families in the buyer's life:

- The family of orientation consists of parents and siblings.
- A more direct influence on everyday buying behaviour is the family of procreation namely, one's spouse and children.

Marketers are interested in the roles and relative influence of family members in the purchase of a large variety of products and services. With expensive products and services, the vast majority of husbands and wives engage in more joint decision-making. Men and women may respond differently to marketing messages. Another shift in buying patterns is an increase in the amount of rands spent and the direct and indirect influence wielded by children and teens.

Roles and Statuses

A person participates in many groups and a person's position in each group can be defined in terms of role and status. Each role carries a status. Marketers must be aware of the status symbol potential of products and brands.

Personal Factors

A buyer's decisions are also influenced by personal characteristics. These include the buyer's age and stage in the life cycle; occupation and economic circumstances; personality and self-concept; and lifestyle and values.

Age and Stage in the Life Cycle

People buy different goods and services over a lifetime. Consumption is also shaped by the family life cycle. In addition, the psychological life cycle stage may matter. Critical life events or transitions give rise to new needs.

Occupation and Economic Circumstances

Occupation influences consumption patterns and economic circumstances influence product. These comprise of:

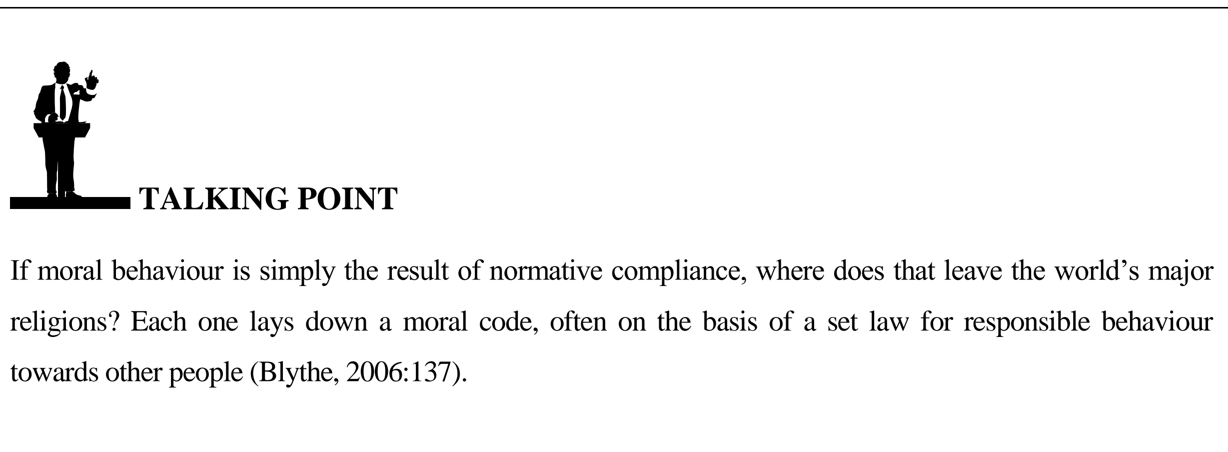
- Spendable income (level, stability, and time pattern)
- Savings and assets
- Debts
- Borrowing power
- Attitudes toward spending and saving.

Personality and Self-Concept

Each person has personality characteristics that influence his or her buying behaviour. Personality is a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environmental stimuli. The idea is that brands have personalities and consumers are likely to choose brands whose personalities match their own. We define brand personality as the specific mix of human traits that may be attributed to a particular brand.

Lifestyles and Value

People from the same subculture, social class, and occupation may lead quite different lifestyles. A lifestyle is a person's pattern of living in the world as expressed in activities, interests, and opinions. Lifestyle portrays the "whole person" interacting with his or her environment. Marketers search for relationships between their products and lifestyle groups. Lifestyles are shaped partly by whether consumers are money-constrained or time-constrained. Consumers who experience time famine are prone to multitasking. Consumer decisions are also influenced by core values, the belief systems that underlie consumer attitudes and behaviours. Core values go much deeper than behaviour or attitude, and determine, at a basic level, people's choices and desires over the long term (Kotler and Keller, 2009: 199-200).



TALKING POINT

If moral behaviour is simply the result of normative compliance, where does that leave the world's major religions? Each one lays down a moral code, often on the basis of a set law for responsible behaviour towards other people (Blythe, 2006:137).

KEY PSYCHOLOGICAL PROCESSES

The starting point for understanding consumer behaviour according to Kotler and Keller (2009:200) is the stimulus-response model. The marketer's task is to understand what happens in the consumer's consciousness between the arrival of the outside marketing stimuli and the ultimate purchase decisions. Kotler and Keller (2009:203 - 207) identifies the following psychological factors:

Perception

How the motivated person actually acts is influenced by his or her view or perception of the situation. Perception is the process by which an individual selects, organises, and interprets information inputs to create a meaningful picture of the world. Perception depends not only on the physical stimuli, but also on the stimuli's relation to the surrounding field and on conditions within the individual. The key point is that perceptions vary widely among individuals exposed to the same reality. In marketing, perceptions are more important than the reality, as it is perceptions that will affect consumers' actual behaviour.

Selective Attention

It has been estimated that a person is exposed to over 1,500 ads or brand communications a day. Because a person cannot possibly attend to all of these, most stimuli will be screened out - a process called selective attention. Selective attention means that marketers have to work hard to attract consumers' notice.

- People are more likely to notice stimuli that relates to a current need
- People are more likely to notice stimuli that they anticipate
- People are more likely to notice stimuli whose deviations are large in relation to the normal size of the stimuli

Selective Distortion

Selective distortion is the tendency to interpret information in a way that will fit our preconceptions. Consumers will often distort information to be consistent with prior brands and product beliefs. Examples of branded differences can be found with virtually every type of product. Selective distortion can work to the advantage of marketers with strong brands when consumers distort neutral or ambiguous brand information to make it more positive.

Selective Retention

People will fail to register much information to which they are exposed in memory, but will tend to retain information that supports their attitudes and beliefs. Because of selective retention, we are likely to remember good points about a product we like and forget good points about competing products.

Subliminal Perception

The selective perception mechanisms require active engagement and thought by consumers. The topic of subliminal perception, the argument that marketers embed covert, subliminal messages in ads or packages and consumers are not consciously aware of these messages, but yet they affect their behaviour. No evidence supports this notion that marketers can systematically control consumers at the unconscious level.

Learning

Learning involves changes in an individual's behaviour arising from experience. A drive is a strong internal stimulus impelling action. Cues are minor stimuli that determine when, where, and how a person responds. Discrimination means that the person has learned to recognise differences in sets of similar stimuli and can adjust responses accordingly.

Memory

All information and experiences individuals encounter as they go through life can end up in their long-term memory. Cognitive psychologists distinguish between short-term memory (STM) - a temporary repository of information. Long-term memory (LTM) - a more permanent repository. The associative network memory model views LTM as consisting of a set of nodes and links. **Nodes are** stored information collected by **links** that vary in strength.

Consumer brand knowledge in memory can be conceptualized as consisting of a brand node in memory with a variety of linked associations. Brand associations consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, and attitudes, linked to the brand node. Marketers can be seen as making sure that consumers have the right types of product and service experiences such that the right brand knowledge structures are created and maintained in memory.

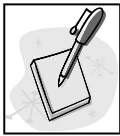
Memory Processes: Encoding

Memory encoding refers to how and where information gets into memory. Memory encoding can be characterised according to the amount or quantity of processing that information receives at encoding and the nature or quality of processing that information receives at encoding. The quantity and quality of processing will be an important determinant of the strength of an association. In general, the more attention placed on the meaning of information during encoding, the stronger the resulting associations in memory will be. Another key determinant of the strength of a newly formed association will be the content, organisation, and strength of existing brand associations in memory. One reason why personal experiences create such strong brand associations is that information about the product is likely to be related to existing knowledge. Repeated exposures to information provide greater opportunity for processing and thus the potential for stronger associations.

Memory Processes: Retrieval

Memory retrieval refers to how information gets out of memory. Successful recall of brand information by consumers does not depend only on the initial strength of that information in memory. Three factors are particularly important:

- The presence of other pertinent information in memory can produce interference effects
- The time exposure to information at encoding affects the strength of a new association - the longer the time delay, the weaker the association
- Information may be "available" in memory (potentially recallable) but may not be "accessible" (unable to be recalled) without the proper retrieval cues or reminders



ACTIVITY 6.1

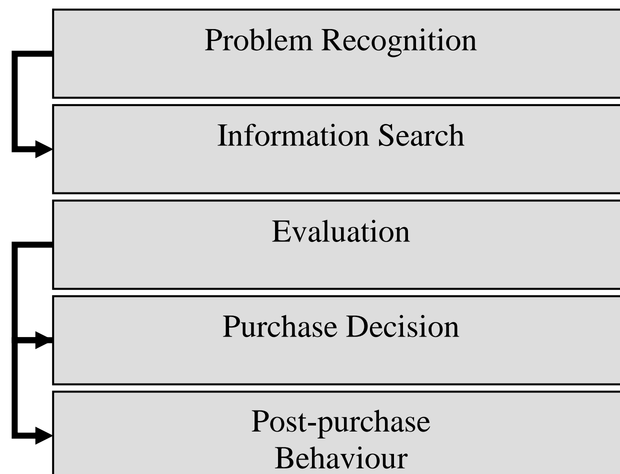
Is the targeting of minorities exploitative or is it sound business practice?

Response at the end of this Section

THE BUYING DECISION PROCESS: THE FIVE-STAGE MODEL

These basic psychological processes play an important role in understanding how consumers actually make their buying decisions. Marketers must understand every facet of consumer behaviour. Figure 6.1 depicts the Five-Stage Model of the Consumer Buying Process

Figure 6.1 - Five-Stage Model of the Consumer Buying Process



Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall. P208

Problem Recognition

The buying process starts when the buyer recognises a problem or need. The need can be triggered by internal or external stimuli.. Marketers need to identify the circumstances that trigger a particular need so that they can develop marketing strategies that trigger consumer interest.

Information Search

An aroused consumer will be inclined to search for more information. We can distinguish between two types of arousal. The milder state is called heightened attention where a person simply becomes more receptive to information about a product. The second level is active information search where a person looks for reading material, going online, etc. to learn about the product.

Of key interest to the marketer are the major information sources to which the consumer will turn and the relative influence each will have on the subsequent purchase decision. These information sources fall into the following four groups:

- Personal (family, friends)
- Commercial (advertising, Websites, salespeople)
- Public (mass media, consumer organisations)
- Experiential (handling, examining, using the product)

Generally speaking the consumer receives the most information about a product from commercial sources. The most effective information often comes from personal sources or public sources that are independent authorities. The Internet has changed information search. Most consumers are hybrid consumers.

The consumer will come to know only a subset of these brands (awareness sent). Some brands will meet initial buying criteria (consideration set). Only a few will remain as strong contenders (choice set) and the consumer makes a final choice from this set.

The company must also identify the other brands in the consumer's choice set so that it can plan the appropriate competitive appeals.

Evaluation of Alternatives

No single process is used by all consumers or by one consumer in all buying situations. The most current models see the process as cognitively orientated. First, the consumer is trying to satisfy a need. Second, the consumer is looking for certain benefits from the product solution. Third, the consumer sees each product as a bundle of attributes with varying abilities for delivering the benefits sought to satisfy this need.

Beliefs and Attitudes

Evaluations often reflect beliefs and attitudes. Through experience and learning, people acquire beliefs and attitudes. These in turn influence buying behaviour.

A Belief is a descriptive thought that a person holds about something.

An Attitude is a person's enduring favourable or unfavourable evaluation, emotional feeling, and action tendencies toward some object or idea.

Attitudes: (1) put people into a frame of mind.

(2) lead people to behave in a fairly consistent way toward similar objects.

(3) can be very difficult to change.

Expectancy-Value Model

The expectancy-value model of attitude formation contends that consumers evaluate products and services by combining their brand beliefs - the positives and negatives - according to importance. Most consumers consider several attributes in their purchase decisions.

Purchase Decisions

In the evaluation stage, the consumer forms preferences among the brands in the choice set. The consumer may also form an intention to buy the most preferred brand. In executing a purchase intention, the consumer may make up to five sub-decisions:

A) Brand
B) Dealer
C) Quantity
D) Timing
E) Payment-method

Non-Compensatory Models of Consumer Choice

Consumers may not always want to invest so much time and energy to evaluate brands. They often take "mental shortcuts" that involve various simplifying choice heuristics. With non-compensatory models of consumer choice, positive and negative attribute considerations do not necessarily net out.

- With the conjunctive heuristic method, the consumer sets a minimum acceptable cutoff level for each attribute and chooses the first alternative that meets this minimum
- With the lexicographic heuristic method, the consumer chooses the best brand on the basis of its perceived most important attribute
- With the elimination-by-aspects heuristic method, the consumer compares brands on an attribute selected and brands not meeting this attribute are eliminated
- Consumers do not adopt only one type of choice rule and may combine two or more decision rules

Intervening Factors

Even if consumers form brand evaluations, two general factors can intervene between the purchase intention and the purchase decision. The first factor is the attitudes of others. The extent to which another person's attitude reduces the preference for an alternative depends on two things:

- The intensity of the other person's negative attitude toward the consumer's preferred alternative
- The consumer's motivation to comply with the other person's wishes

The second factor is unanticipated situational factors that may erupt to change the purchase intention. A consumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by perceived risk. There are many types of risks that consumers may perceive in buying and consuming a product. Some of the risks are as follows :

- Functional risk
- Physical risk
- Financial risk
- Social risk
- Psychological risk
- Time risk

Marketers must understand the factors that provoke a feeling of risk in consumers and provide information and support to reduce perceived risk.

Post-Purchase Behaviour

After the purchase, the consumer might experience dissonance about their purchase and be alert to information that supports their decision. Marketing communications should supply beliefs and evaluations that reinforce the consumer's choice and help him or her feel good about the brand. Marketers must monitor post-purchase satisfaction, post-purchase actions, and post-purchase uses.

Post-Purchase Satisfaction

Satisfaction is a function of the closeness between expectations and the product's perceived performance.

- If performance falls short of expectations the consumer is disappointed
- If the performance meets expectations the consumer is satisfied
- If the performance exceeds expectations the consumer is delighted
- Consumers form their expectations on the basis of messages received from sellers, friends, and other information sources
- The importance of post-purchase satisfaction suggests that a product claim must truthfully represent the product's likely performance

Post-Purchase Actions

Satisfaction or dissatisfaction with the product will influence subsequent behaviour. A dissatisfied consumer may abandon or return the product.

Post-Purchase Use and Disposal

Marketers should also monitor how buyers use and dispose of the product. A key driver of sales frequency is product consumption rate. One potential opportunity to increase frequency of product use is when consumers' perceptions of their usage differ from reality.

Marketers must also need to know how the consumer disposes of the product once it is used (Kotler and Keller 2009:213 – 214).

OTHER THEORIES OF CONSUMER DECISION-MAKING

Kotler and Keller (2009:214) also identify other theories and approaches to how consumers make decisions. These are as follows:

Level of Consumer Involvement

Consumer involvement can be defined in terms of the level of engagement and active processing undertaken by the consumer in responding to a marketing stimulus.

Elaboration Likelihood Model

This describes how consumers make evaluations in both low and high involvement circumstances. Consumers follow either a **central route** or **peripheral route**. Consumers follow the central route only if they possess sufficient motivation, ability, and opportunity. If any of these are lacking then the consumers tend to follow the peripheral route.

Low Involvement Marketing Strategies

Many products are bought under conditions of low involvement and the absence of significant brand differences. Marketers use four techniques to try to convert a low-involvement product into one of higher involvement.

Variety-Seeking Buying Behaviour

Some buying situations are characterised by low involvement but significant brand differences. Brand switching occurs for the sake of variety rather than dissatisfaction.

Decision Heuristics and Biases

Heuristics come into play when consumers forecast the likelihood of future outcomes or events.

Mental Accounting

Mental accounting refers to the manner by which consumers code, categorize, and evaluate financial outcomes of choices.

Profiling the Customer Buying Decision Process

This describes how marketers can learn about the stages in the buying process for their products using either the introspective method, retrospective method, prospective method or prescriptive method.

What Is Organisational Buying?

Organisational buying is the decision-making process by which formal organisations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers. The business market consists of all the organisations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others.

Business markets have several characteristics that contrast sharply with those of consumer markets. Table 6.1 outlines these characteristics.

Table 6.1 – Business Markets and Consumer Markets

Business Markets	Consumer Markets
Fewer, larger buyers	Multiple sales call
Close supplier-customer relationship	Derived demand
Professional purchasing	Inelastic demand
Several buying influences	Fluctuation demand
Geographically concentrated buyers	Direct purchasing

Buying Situations

The business buyer faces many decisions in making a purchase. The number of decisions depends on the buying situation: complexity of the problem being solved, newness of the buying requirement, number of people involved, and time required. There are three types of buying situations: the straight re-buy, modified re-buy, and new task. Straight re-buy is when the purchasing department reorders on a routine basis and chooses from suppliers on an "approved list." Modified re-buy is when the buyer wants to modify product specifications, prices, delivery requirements, or other items.

A new task is when the purchaser buys a product or service for the first time. The business buyer makes the fewest decisions in the straight re-buy situation and the most in the new-task situation. In the new-task situation, the buyer has to determine product specifications, price limits, delivery terms and times, service terms, payment terms, order quantities, acceptable suppliers, and the selected supplier. This situation is the marketer's greatest opportunity and challenge. Because of the complicated selling involved, many companies use a missionary sales force consisting of their most effective salespeople for new-task situations.

Systems Buying and Selling

Many business buyers prefer to buy a total solution to a problem from one seller. Called systems buying, this practice originated with the government. It consists of prime contractors and second-tier contractors. One variant of systems selling is systems contracting where a single supplier provides the buyer with his or her entire requirements of maintenance, repair, and operating (MRO) supplies.

ANALYSING BUSINESS MARKETS (CHAPTER 7)

PARTICIPANTS IN THE BUSINESS BUYING PROCESS

Purchasing agents are influential in straight-re buy and modified-re buy situations, whereas engineering personnel usually have a major influence in selecting product components, and purchasing agents dominate in selecting suppliers.

According to Kotler and Keller (2009:228) there are seven roles in the purchase decision process:

- Initiators - request the product
- Users - will use the product
- Influencers - influence the buying decision
- Deciders - make the decision of what to purchase
- Approvers - authorise the proposal
- Buyers - have the formal authority to purchase
- Gatekeepers - have the power to prevent seller information from reaching members of the buying centre

Buying Centre Influences

Buying centres usually include several participants with differing interests, authority, status, and persuasiveness. Each member of the buying centre is likely to give priority to very different decision criteria. Business buyers also respond to many influences when they make their decisions. Each buyer has personal motivations, perceptions, and preferences that are influenced by the buyers:

- Age
- Income
- Education
- Job position
- Personality
- Attitudes toward risk
- Culture

Individuals are motivated by their own needs and perceptions in an attempt to maximise the rewards. Personal needs "motivate" the behaviour of individuals. Organisational needs "legitimate" the buying decision process and its outcomes. People are not buying "products"; they are buying solutions to two problems:

- The organisation's economic and strategic problem
- Their own personal "problem" of obtaining individual achievement and reward

Buying Centre Targeting

To target their efforts properly, business marketers have to figure out: Who are the major decision participants? What decisions do they influence? What is their level of influence? What evaluation criteria do they use? Small sellers concentrate on reaching the key buying influencers. Large sellers go for multilevel indepth selling to reach as many participants as possible. Business marketers must periodically review their assumptions about buying centre participants.

In defining target segments, four types of business customers can often be identified, with corresponding marketing implications. These are:

- Price-orientated customers (transactional selling)
- Solution-orientated customers (consultative selling)
- Gold-standard customers (quality selling)
- Strategic-value customers (enterprise selling)

Risk and gain sharing can be used to offset requested price reductions from customers.

Solution selling can also alleviate price pressure and comes in different forms. These are:

- Solutions to enhance customer revenues
- Solutions to decrease customer risks
- Solutions to reduce customer costs (Kotler and Keller, 2009:228-231).

THE PURCHASING/PROCUREMENT PROCESS

Every organisation has specific purchasing objectives, policies, procedures, organisational structures, and systems. Business buyers seek to obtain the highest benefit package in relation to a market offering's costs. A business buyer's incentive to purchase will be greater in proportion to the ratio of perceived benefits to costs. The marketer's task is to construct a profitable offering that delivers superior customer value to the target buyers.

Purchasing Orientations

Today's purchasing departments are more strategically orientated and have a mission to seek the best value from fewer and better suppliers. The upgrading of purchasing means that the business marketer must upgrade their sales personnel to match the high calibre of the business buyer.
Three company-purchasing orientations are distinguishable. These are:

- Buying orientation
- Procurement orientation
- Supply-Chain orientation

Types of Purchasing Processes

Marketers need to understand how business-purchasing departments work.

- Routine products - low value and cost and little risk
- Leverage products - high value and cost but little risk
- Strategic products - high value and cost and high risk
- Bottleneck products - low value and cost but some risk

Purchasing Organisation and Administration

Most purchasing professionals describe their jobs as more strategic, technical, team-orientated, and involving more responsibility than ever before. In multi-divisional companies, most purchasing is carried out by separate divisions (Kotler and Keller, 2009:232-238).

STAGES IN THE BUYING PROCESS

Robinson and Associates (1967) have identified the following eight stages:

- Problem recognition
- General need description
- Product specification
- Supplier search
- Proposal solicitation
- Supplier selection
- Order-routine specification
- Performance review

Problem Recognition

The buying process begins when someone in the company recognises a problem or need. The recognition can be triggered by internal or external stimuli.

General Need Description and Product Specification

Next, the buyer determines the needed item's general characteristics and requirements.

Supplier Search

The buyer next tries to identify the most appropriate suppliers through trade directories, contacts with other companies, trade advertisements, and trade shows.

Proposal Solicitation

The buyer invites qualified suppliers to submit proposals. If the item is complex, the buyer will require a detailed written proposal from each qualified supplier. Business marketers must be skilled in researching, writing, and presenting proposals.

Supplier Selection

Before selecting a supplier, the buying centre will specify desired supplier attributes and indicate their relative importance. To rate and identify the most attractive suppliers, buying centres often use a supplier-evaluation model.

Order-Routine Specifications

After selecting suppliers, the buyer negotiates the final order, listing the technical specifications, the quantity needed, the expected time of delivery, return policies, warranties, and so on.

Performance Review

The buyer periodically reviews the performance of the chosen supplier(s). Here are the commonly used methods:

- The buyer may contact the end users and ask for their evaluations
- The buyer may rate the supplier on several criteria using a weighted score method
- The buyer might aggregate the cost of poor performance to come up with adjusted costs of purchase, including price
- The performance review may lead to the buyer to continue, modify, or end a supplier relationship

MANAGING BUSINESS-TO-BUSINESS CUSTOMER RELATIONSHIPS

To improve effectiveness and efficiency, business suppliers and customers are exploring different ways to manage their relationships.

The Benefits of Vertical Coordination

Building trust between parties is often seen as one prerequisite to healthy long-term relationships.

One historical study according to Kotler and Keller (2009:238) found four very different business-to-business relationships. The relationship between advertising agencies and clients illustrates these findings:

In the relationship formation stage, one partner experienced substantial market growth.

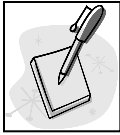
Information asymmetry between partners was such that a partnership would generate more profits than if the partner attempted to invade the other firm's area. At least one partner had high barriers to entry that would prevent the other partner from entering the business. Dependence asymmetry existed such that one partner was more able to control or influence the other's conduct. One partner benefited from economies of scale related to the relationship. Cannon and Perreault (1999) found that buyer-supplier relationships differed according to the following four factors:

- Availability of alternatives
- Importance of supply
- Complexity of supply
- Supply market dynamism

Business Relationships: Risks and Opportunism

Vertical coordination can facilitate stronger customer-seller ties but at the same time may increase the risk to the customer and supplier's specific investments. Specific investments are those expenditures tailored to a particular company and value chain partner. Specific investments help firms grow profits and achieve positioning. Specific investments also entail considerable risk to both customer and supplier:

When buyers cannot easily monitor supplier performance, the supplier might shirk or cheat and not deliver the expected value. Opportunism can be thought of as "some form of cheating or undersupply relative to an implicit or explicit contract."Opportunism is a concern because firms must devote resources to control and monitoring that otherwise could be allocated to purposes that are more productive.



ACTIVITY 6.2

Consider some of the consumer behaviour topics. How might you apply them to business-to-business settings? For example, how might non-compensatory models of choice work?

Response at the end of this Section

MARKETING SPOTLIGHT – DISNEY

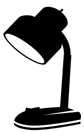
Case Study: Kotler and Keller (2006: 169)

- What have been the key success factors for Disney?
- Where is Disney vulnerable?
- What should Disney watch out for?
- What recommendations would you make to senior marketing executives at Disney?
- What should they be sure to do with their marketing?

Response at the end of this Section

MARKETING SPOTLIGHT - GE

Case Study: Kotler and Keller (2006: 235)



- What have been the key success factors for GE?
- Where is GE vulnerable?
- What should GE watch out for?
- What recommendations would you make to the senior marketing executive at GE?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

Consumer behaviour is influenced by three factors: cultural (culture, subculture, and social class); social (reference groups, family, and social roles and statuses); and personal (age, stage in the life cycle, occupation, economic circumstances, lifestyle, personality, and self-concept). Research into all these factors can provide marketers with clues to reach and serve consumers more effectively. Four main psychological processes affect consumer behaviour: motivation, perception, learning and memory. To understand how consumers actually make buying decisions, marketers must identify who makes and has input into the buying decision; people can be initiators, influencers, deciders, buyers, or users. Different marketing campaigns might be targeted to each type of person. The typical buying process consists of the following sequence of events: problem recognition, information search, evaluation of alternatives, purchase decision, and post-purchase behaviour. The marketer's job is to understand behaviour at each stage. The attitudes of others, unanticipated situational factors, and perceived risk may all affect the decision to buy, as will consumers' levels of post-purchase satisfaction and post-purchase actions on the part of the company. Organisational buying is the decision-making process by which formal organisations establish the need for purchased products and services, then identify, evaluate, and choose among alternative brands and suppliers. The business market consists of all the organisations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others. Compared to consumer markets, business markets generally have fewer and larger buyers, a closer customer-supplier relationship, and more geographically concentrated buyers. Demand in the business market is derived from demand in the consumer market and fluctuates with the business cycle. Nonetheless, the total demand for many business goods and services is quite price inelastic.

Business marketers need to be aware of the role of professional purchasers and their influencers, the need for multiple sales calls, and the importance of direct purchasing, reciprocity, and leasing. The buying centre is the decision-making unit of a buying organisation. It consists of initiators, users, influencers, deciders, approvers, buyers, and gatekeepers. To influence these parties, marketers must be aware of environmental, organisational, interpersonal, and individual factors. The buying process consists of eight stages called buy phases: (1) problem recognition, (2) general need description, (3) product specification, (4) supplier search, (5) proposal solicitation, (6) supplier selection, (7) order-routine specification, and (8) performance review. Business marketers must form strong bonds and relationships with their customers and provide them with added value. Some customers, however, may prefer more of a transactional relationship. The institutional market consists of schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Buyers for governmental organisations tend to require a great deal of paperwork from their vendors and to favour open bidding and domestic companies. Suppliers must be prepared to adapt their offers to the special needs and procedures found in institutional and government markets.

Response to Marketing Spotlight - Disney

What have been the key success factors for Disney?

Marketing family entertainment, products, and services targeted to specific age groups within the family.

Where is Disney vulnerable?

Claims of exploitation of products to the very young, and uninformed consumers (children).

What should GE watch out for?

Societal changes regarding marketing to children as expressed by protest groups, churches, and local or national laws.

What recommendations would you make to the senior marketing executive at GE?

Monitoring societal opinions regarding marketing to children as well as monitoring the proliferation of Disney co-branding so as not to over saturate the brand's exposure.

What should Disney be sure to do with its marketing?

- Continue to understand the culture of its target markets (especially the growing Hispanic community)
- Continue to understand consumer buying decision-making and consumer behavior
- Continue to understand the buying processes of its target market(s) especially the post-purchase use and disposal of their products.

Response to Marketing Spotlight - GE

What have been the key success factors for GE?

Advertising campaigns that present a unified GE message and that portrays their innovation inherent in all their wide-ranging products. GE's success rests on its ability to understand the business market.

Where is GE vulnerable?

It must continue to understand the business-to-business market and the business buying processes around the world and those unique to each country and industry in which they compete.

What should they watch out for?

Changes to business-to-business practices on the local, national, and international levels.

What recommendations would you make to GE's senior marketing executives going forward?

Do not get complacent or overly comfortable with their successes.

What should they be sure to do with their marketing?

Continue to integrate the brand across all businesses and direct their marketing to each of their business-to-business customers.

Response to Activity 6.1

Exploitative

When marketers use their advance knowledge of specific target markets, such as minorities that preys upon the target market's weaknesses and lack of information, then marketing can be said to be exploiting the said target market for gains. Marketers should always be aware that information is a powerful tool that has to be used responsibly and prudently. Products and services that cater to minorities that cause adverse health effects or pejorative social action(s) because of their usage need to be marketed in a socially responsible way. Just because a marketer has information on the buying habits, social styles, motivation, perception, and purchase criteria specific to a target market does not automatically permit the marketer to use this information freely.

Sound Business Practice

Marketers do not create social systems nor does marketing create social ills. Marketers cannot assume the responsibility for lack of personal choice, lack of information or knowledge, and the lack of personal responsibility. It is the role of marketing to deliver to the target market the goods and services they want and need. Marketing is "amoral" in its delivery of information to target markets and the target markets must decide for themselves the use or non-use of the products marketed. Using advanced research methods to uncover motivation, purchase intent, post-purchase usage, and the like is sound business practice and the marketer owes its stakeholders the responsibility to use this information that increases sales.

Response to Activity 6.2

Consumer behaviour is influenced by cultural factors, social factors, and personal factors. These are individual considerations that apply to the business-to-business market as well as to the consumer market. The difference is that all of the members of the buying centre will possess different sets of these considerations and that the business-to-business marketer must try to appeal to all of these simultaneously. In addition, there are four main psychological processes: motivation, perception, learning, and memory apply as well to the business-to-business market. Again, in business-to-business marketing, each member of the buying centre will exhibit different degrees of each of these processes. Finally, in the business-to-business buying situation, problem recognition, information search, evaluation of alternatives, purchase decisions, and post-purchase behaviour will differ from the consumer market. The difference(s) lie in the amount of time involved, the degree of research expended, the decision-maker's role and the evaluation of the product or service.

In the business-to-business market, more attention is paid to information search, purchase decisions, the evaluation of alternatives, and the fact that the "user" may not be the final decision maker. In the

business-to-business market, there are seven roles demonstrated by people within the company (initiators, users, influencers, deciders, approvers, buyers, and gatekeepers), each of which must be considered as a factor in the selling process. In the consumer market, many of these roles are included in the single role as buyer.

Non-compensatory choice models and other “impartial” decision-making tools receive a greater degree of importance as the business-to-business buying center tries to remove personal choice options from the equation.

CHAPTER 7

IDENTIFYING MARKET SEGMENTS AND TARGETS

CHAPTER SEVEN: IDENTIFYING MARKET SEGMENTS AND TARGETS

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Identify the different levels of market segmentation
- Explain how a company can divide a market into segments
- Describe how a company should choose the most attractive target markets
- Identify and apply the requirements for effective segmentation

PRESCRIBED READING

Chapter 8 – Kotler, P and Keller, KL.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall.

RECOMMENDED READING

Chapter 6- Blythe, J (2006). Principles and Practice of Marketing. London: Thomson.

Chapter 8 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè JC(2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

Chapter 4 -Van der Walt, A Strydom, W.J Marx S and Jooste CJ(1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd.

OPENING NOTE

Markets are not homogeneous. A company needs to identify which market segments it can serve effectively. Such decisions require a keen understanding of consumer behaviour and careful strategic thinking. To compete more effectively, companies are now embracing target marketing. Effective target marketing requires that marketers identify and profile distinct groups of buyers who differ in their needs and preferences, select one or more market segments to enter and establish and communicate the distinctive benefit(s) of the company's market offering.

A market segment consists of a group of customers who share a similar set of needs and wants (Kotler and Keller, 2009:248)

Levels of Market Segmentation

The starting point for discussing segmentation according to Kotler and Keller (2009:248) is mass marketing. In mass marketing, the seller engages in the mass production, mass distribution, and mass promotion of one product for all buyers.

The argument for mass marketing is that it creates the largest potential market, which leads, to the lowest costs that in turn can lead to lower prices or higher margins.

Segment Marketing

Kotler and Keller (2009:248) confirm that a market segment consists of a group of customers who share a similar set of needs and wants. The marketer does not create the segments. The marketer's task is to identify the segments and decide which one(s) to target.

Market segments can be defined in many different ways as follows :

- One way to carve up a market is to identify preference segments
- Homogeneous preferences
- Diffused preferences
- Clustered preferences

Niche Marketing

A niche is a more narrowly defined customer group seeking a distinctive mix of benefits. Marketers usually identify niches by dividing a segment into sub-segments.

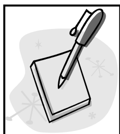
Niche marketers presumably understand their customers' needs so well that the customers willingly pay a premium. Globalization has facilitated niche marketing. The low cost of setting up shop on the Internet has led to many small business start-ups aimed at niches.

Local Marketing

Target marketing is leading to marketing programmes tailored to the needs and wants of local customer groups. Local marketing reflects a growing trend called grassroots marketing. Marketing activities concentrate on getting as close and personally relevant to individual customers as possible. A large part of local, grassroots marketing is experiential marketing that promotes a product or service not just by communicating its features and benefits, but by also connecting it with unique and interesting experiences.

Customerization

The ultimate level of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing." Today customers are taking more individual initiative in determining what and how to buy. Customerization combines operationally driven mass customization with customized marketing in a way that empowers consumers to design the product and service offering of their choice. Each business unit will have to decide whether it would gain more by designing its business system to create offering for segments or for individuals. Customization is certainly not for every company (Kotler and Keller, 2006:240-246).



ACTIVITY 7.1

Take a position on the following:

"Mass marketing is dead" **versus** "Mass marketing is still a viable way to build a profitable brand"

Response at the end of this Section

SEGMENTING CONSUMER MARKETS

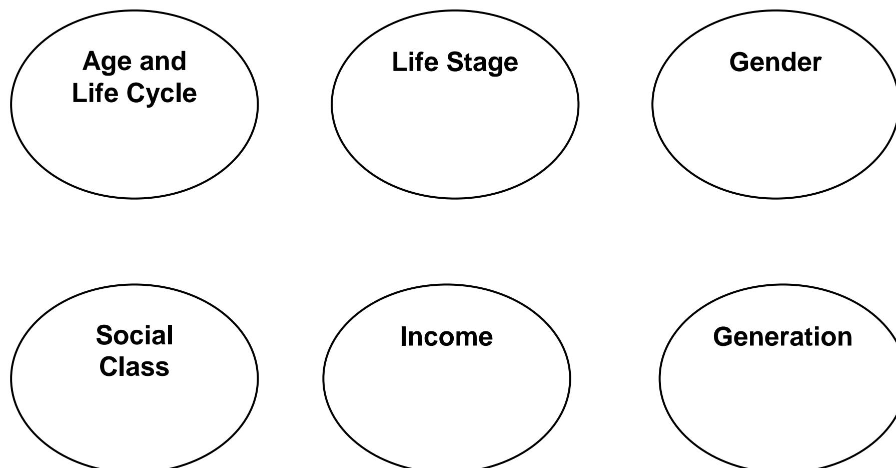
Two broad groups of variables are used to segment consumer markets. Some researchers look at descriptive characteristics e.g. Geographic, demographics, and psycho-graphic while others look at behavioural considerations such as consumer responses to benefits, use occasions, or brands. Regardless of which type of segmentation scheme is employed, the key is that the marketing programme can be profitably adjusted to recognise customer differences.

Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units. More and more, regional marketing means marketing right down to a specific postal code.

Demographic Segmentation

In demographic segmentation the market is divided into groups on the basis of variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class. Consumer needs, wants, usage rates, and product and brand preferences are often associated with demographic variables. Demographic variables are easy to measure.



Age and Life-Cycle Stage

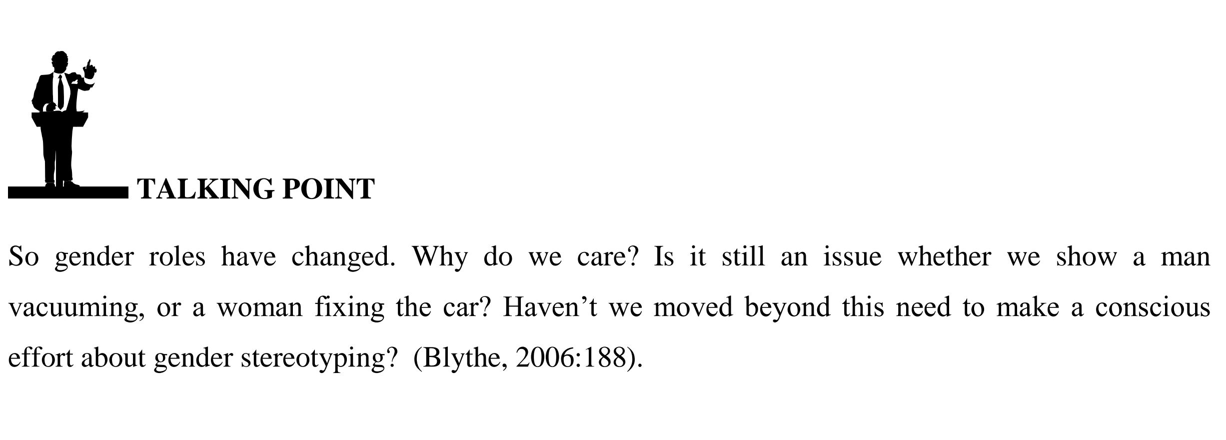
Consumer wants and abilities change with age.

Life Stage

Persons in the same part of the life cycle may differ in their life stage. Life stage defines a person's major concern. These life stages present opportunities for marketers who can help people cope with their major concerns.

Gender

Men and women tend to have different attitudinal and behavioural orientations, based partly on genetic makeup and partly on socialization. Some traditionally more male-orientated markets, are beginning to recognise gender segmentation, changing how they design and sell their products.



TALKING POINT

So gender roles have changed. Why do we care? Is it still an issue whether we show a man vacuuming, or a woman fixing the car? Haven't we moved beyond this need to make a conscious effort about gender stereotyping? (Blythe, 2006:188).

Income

Income segmentation is a long-standing practice in product and service categories.
However, income does not always predict the best customers for a given product.
Increasingly, companies are finding that their markets are "hourglass-shaped" as middle-market Americans migrate toward more premium products.

Generation

Each generation is profoundly influenced by the times in which it grows up. They share similar outlooks and values. Marketers often advertise to a cohort group by using icons and images prominent in the experiences of such a cohort group.

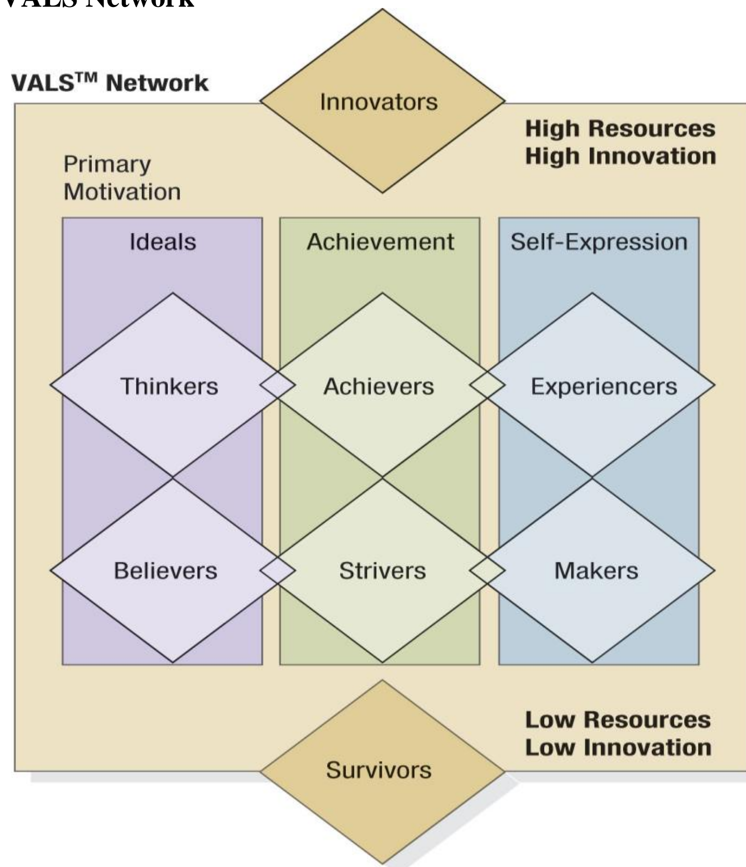
Social Class

Social class has a strong influence on preferences for consumers. Many companies design products and services for specific social classes.

Psychographic Segmentation

Psychographics is the science of using psychology and demographics to better understand consumers. In psychographic segmentation, buyers are divided into different groups on the basis of lifestyle or personality or values. One of the most popular commercially available classification systems is SRI Consulting Business Intelligence's VALS framework. Figure 7.1 illustrates the VALS Segmentation System (Kotler and Keller, 2009:261-262).

Figure 7.1 – VALS Network



Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. P262

The major tendencies of the four groups with high resources are innovators, thinkers,
achievers and experiencers. The major tendencies of the four groups with lower resources are believers, strivers, makers and strugglers.

Behavioural Segmentation

In behavioural segmentation, buyers are divided into groups on the basis of their knowledge, attitude, toward, use of, or response to a product.

Decision Roles

People play five roles in a buying decision. These are:

- Initiator
- Influencer
- Decider
- Buyer
- User

Behavioural Variables

Many marketers believe that behavioural variables are the best starting points for constructing market segments.

Occasions: Occasions can be defined in terms of the time of day, week, month, year or in terms of other well-defined temporal aspects of a consumer's life.

Benefits: Buyers can be classified according to the benefits they seek.

User Status: Markets can be segmented into non-users, ex-users, potential users, first-time users, and regular users of a product.

Usage Rates: Markets can be segmented into light, medium, and heavy product users. Heavy users often account for a small percentage of the market but possess a high percentage of total consumption.

Buyer-Readiness Stage: A market consists of people in different stages of readiness to buy a product. Some are unaware of the product, some are aware, some are informed, some are interested, some desire and some intend to buy.

Loyalty Status

Buyers can be divided into four groups according to brand loyalty status:

- Hard-core loyals
- Split loyals
- Shifting loyals
- Switchers

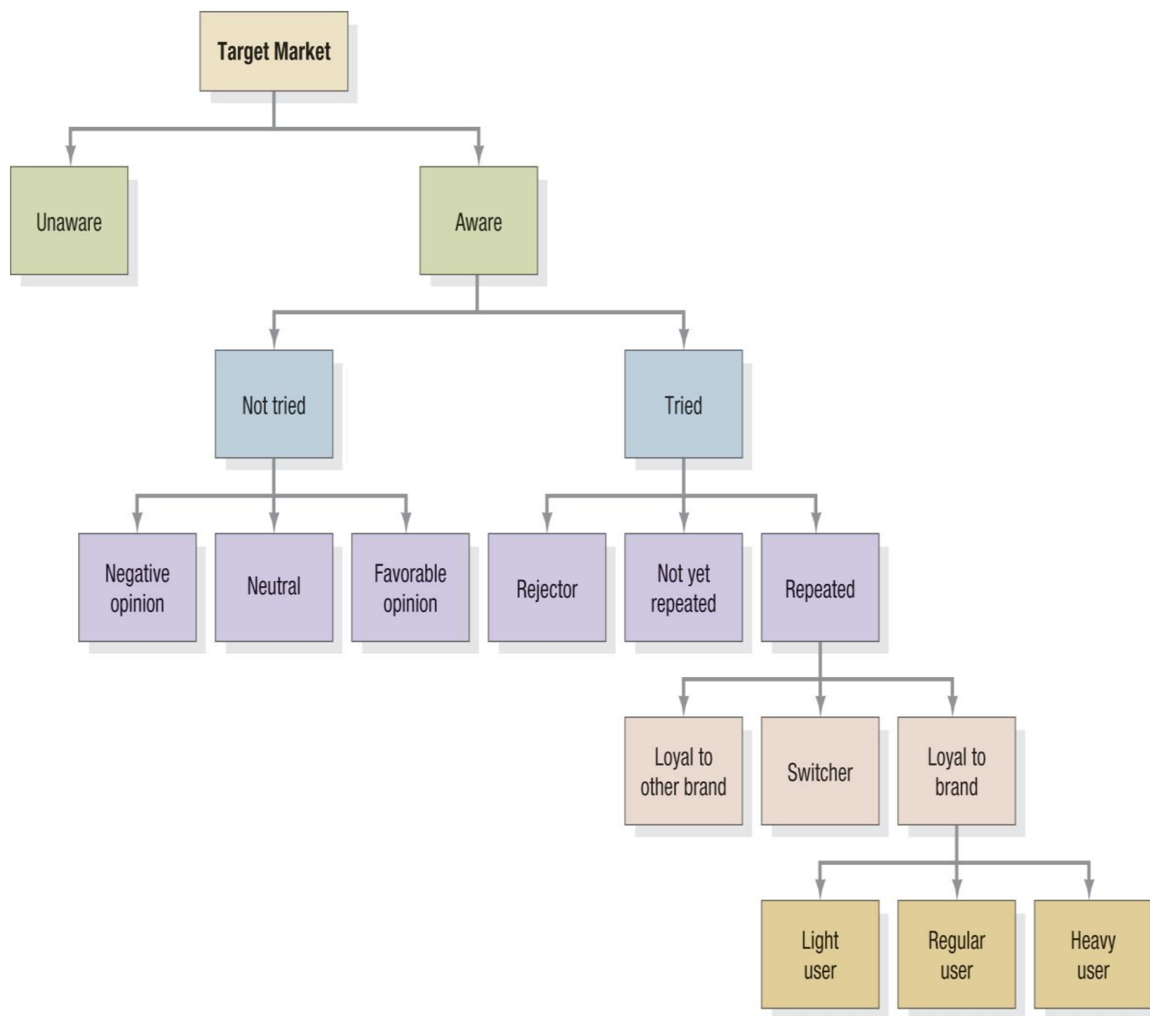
A company can learn a great deal by analysing the degrees of brand loyalty.

Attitude: Five attitude groups can be found in a market:

- Enthusiastic
- Positive
- Indifferent
- Negative
- Hostile

Combining different behavioural bases can help to provide a more comprehensive and cohesive view of a market and its segments. Figure 7.2 depicts one possible way to break down a target market (Kotler and Keller, 2009:265).

Figure 7.2 - Behavioural Segmentation Breakdown



Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. p265

The Conversion Model

The Conversion Model has been developed to measure the strength of the psychological commitment between brands, consumers, and their openness to change. The model segments users of a brand into four groups based on strength of commitment from high to low: Convertible, Shallow, Average or Entrenched.

The model also classifies non-users of a brand into four groups based on their "balance of disposition" and openness to trying the brand, from low to high: Strongly unavailable, Weakly unavailable, Ambivalent and Available.

BASIS FOR SEGMENTING BUSINESS MARKETS

Business markets can be segmented with some of the variables used in consumer market segmentation but business marketers also use other variables.

The table lists major questions that business marketers should ask in determining which segments and customers to serve.

Demographic	*Industry*: Which industries should we serve? *Company size*: What size companies should we serve? *Location*: What geographical areas should we serve?
Operating variables	*Technology*: What technologies should we focus on? *User/Non user status*: Should we serve heavy, medium, light users or non users? *Customer capabilities*: Should we serve customers needing many or few services?
Purchasing Approaches	*Purchasing-function organisation*: Should we serve companies with highly centralised or decentralised purchasing organisations? *Power structure*: Should we serve companies that are engineering dominated, financially dominated and so on? *Nature of existing relationships*: Should we serve companies with which we have strong relationships or simply go after the most desirable companies? *General purchase policies*: Should we serve companies that prefer leasing? Service contracts? Systems purchases? Sealed bidding? *Purchasing criteria*: Should we serve companies that are seeking quality? Service? Price?
Organisational Factors	*Urgency*: Should we serve companies that need quick and sudden delivery or service? *Specific application*: Should we focus on certain applications of our product rather than all applications? *Size of order*: Should we focus on large or small orders?
Personal Characteristics	*Buyer-seller similarity*: Should we serve companies whose people and values are similar to ours *Attitudes towards risk*: Should we serve risk-taking or risk-avoiding customers? *Loyalty*: Should we serve companies that show high loyalty to their suppliers?

Adapted: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. P267

MARKET TARGETING

Once the firm has identified its market-segment opportunities, it has to decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. This has led some market researchers to advocate a needs-based market segmentation approach.

Source: *http://www.simulcorp.com/cfm/trigger.htm*

Effective Segmentation Criteria

Kotler and Keller (2009:267) argue that to be useful, market segments must rate favourable on the following five key criteria:

- Measurable
- Substantial
- Accessible
- Differentiable
- Actionable

Evaluating and Selecting the Market Segments

In evaluating different market segments, the firm must look at two factors: The segment's overall attractiveness and the company's objectives and resources.

A) Single-segment concentration

Through concentrated marketing, the firm gains a strong knowledge of the segment's needs and achieves a strong market presence. However, there are risks, a market segment can turn sour, or a competitor may invade the segment. For these reasons, many companies prefer to operate in more than one segment. Companies can try to operate in super-segments rather than in isolated segments. A super-segment is a set of segments sharing some exploitable similarity.

B) Selective specialisation

The firm selects a number of segments, each objectively attractive and appropriate. This multi-segment strategy has the advantage of diversifying the firm's risk.

C) Product specialisation

The firm makes a certain product that it sells to several different market segments.

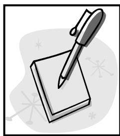
D) Market Specialisation

The firm concentrates on serving many needs of a particular customer group.

E) Full market coverage

The firm attempts to serve all customer groups with all the products they might need.

In undifferentiated marketing, the firm ignores segment differences and goes after the whole market with one offer. In differentiated marketing, the firm operates in several market segments and designs different products for each segment (Kotler and Keller, 2009:269-270).



ACTIVITY 7.2

Think of various product categories. How would you classify yourself in terms of the various segmentation schemes? How would marketing be more or less-effective for you depending on the segment involved? How would you contrast demographic versus behavioural segment schemes? Which ones do you think would be most effective for marketers trying to sell to you?

Response at the end of this Section

Managing Multiple Segments

The best way to manage multiple segments is to appoint segment managers with sufficient authority and responsibility for building the segment's business.

Differentiated Marketing Costs

Differentiated marketing typically creates more total sales than undifferentiated marketing but also increases the cost of doing business. The following costs are likely to be higher:

- Product modifications
- Manufacturing costs
- Administrative costs
- Inventory costs
- Promotion costs

Additional Considerations

Three other considerations must be taken into account in evaluating and selecting segments: segment-by-segment invasion plans, updating segmentation schemes, and ethical choice of market targets.

Ethical Choice of Market Targets

Market targeting generates public controversy. The public is concerned when marketers take unfair advantage of vulnerable groups or promote potentially harmful products.

MARKETING SPOTLIGHT – HSBC

Case Study: Kotler and Keller (2006: 269)

- What have been the key success factors for HSBC?
- Where is HSBC vulnerable?
- What should HSBC watch out for?
- What recommendations would you make to senior marketing executives at HSBC?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

Target marketing involves three activities: market segmentation, market targeting, and market positioning. Markets can be targeted at four levels: segments, niches, local areas, and individuals. Market segments are large identifiable groups within a market. A niche is a more narrowly defined group. Marketers appeal to local markets through grassroots marketing for trading areas, neighborhoods, and even individual stores. More companies now practice individual and mass-customization. The future is likely to see more self-marketing, a form of individual marketing in which individual consumers take the initiative in designing products and brands. There are two bases for segmenting consumer markets: consumer characteristics and consumer responses. The major segmentation variables for consumer markets are geographic, demographic, psychographic, and behavioural. These variables can be used singly or in combination. Business marketers use all these variables along with operating variables, purchasing approaches, and situational factors. To be useful, market segments must be measurable, substantial, accessible, differentiable, and actionable. A firm has to evaluate the various segments and decide how many and which ones to target: a single segment, several segments, a specific product, a specific market, or the full market. If it serves the full market, it must choose between differentiated and undifferentiated marketing. Firms must also monitor segment relationships, and seek economies of scope and the potential for marketing to supersegments. They should develop segment-by-segment invasion plans. Marketers must choose target markets in a socially responsible manner.

Response to Marketing Spotlight - HSBC

What have been the key success factors for HSBC?

Advertising campaigns that illustrate HSBC's local connection to the countries and markets that they are doing business. HSBC's success rests on its ability to understand the local markets and niche markets in the countries that they reside.

Where is HSBC vulnerable?

It must continue to understand the local market and make the "connection" with local communities.

What should HSBC watch out for?

Rapid changes to their target markets (demographic changes, psychological changes, etc.) in the local and national levels.

What recommendations would you make to senior marketing executives at HSBC?

They should not get complacent or overly comfortable with their successes. They should also avoid becoming "big" for "bigness sake."

What should they be sure to do with their marketing?

Continue to capitalise on niche markets, local connections to the communities, and continue to investigate the marketing forces of their markets on an individual basis. They should try not to create "generalizations" for the sake of internal efficiencies.

Response to Activity 7.1

Pro: People are consumers and people have a number of basic personal and societal needs that transcend individuality. Certain basic human physical needs (food, clothing, and shelter, for example) can be best met through mass marketing. In addition, consumers desire low prices and functionality in some of their basic products and services. Mass marketing allows the firm to foster the lowest price through economies of production, distribution, and marketing. Additionally, people like to have some degree of convenience in their daily life that is best served through mass produced products. Asking the consumer to make too many choices, can backfire on marketers as it can overly complicate and stress consumers - for example, the design of a new home can be both a rewarding and stressful experience; the intended owner is asked to literally make hundreds of decisions about size, floor plans, colours, and options throughout the process. Not complicating a consumer's life, through mass production and mass marketing of products can create a viable marketing niche for companies.

Con: People are consumers and with the plethora of product and service choices available to solve their problems today, a firm must produce individual and customized products to compete. Basic human needs and wants can be delivered to the consumer by a wide range of choices. Technology has given the consumer the power and ability to interact with manufacturers in producing the exact product, with the exact features, and at the target price desired. Consumers are better educated and better informed than previous generations. Consumers are also more sophisticated than ever before. These increases in information, technology, and sophistication are causing firms to respond to the consumers' wishes for individuality. Accepting the concept of "individuality" in the production of goods and services is the only option for many firms. Individuality and the service that that concept demands can lead to a "supplier-consumer" relationship that can and will build strong brand preferences. Those firms who choose not to compete or fail to compete in these arenas run the risk of falling behind the competition and experiencing t subsequent losses in market share and profits.

Response to Activity 7.2

Each student's answer will vary depending upon the product chosen. However, all answers should contain some of the following terms:

- Niche markets
- Local marketing
- Customerization marketing
- Geographic segmentation
- Age and life-cycle stage
- Life stage
- Gender
- Income
- Generation
- Social class
- Psychographic segments (VALS)
- Behavioural variables
- Usage rates
- Buyer-readiness stages
- Loyalty status

CHAPTER 8

BRANDING

CHAPTER EIGHT: BRANDING

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Explain what a is brand and how branding works
- Display knowledge on brand equity
- Demonstrate how brand equity is built, measured, and managed
- Apply decisions in developing a branding strategy
- Explain how a firm can choose and communicate an effective positioning in the market
- Discuss how brands are differentiated
- Apply marketing strategies at each stage of the product life-cycle
- Determine the implications of market evolution for marketing strategies

PRESCRIBED READING

Chapter 9 and 10 - Kotler,P and Keller,KL.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall.

RECOMMENDED READING

Chapter 3 - Blythe, Jim (2006). Principles and Practice of Marketing. London: Thomson.

Chapter 11 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè (2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

OPENING NOTE

Building a strong brand requires careful planning and a great deal of long-term investment. At the heart of a successful brand is a great product or service, backed by creatively designed and executed marketing. Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, enhance, and protect brands. Strategic brand management involves the design and implementation of marketing activities and programmes to build, measure, and manage brands to maximise their value.

What is Brand Equity?

The American Marketing Association defines a brand as "a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors."

A brand according to Kotler and Keller (2009:276) is a product or service that adds dimensions that differentiate it in some way from other products or services designed to satisfy the same need. These differences may be functional, rational, or tangible-related to the product performance of the brand. They may also be more symbolic, emotional, or intangible-related to what the brand represents.

The Role of Brands

Kotler and Keller (2009:277) indicate that brands identify the source or maker of a product and allow consumers to assign responsibility to a particular manufacturer or distributor. Consumers learn about brands through past experiences with the product and its marketing programme.

Brands perform valuable functions for the firm. Brands can signal a certain level of quality so that satisfied buyers can easily choose the product again. Brand loyalty provides predictability and security of demand for the firm and creates barriers to entry for other firms. Branding can be seen as a powerful means to secure a competitive advantage. To firms, brands thus represent enormously valuable pieces of legal property that can influence consumer behaviour, be bought and sold, and provide the security of sustained future revenues to their owner.

The Scope of Branding

How then do you "brand" a product? A brand, according to Kotler and Keller (2009:278), is a perceptual entity that is rooted in reality but reflects the perceptions and perhaps even the idiosyncrasies of consumers.

Branding is endowing products and services with the power of a brand. Branding is all about creating differences. To brand a product, it is necessary to teach consumers "who" the product is, "what" the product does, and "why" consumers should care. Branding involves creating mental structures and helping consumers organise their knowledge about products and services in a way that clarifies their decision-making and provides value to the firm. For branding strategies to be successful and brand value to be created, consumers must be convinced that there are meaningful differences among brands in the product or service category. The key to branding is that consumers must not think that all brands in the category are the same. Brand differences often are related to attributes or benefits of the product itself. Branding can be applied virtually in any context where a consumer has a choice.

Defining Brand Equity

Brand equity is the added value endowed to products and services. This value may be reflected in how consumers, think, feel, and act with respect to the brand as well as the prices, market share, and profitability that the brand commands for the firm. Brand equity is an important intangible asset to the firm that has psychological and financial value. Marketers and researchers use various perspectives to study brand equity.

Customer-based brand equity can be defined as the differential effect that brand knowledge has on consumer response to the marketing of that brand. A brand is said to have positive customer-based brand equity when consumers react more favourably to a product and the way it is marketed when the brand is identified as compared to when it is not. A brand is said to have negative customer-based equity if consumers react less favourably to marketing activity for the brand under the same circumstances. Brand equity arises from differences in consumer response as a result of consumer's knowledge about the brand. Brand knowledge consists of all thoughts, feelings, images, experiences, beliefs, and so on that become associated with the brand. The challenge for marketers in building a strong brand is in ensuring that customers have the right type of experiences with products and services and that their marketing programmes create the desired brand knowledge structures for the brand. Customer knowledge is what drives the differences that manifest themselves in brand equity (Kotler and Keller, 2009:278-282).

Brand Equity as a Bridge

From the perspective of brand equity, all the marketing rands spent each year on products and services should be thought of as investments in consumer brand knowledge. The quality of the investment in brand building is the critical factor, not necessarily the quantity, beyond some minimal threshold amount.

It is actually possible to "overspend" on brand building if money is not spent wisely.
A brand is essentially a marketer's promise to deliver predictable product or service performance. Brand promise is the marketer's vision of what the brand must be and do for consumers. Understanding consumer brand knowledge is thus of paramount importance because it is the foundation of brand equity.

Brand Equity Models

A) Brand Asset Valuator

Advertising agency Young and Rubicam (YandR) developed a model of brand equity called Brand Asset Valuator (BAV). The four key components of brand equity according to BAV are:

- Differentiation
- Relevance
- Esteem
- Knowledge

Differentiation and relevance combine to determine brand strength. Esteem and knowledge combine to create brand structure. Brand strength and brand structure can be combined to form a Power grid that depicts the stages in the cycle of brand development in successive quadrants.

B) Aaker Model

According to David Aaker (1991 and 1996), a particularly important concept is brand identity, the unique set of brand associations that represent what the brand stands for and promises to customers. Aaker sees brand identity as consisting of twelve dimensions organised around four perspectives:

- Brand-as-product (product scope and attributes, quality/value, use, users, country of origin)
- Brand-as-organisation (organisational attributes, local versus global)
- Brand-as-person (brand personality, brand-customer relationships)
- Brand-as-symbol (visual imagery/metaphors and brand heritage)

Aaker (1996) also conceptualizes brand identity as including a core and an extended identity. **Core identity** refers to the central, timeless essence of the brand while **Extended identity** includes various brand identity elements, organised into cohesive and meaningful groups.

C) Brandz

Marketing research consultants Brown and WPP have developed the BRANDZ model of brand strength, at the heart of which is the Brand Dynamics pyramid. According to this model, brand building involves a sequential series of steps, where each step is contingent upon successfully accomplishing the previous step. The objectives at each step, in ascending order, are as follows:

- Presence
- Relevance
- Performance
- Advantage
- Bonding

Research has shown that bonded consumers, build stronger relationships with the brand, and spend more of their category expenditures on the brand than those at lower levels of the pyramid.

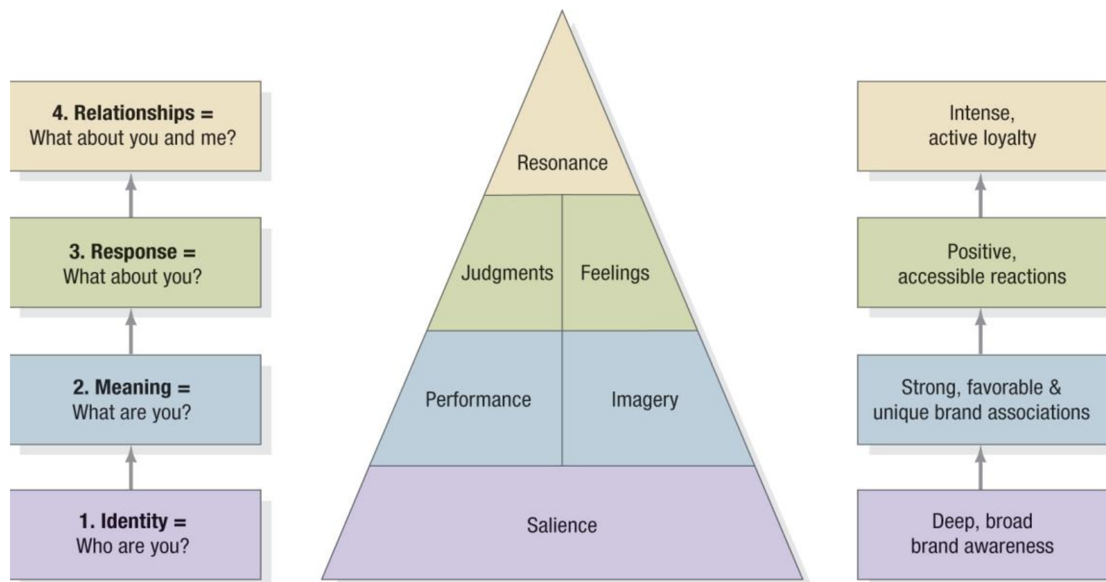
D) Brand Resonance

The brand resonance model views brand building as an ascending, sequential series of steps, from bottom to top as per figure 8.1. These are:

1. Enduring identification of the brand with customers and an association of the brand in customers' minds with a specific product class or customer need.
2. Firmly establishing the totality of brand meaning in the minds of customers by strategically linking a host of tangible and intangible brand associations.
3. Eliciting the proper customer responses in terms of brand-related judgment and feelings.
4. Converting brand response to create an intense, active loyalty relationship between customers and the brand.

These brand building blocks can be assembled to build a brand pyramid with customers. Brand salience relates to how often and easily the brand is evoked under various purchase or consumption situations. Brand performance relates to how the product or service meets customers' functional needs. Brand imagery deals with the extrinsic properties of the product or service, including the ways in which the brand attempts to meet customers' psychological or social needs. Brand judgments focus on customers' own personal opinions and evaluations. Brand feelings are customers' emotional responses and reactions with respect to the brand. Figure 8.1 depicts the brand resonance pyramid.

Figure 8.1 – The Brand Resonance Pyramid



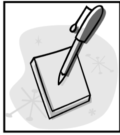
Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey :Prentice Hall. p285

Brand resonance refers to the nature of the relationship that customers have with the brand and the extent to which customers feel that they are "in sync" with the brand. Resonance is characterised in terms of the intensity or depth of the psychological bond customers have with the brand, as well as the level of activity engendered by this loyalty.

Building Brand Equity

Marketers build brand equity by creating the right brand knowledge structures with the right consumers. There are three main sets of brand equity drivers: The initial choice for the brand elements or identities making up the brand, the product, service, and all accompanying marketing activities and supporting marketing programmes and other associations indirectly transferred to the brand by linking it to some other entity, example Tiger Woods and Nike.

Source: http://www.clickitaliansoftware.net/hosted/bepposoftnet/afc/pic2.php



ACTIVITY 8.1

How can you relate the different models of brand equity presented in this chapter? How are they similar? How are they different? Can you construct a brand equity model that incorporates the best aspects of each model?

Response at the end of this Section

Choosing Brand Elements

Brand elements are those trademark devices that serve to identify and differentiate the brand. Brand elements can be chosen to build as much brand equity as possible. The test of the brand-building ability of these elements is what consumers would think or feel about the product if they only knew about the brand element.

Brand Element Choice Criteria

There are six criteria in choosing brand elements. Brand elements must be:

- Memorable
- Meaningful
- Likeability
- Transferable
- Adaptable, and
- Protectable

MEASURING BRAND EQUITY

Given that the power of a brand resides in the minds of consumers and how it changes their response to marketing, Kotler and Keller (2009:285-286) identify two basic approaches to measuring brand equity. An indirect approach—assesses potential sources of brand equity by identifying and tracking consumer brand knowledge structures. A direct approach—assesses the actual impact of brand knowledge on consumer response to different aspects of the marketing. The two general approaches are complementary and marketers can employ both. There are important factors that marketers should know about brand equity. They should fully understand

- The sources of brand equity and how they affect outcomes of interest
- How these sources and outcomes change over time

Brand Audits

To better understand their brands, marketers often need to conduct brand audits. A brand audit is a consumer-focused exercise that involves a series of procedures to assess the health of the brand, uncover its sources of brand equity, and suggest ways to improve and leverage its equity. The brand audit can be used to set the strategic direction for the brand. Marketers should conduct a brand audit whenever they consider important shifts in strategic direction. Conducting brand audits on a regular basis allows marketers to keep their fingers on the pulse of their brands so that they can manage them more proactively and responsively. Brand audits can have profound implications for the strategic direction and brands' resulting performance. A brand audit requires understanding sources of brand equity from the perspective of both the firm and the consumer. From the perspective of the firm, it is necessary to understand exactly what product and services are currently being offered to consumers and how each are being marketing and branded.. From the perspective of the consumer, it is necessary to dig deeply into the minds of consumers and uncover the true meaning of brands and products. Brand audits consist of two steps: the brand inventory and the brand exploratory.

Brand Inventory

The purpose of the brand inventory is to provide a current, comprehensive profile of how all the products and services sold by a company are marketed and branded. Profiling each product or service requires identifying all associated brand elements as well as the supporting marketing programme. As part of the brand inventory, it is also advisable to profile competitive brands in terms of their branding and marketing efforts. The brand inventory helps to suggest what consumers' current perceptions may be based on. Marketers can assess the consistency of all the different products or services sharing a brand name.

Brand Exploratory

The brand exploratory is research activity conducted to understand what consumers think and feel about the brand and its corresponding product category to identify sources of brand equity. Several preliminary activities are useful for the brand exploratory. A number of prior research studies may be relevant. It is useful to interview company personnel to gain an understanding of their beliefs about consumer perceptions. The brand exploratory often employs qualitative research techniques such as word associations, projective techniques, visualization, brand personifications, and laddering. Many firms are now using ethnography to supplement traditional focus groups.

Brand Tracking

Tracking studies collect information from consumers on a routine basis over time.

Tracking studies employ quantitative measures to provide marketers with current information as to how their brands and marketing programmes are performing on the basis of a number of key dimensions. Tracking studies are a means of understanding where, how much, and in what ways brand value is being created.

Brand Valuation

Brand equity needs to be distinguished from brand valuation that is the job of estimating the total financial value of the brand. With these well-known companies, brand value is typically over one-half of the total company market capitalization.

MANAGING BRAND EQUITY

Effective brand management requires a long-term view of marketing decisions.

Brand Reinforcement

As the company's major enduring asset, a brand needs to be carefully managed so that its value does not depreciate. Brand equity is reinforced by marketing actions that consistently convey the meaning of the brand to consumers in terms of:

- What products the brand represents?
- What core benefits it supplies?
- What needs it satisfies?
- How the brand makes those products superior?
- Which strong, favourable, and unique brand associations should exist in the minds of consumers?

Reinforcing brand equity requires innovation and relevance throughout the marketing programme. Marketers must introduce new products and conduct new marketing activities that truly satisfy their target market. An important consideration in reinforcing brands is the consistency of the marketing support the brand receives, in terms of both amount and kind. In managing brand equity, it is important to recognise the trade-offs between those marketing activities that fortify the brand and reinforce its meaning and those that attempt to leverage or borrow from existing brand equity to reap some financial benefit.

Brand Revitalization

Changes in consumer tastes and preferences, the emergence of new competitors or new technology, or any new development in the marketing environment could potentially affect the fortunes of a brand. Reversing a fading brand's fortunes requires either that brands "return to their roots" and lost sources of brand equity are restored or that new sources of brand equity are established.

Often, the first place to look in turning around the fortunes of a brand is to understand what the sources of brand equity were to begin with. To refresh old sources of brand equity or create new sources, two main approaches are possible: Expand the depth and/or breadth of brand awareness by improving consumer recall and recognition of the brand during purchase or consumption settings and improve the strength, favourability, and uniqueness of brand associations making up the brand image. This approach may involve directing at existing or new brand associations.

Brand Crisis

Marketing managers must assume that at some point in time, some kind of brand crisis will arise. In general, the more that brand equity and a strong corporate image has been established, the more likely it is that the firm can weather the storm. In terms of swiftness, the longer it takes a firm to respond to a marketing crisis, the more likely it is that consumers can form negative impressions as a result of unfavourable media coverage or word-of-mouth (Kotler and Keller, 2009:293-296).

DEVISING A BRANDING STRATEGY

The branding strategy for a firm reflects the number and nature of common and distinctive brand elements applied to the different products sold by the firm.
When a firm introduces a new product, it has three main choices. They are:

- It can develop new brand elements for the new product
- It can apply some of its existing brand elements.
- It can use a combination of new and existing brand elements.

When a firm uses an established brand to introduce a new product, it is called a brand extension. When a new brand is combined with an existing brand, the brand extension can also be called a sub-brand. An existing brand that gives birth to a brand extension is referred to as the parent brand. If the parent brand is already associated with multiple products through brand extensions, then it may also be called a family brand.

Brand extensions can be broadly classified into two general categories:

Line Extension: In a line extension, the parent brand is used to brand a new product that targets a new market segment within a product category currently served by the parent brand. In a category extension, the parent brand is used to enter a different product category from that currently served by the parent brand.
Brand Line: A brand line consists of all products - original as well as line and category extensions sold under a particular brand. A brand mix (or brand assortment) is the set of all brand lines that a particular seller makes available to buyers.

Many companies are now introducing branded variants that are specific brand lines supplied to specific retailers or distribution channels. A licensed product is one whose brand name has been licensed to other manufacturers who actually make the product.

Branding Decision: To Brand or Not to Brand?

The first branding strategy is whether to develop a brand name for a product. Today, branding is such as strong force that hardly anything goes unbranded.

A commodity is a product presumably so basic that it cannot be physically differentiated in the minds of consumers. Assuming a firm decides to brand its products or services, it must then choose which brand names to use. Four general strategies are often used:

- Individual names
- Blanket family names
- Separate family names for all products
- Corporate name combined with individual product names

The first two strategies are sometimes referred to as a “house of brands” and a “branded house” and can be seen as representing two ends of a brand relationship continuum. The latter two strategies can be seen as being in between and combinations of the two. Two key components of virtually any branding strategy are brand extensions and brand portfolios.

Advantages of Brand Extensions

Recognising that one of the most valuable assets is a firm’s brand, many have decided to leverage that asset by introducing a host of new products under some of its strongest brand names.

Brand extensions have two main advantages:

- Facilitate new product acceptance
- Provide positive feedback to the parent brand and company.

New Product Success

Brand extensions improve the odds of new product success in a number of ways. Consumers can make inferences and form expectations as to the likely composition and performance of a new product based on what they already know about the parent brand itself. Extensions reduce risk and costs of the introductory launch campaign. They can avoid the difficulty of coming up with a new name and allow for packaging and labelling efficiencies.

Positive Feedback Effects

Brand extensions can help clarify the meaning of a brand and its core brand values or improve consumer perceptions of the credibility of the company behind the extension.

Line extensions can renew interest and liking for the brand and benefit the parent brand by expanding market coverage. One benefit of a successful extension is that it may also serve as the basis for subsequent extensions.

Disadvantage of Brand Extensions

Line extensions may cause the brand name to not be as strongly identified with any one product. Ries and Trout (1981) call this the “line-extension trap.” Brand dilution occurs when consumers no longer associate a brand with a specific product or highly similar products and start thinking less of the brand. If a firm launches extensions consumers deem inappropriate, it may question the integrity and competence of the brand. Different varieties of line extensions may confuse and perhaps even frustrate consumers. The worst possible scenario with an extension is that not only does it fail, but also it harms the parent brand image in the process. Even if sales of a brand extension are high and meet targets, it is possible that this revenue will have resulted from consumers switching to the extension from existing product offerings of the parent brand- called cannibalising the parent brand. Intra-brand shifts in sales may not necessarily be so undesirable, as they can be thought of as a form of pre-emptive cannibalisation. The firm foregoes the chance to create a new brand with its own unique image and equity.

Success Characteristics

A potential new product extension for a brand must be judged by how effectively it leverages existing brand equity from the parent brand to the new product, as well as how effectively the extension contributes to the equity of the parent brand. The most important consideration with extensions is that there is “fit” in the minds of the consumer. One major mistake in evaluating extension opportunities is failing to take all of the consumers’ brand knowledge structures into account.

Brand Portfolios

All brands have boundaries. Any one brand is not viewed equally favourable by all the different market segments that the firm would like to target. Some reasons to introduce multiple brands in a category include:

- Increasing shelf presence and retailer dependence in the store
- Attracting consumers seeking variety who may otherwise have switched to another brand
- Increasing internal competition within the firm
- Yielding economies of scale in advertising, sales, merchandising, and physical distribution

The brand portfolio is the set of all brands and brand lines a particular firm offers for sale to buyers in a particular category. Different brands may be designed and marketed to appeal to different market segments. A brand portfolio must be judged by its ability to maximise brand equity. The optimal brand portfolio is one where each brand maximises equity in combination with all other brands in the portfolio. In general, the basic principle in designing a brand portfolio is to maximise market coverage, so that no potential customers are being ignored but to minimize brand overlap, so brands are not competing to gain customer approval.

Each brand should be clearly differentiated and appealing to a sizable enough marketing segment to justify its marketing and production costs. Brand portfolios need to be carefully monitored over time to identify weak brands and kill unprofitable ones. Besides these considerations, there are a number of specific roles that brands can play as part of a brand portfolio:

Flankers

Flanker or "fighter" brands are positioned with respect to competitors' brands so that more important (and more profitable) flagship brands can retain their desired positioning. Fighter brands must not be so attractive that they take sales away from their higher-priced comparison brands or referents. Fighter brands must not be designed so cheaply such that they reflect poorly on the other brands in the portfolio.

Cash Cows

Some brands may be kept around because they still manage to hold on to a sufficient number of customers and maintain their profitability with virtually no marketing support.

Low-End Entry-Level

The role of a relatively low-price brand in the brand portfolio often may be as a means of attracting customers to the brand franchise.

High-End Prestige

The role of a relatively high-priced brand in the brand family often is to add prestige and credibility to the entire portfolio (Kotler and Keller, 2006:296-303).

DEVELOPING AND COMMUNICATING A POSITIONING STRATEGY

All marketing strategy is built on STP - Segmentation, Targeting, and Positioning. A company discovers different needs and groups in the marketplace, targets those needs and groups that it can satisfy in a superior way, and then positions its offering so that the target market recognises the company's distinctive offering and image.

If a company does an excellent job of positioning, then it can work out the rest of its marketing planning and differentiation from its positioning strategy. We define positioning as follows: Positioning is the act of designing the company's offering and image to occupy a distinctive place in the mind of the target market. The goal is to locate the brand in the minds of consumers to maximise the potential benefit to the firm. A good brand positioning helps guide marketing strategy by clarifying the brand's essence, what goals it helps the consumer achieve, and how it does so in a unique way - customer-focused value proposition.

Competitive Frame of Reference

A starting point in defining a competitive frame of reference for a brand position is to determine category membership - the problems or sets of products with which a brand competes and which function as close substitutes. Target market decisions are often a key determinant of the competitive frame of reference.

Points-of-Parity and Points-of-Difference

Once the competitive frame of reference for positioning has been fixed by defining the customer target market and nature of competition, marketers can define the appropriate points-of-difference and points-of-associations.

Points-of-Difference

Points-of-difference (PODs) are attributes or benefits consumers strongly associate with a brand, positively evaluate, and believe that they could not find the same extent with a competitive brand. Creating strong, favourable, and unique associations as point-of-differences is a real challenge, but essential in terms of competitive brand positioning.

Points-of-Parity

Points-of-parity (POPs) are associations that are not necessarily unique to the brand but may in fact be shared with other brands. These types of associations come in two basic forms:

- Category, and
- Competitive.

Category points-of-parity is associations' consumers view as essential to be a legitimate and credible offering within a certain product or service category. They represent necessary conditions but not necessarily sufficient for brand choice. Category points-of-parity may change over time due to technological, legal, or consumer trends.

Competitive points-of-parity are associations designed to negate competitors' points-of-difference. If a brand can "break-even" where the competitors are trying to find an advantage and can achieve advantages in other areas, the brand should be in a strong competitive position.

Points-of-Parity Versus Points-of-Difference

To achieve a point-of-parity on a particular attribute or benefit, a sufficient number of consumers must believe that the brand is "good enough" on that dimension. There is a "zone" or "range of tolerance or acceptance" with points-of-parity. The brand does not literally have to be seen as equal to competitors, but consumers must feel that the brand does well enough on that particular attribute or benefit. With points-of-differences, the brand must demonstrate clear superiority. Often the key to positioning is not so much as achieving a point-of-difference as in achieving points-of-parity.

Establishing Category Membership

Often marketers must inform consumers of a brand's category membership. Perhaps, the most obvious is with the introduction of new products, especially when the category membership is not apparent. Brands are sometimes affiliated with categories in which they do not hold membership. The preferred approach to positioning is to inform consumers of a brand's membership before stating its point-of-difference. There are three ways to convey a brand's category membership:

- Announcing category benefits
- Comparing to exemplars
- Relying on the product descriptor

Choosing POPs and PODs

Points-of-parity are driven by the needs of category membership (to create category POPs) and the necessity of negating competitors' PODs (to create competitive POPs). In choosing points-of-difference, two important considerations are that consumers find the POD desirable and that the firm has the capabilities to deliver on the POD. There are three consumer desirability criteria for PODs:

- Relevance
- Distinctiveness
- Believability

There are three deliverability criteria. These are feasibility, communicability and sustainability. Marketers must decide at which level(s) to anchor the brand's points-of-differences. At the lowest level are the brand attributes. At the next level are the brand's benefits. At the top level are the brand's values. Research has shown that brands can sometimes be successfully differentiated on seemingly irrelevant attributes if consumers infer the proper benefit.

Creating POPs and PODs

One common difficulty in creating a strong competitive brand positioning is that many of the attributes or benefits that make up the points-of-parity and points-of-difference are negatively correlated.

If consumers rate the brand highly on one particular attribute or benefit, they also rate it poorly on another important attribute. Unfortunately, consumers typically want to maximise both attributes and benefits. The best approach is to develop a product and service that performs well on both dimensions.

Present Separately

An expensive but sometimes effective approach to address negatively correlated attributes and benefits is to launch two different marketing campaigns, each devoted to a different brand attribute or benefit.

Redefine the Relationship

Convince the consumer that in fact the relationship is positive. This redefinition can be accomplished by providing consumers with a different perspective and suggesting that they may be overlooking or ignoring certain considerations (Kotler and Keller, 2009:296-316).

DIFFERENTIATION STRATEGIES

To avoid the commodity trap, marketers must start with the belief that you can differentiate anything. The obvious means of differentiation, and often most compelling ones to consumers, relate to aspects of the product or service.

Product Differentiation

Brands can be differentiated on the basis of a number of different product or service dimensions. One more general positioning for brands is as "best quality." The Strategic Planning Institute studied the impact of higher relative product quality and found a significantly positive correlation between relative product quality and return on investment. Quality is also communicated through other marketing elements—a high price signals premium quality. Quality image is additionally affected by packaging, distribution, advertising, and promotion. A manufacturer's reputation also contributes to the perception of quality.

Personnel Differentiation

Companies can gain a strong competitive advantage through having better-trained people.
Better-trained personnel exhibit six characteristics:

- Competence
- Courtesy
- Credibility
- Reliability
- Responsiveness
- Communication

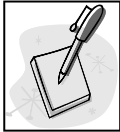
Channel Differentiation

Companies can achieve competitive advantage through the design of its distribution channel's coverage, expertise, and performance.

Image Differentiation

Buyers respond differently to company and brand images.

- Identity and image need to be distinguished
- Identity is the way a company aims to identify or position itself or its product
- Image is the way the public perceives the company or its products



ACTIVITY 8.2

What can be achieved by an effective identity?

Response at the end of this Section

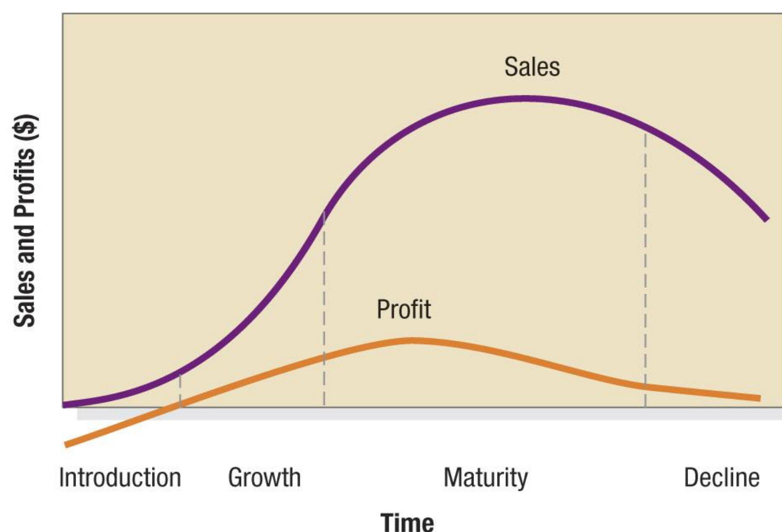
PRODUCT LIFE-CYCLE MARKETING STRATEGIES

A company's positioning and differentiation strategy must according to Kotler and Keller (2009:318), change as the product, market, and competitors change over the product life cycle (PLC). Products have a limited life. Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller. Profits rise and fall at different stages of the product life cycle. Products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life-cycle stage.

Product Life Cycles

Figure 8.1 below portrays the bell-shaped life-cycle curve.

Figure 8.1: Sales and profit Life Cycles



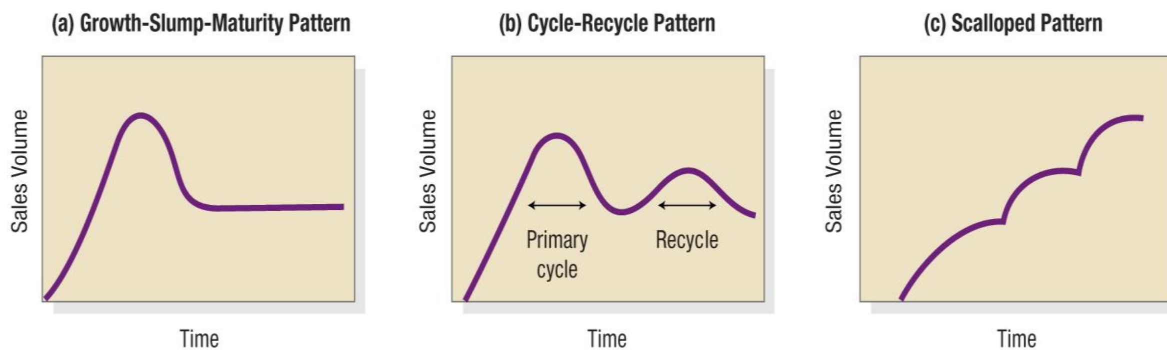
Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. p318.

The product life-cycle as shown in Figure 8.1 is divided into four stages:

- Introduction
- Growth
- Maturity
- Decline

The PLC concept can be used to analyze a product category, a product form, a product, or a brand. Figure 8.2 shows three common alternative patterns

Figure 8.2: Common Product Life Cycle Patterns

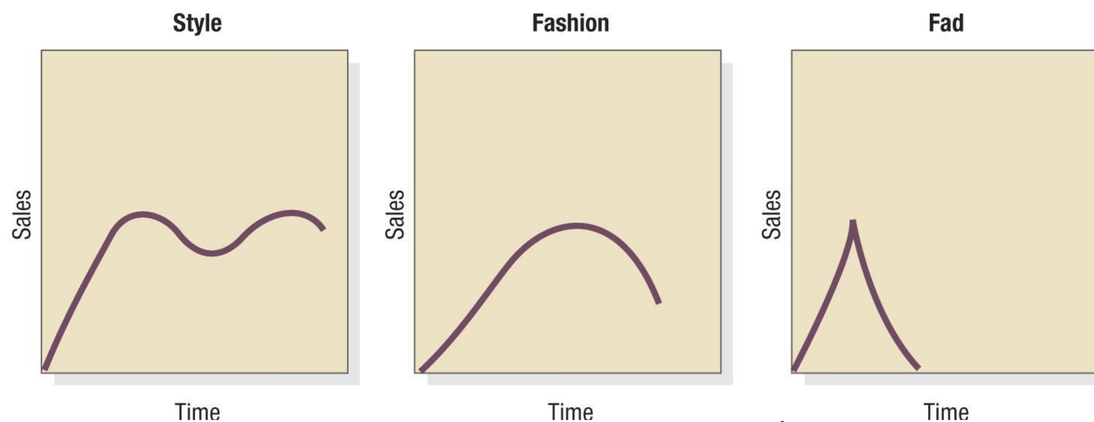


Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. Pp329.

Style, Fashion, and Fad Life Cycles

Figure 8.3 distinguishes three special categories of product life cycles - styles, fashions, and fads.

Figure 8.3: Style, Fashion, and Fad Life Cycles



Adapted: Kotler,and Keller (2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. P319-320.

A style is a basic and distinctive mode of expression appearing in a field of human endeavor. A fashion is a currently accepted or popular style in a given field.

Marketing Strategies: Introduction Stage and Pioneer Advantage

Profits are negative or low in the introduction stage. Promotional expenditures are at their highest ration to sales because of the need to inform potential consumers, induce product trial and secure distribution in retail outlets.

Companies that plan to introduce a new product must decide when to enter the market. To be first can be rewarding, but risky and expensive. To come in later makes sense if the firm can bring superior technology, quality, or brand strength. Speeding up innovation time is essential in an age of shortening product life cycles. Most studies indicate that the market pioneer gains the most advantage.

What are the sources of the pioneer's advantage?

Early users will recall the pioneer's brand name if the product satisfies them.

The pioneer's brand also establishes the attributes the product class should possess.

The pioneer's brand normally aims at the middle of the market and so captures more users.

There are producer advantages:

- Economies of scale
- Technological leadership
- Patents
- Ownership of scarce assets
- Other barriers to entry

The pioneer's advantage is not inevitable. Steven Schnaars (1994) studied industries where imitators surpassed the innovators. He found several weaknesses among the failing pioneers. These include:

- New products were too crude
- New products and services were improperly positioned
- They appeared before there was a strong demand
- Product-development costs were high
- Lack of resources to compete
- Managerial incompetence or unhealthy complacency were apparent

Golder and Tellis (2001) raise further doubts about the pioneer advantage. They distinguish between an inventor, a product pioneer and a market pioneer. The pioneer should visualize the various product markets it could initially enter, knowing that it cannot enter all of them at once.

Marketing Strategies: Growth Stage

The growth stage is marked by rapid climb in sales. Early adopters like the product, and additional consumers start buying it. New competitors enter, attracted by the opportunities. Prices remain where they are or fall slightly. Companies maintain their promotional expenditures at the same or at a slightly increased level to meet competition and to continue to educate the market. Sales rise much faster than promotional expenditures, profits increase and manufacturing costs fall faster than price declines owing to the producer learning effect. During this stage, the firm uses several strategies to sustain rapid market growth.

The firm:

- Improves product quality and adds new product features and improved styling.
- Adds new models and flanker products.
- Enters new market segments.
- Increases its distribution coverage and enters new distribution channels.
- Shifts from product-awareness advertising to product-preference advertising.
- Lowers prices to attract the next layer of price-sensitive buyers.

A firm in the growth stage faces a trade-off between high market share and high current profits. By spending money on product improvement, promotion, and distribution, it can capture a dominant position.

Marketing Strategies: Maturity Stage

At some point, the rate of sales growth will slow, and the product will enter a stage of relative maturity. This stage normally lasts longer than the previous stages and poses big challenges to marketing management. Most products are in the maturity stage of the life cycle, and most marketing managers cope with the problem of marketing the mature product.

The maturity stage divides into three phases:

- Growth - where the sales growth rate starts to decline.
- Stable - where sales flatten on a per capita basis because of market saturation.
- Decaying maturity - where the absolute level of sales starts to decline, and customers begin switching to other products.

The sales slowdown creates overcapacity in the industry that leads to intensified competition. The industry eventually consists of well-entrenched competitors whose basic drive is to gain or maintain market share. Dominating the industry are a few giant firms that serve the whole market and make their profits mainly through high volume. Surrounding these dominant firms is a multitude of market nichers. The issue facing a firm in a mature market is whether to become one of the “big three” or pursue a niching strategy. Some companies at this stage abandon weaker products and concentrate on products that are more profitable and on new products.

Market Modification

The company might try to expand the market for its mature brand by working with the two factors that make up sales volume: Volume = number of brand users x usage rate per user. It can try to expand the number of brands users by converting nonusers. It can also try to expand the number of brand users by entering new market segments. A third way to expand the number of brand users is winning competitors' customers.

Volume can also be increased by convincing current users to increase their brand usage by:

- Using the product on more occasions
- Using more of the product on each occasion
- Using the product in new ways

Product Modification

Managers also try to stimulate sales by modifying the product's characteristics through quality improvement, feature improvement, or style improvement. Quality improvement aims at increasing the product's functional performance while feature improvement aims at adding new features that expand the product's performance, versatility, safety, or convenience.

This strategy has several advantages:

- New features build the company's image as an innovator
- Wins the loyalty of market segments that value these features
- Provide an opportunity for free publicity
- Generate sales force and distributor enthusiasm

The chief disadvantage is that feature improvements might not pay off in the long run. Style improvement aims at increasing the product's aesthetic appeal.

Marketing Programme Modification

Product managers might also try to stimulate sales by modifying other marketing programme elements that include prices, distribution, advertising, sales promotion and personal selling. Marketers often debate which tools are most effective in the mature stage.

Marketing Strategies: Decline Stage

Sales decline for a number of reasons, including technological advances, shifts in consumer tastes, and increased domestic and foreign competition. All lead to overcapacity, increased price-cutting, and profit erosion. As sales and profits decline, some firms withdraw from the market. Those remaining may reduce the number of products they offer. In handling aging products, a company faces a number of tasks and decisions. In a study of company strategies in declining industries, five strategies are available to the firm:

- Increase the firm's investment
- Maintain the firm's investment level until uncertainties about the industry are resolved
- Decrease the firm's investment level selectively, by dropping unprofitable customer groups, while simultaneously strengthening the firm's investment in lucrative niches
- Harvesting the firm's investment to recover cash quickly
- Divesting the business quickly by disposing of its assets as advantageously as possible

The appropriate strategy depends on the industry's relative attractiveness and the company's competitive strength in that industry. Companies that successfully restage or rejuvenate a mature product often do so by adding value to the original product.

The Product Life-Cycle Concept: Critique

The PLC concept helps marketers interpret product and market dynamics. It can be used for planning and control, although it is useful as a forecasting tool. The PLC has its share of critics.

MARKET EVOLUTION

Because the PLC focuses on what is happening to a particular product or brand rather than on what is happening to the overall market, it yields a product-orientated picture rather than a market-orientated picture. Firms need to visualize a market's evolutionary path as it is affected by new needs, competitors, technology, channels, and other developments. Like products, markets evolve through four stages: emergence, growth, maturity, and decline.

Emergence

Before a market materializes, it exists as a latent market. A market, in which buyer preferences scatter evenly, is called a diffused-preference market. In a diffused-preference market, the marketers has three options:

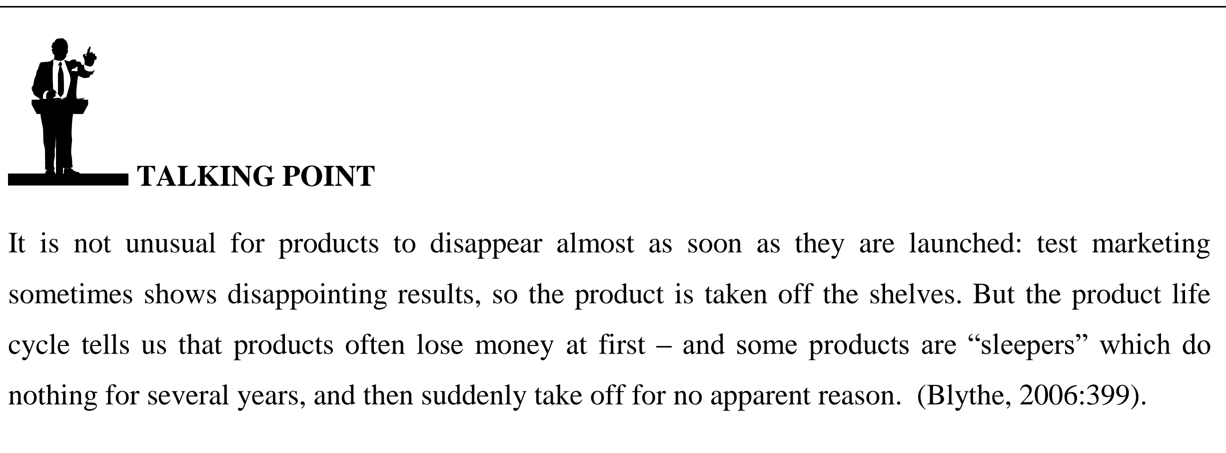
- Follow a single-niche strategy
- Follow a multiple-niche strategy
- Follow a mass-market strategy

On launching the product, the emergence stage begins.

Growth: If the new product sells well, new firms will enter the market, ushering in a market-growth stage.

Maturity: Eventually, the competitors cover and serve all the major market segments and the market enters the maturity stage. As market growth slows down, the market splits into finer segments, and high market fragmentation occurs. Market fragmentation is often followed by a market consolidation caused by the emergence of a new attribute that has strong appeal.

Decline: Eventually, demand for the present products will begin to decrease, and the market will enter the decline stage. Either society's total need level declines or new technologies replace the old (Kotler and Keller, 2009:320-327).



TALKING POINT

It is not unusual for products to disappear almost as soon as they are launched: test marketing sometimes shows disappointing results, so the product is taken off the shelves. But the product life cycle tells us that products often lose money at first – and some products are "sleepers" which do nothing for several years, and then suddenly take off for no apparent reason. (Blythe, 2006:399).

CHAPTER SUMMARY

A brand is a name, term, sign, symbol, or design, or some combination of these elements, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors. The different components of a brand - brand names, logos, symbols, package designs, etc. - are brand elements. Brands offer a number of benefits to customers and the firms. Brands are valuable intangible assets that need to be managed carefully. The key to branding is that consumers perceive differences among brands in a product category. Brand equity should be defined in terms of marketing effects uniquely attributable to a brand. That is, brand equity relates to the fact that different outcomes result in the marketing of a product or service because of its brand, as compared to the results if that same product or service was not identified by that brand. Building brand equity depends on three main factors: (1) The initial choices for the brand elements or identities making up the brand; (2) The way the brand is integrated into the supporting marketing programmes; (3) The associations indirectly transferred to the brand by linking the brand to some other entity (e.g., the company, country of origin, channel of distribution, or another brand). Brand equity needs to be measured in order to be managed well. Brand audits are in-depth examinations of the health of a brand and can be used to set strategic direction for the brand.

Tracking studies involve information collected from consumers on a routine basis over time and provide valuable tactical insights into the short-term effectiveness of marketing programmes and activities. Brand audits measure “where the brand has been,” and tracking studies measure “where the brand is at now,” and whether marketing programmes are having the intended effects.

A branding strategy for a firm identifies which brand elements a firm chooses to apply across the various products it sells. In a brand extension, a firm uses an established brand name to introduce a new product. Potential extensions must be judged by how effectively they leverage existing brand equity to a new product, as well as how effectively the extension, in turn, contributes to the equity of the existing parent brand. Brands can play a number of different roles within the brand portfolio. Brands may expand coverage, provide protection, extend an image, or fulfill a variety of other roles for the firm. Each brand name product must have a well-defined positioning. In that way, brands can maximise coverage and minimize overlap, thus optimising the portfolio. Deciding on positioning requires determining a frame of reference by identifying the target market, the nature of the competition, the ideal points-of-parity and points-of-difference brand associations. Determining the proper competitive frame of reference depends on understanding consumer behaviour and the considerations consumers use in making brand choices. Points-of-difference are those associations unique to the brand that are also strongly held and favourably evaluated by consumers. Points-of-parity are those associations not necessarily unique to the brand but perhaps shared with other brands.

Category point-of-parity associations are associations’ consumers view as being necessary to a legitimate and credible product offering within a certain category. Competitive point-of-parity associations are those associations designed to negate competitors’ point-of-difference. The key to competitive advantage is product differentiation. A market offering can be differentiated along five dimensions: product (form, features, performance quality, conformance quality, durability, reliability, reparability, style, design); services (order ease, delivery, installations, customer training, customer consulting, maintenance and repair, miscellaneous services); personnel, channel, or image (symbols, media, atmosphere, and events). Because economic conditions change and competitive activity varies, companies normally find it necessary to reformulate their marketing strategy several times during a product’s life cycle. Technologies, product forms, and brands also exhibit life cycles with distinct stages. The general sequence of stages in any life cycle is introduction, growth, maturity, and decline. The majority of products today are in the maturity stage. Each stage of the product life cycle calls for different marketing strategies. The introduction stage is marked by slow growth and minimal profits. If successful, the product enters a growth stage marketed by rapid sales growth and increasing profits. Then it follows a maturity stage in which sales growth slows and profits stabilize. Finally, the product enters a decline stage. The company’s task is to identify the truly weak products; develop a strategy for each one: and phase out weak products in a way that minimizes the hardship to company profits, employees, and customers. Like products, markets evolve through four stages: emergence, growth, maturity, and decline.

Response to Activity 8.1

Brand equity depends on three main factors: the initial choice for the brand elements or identities making up the brand, the way the brand is integrated into the supporting marketing programmes; the associations indirectly transferred to the brand by linking the brand to some other entity. Brand equity needs to be measured and managed well. Branding strategy identifies which brand elements a firm chooses to apply across the various products it sells. Brands play a number of roles within a brand portfolio: expand coverage, provide protection, extend an image, or fulfil a variety of other roles as dictated by the firm's strategy.

Their similarity rests in their execution and the overall strategic direction of the firm. Their differences lie in the "role" designated for each brand. As long as the firm identifies and maintains a consistent "role" for each of its brands, the brand portfolio will and can maximise coverage and minimize brand interactions and overlaps. If the firm does not maintain a consistent "role" for each brand, it runs the risk of destroying brand integrity.

A brand equity model that incorporates the best aspects of each model becomes the challenge and the "art" of marketing. In such a model, each brand contains its own identity, has an integrated marketing programme designed around such identity, and has the associations consistent with its identity. Additionally, the brand has a strategy that defines its positioning within the market and the firm, has a strategy that has defined its "role" within the corporate structure with a well-defined positioning statement, and maximises coverage with minimal brand interference and cannibalisation of other corporate brands.

Response to Activity 8.2

An effective identity achieves the following:

- It establishes the product's character and value proposition.
- It conveys this character in a distinctive way
- It delivers emotional power beyond a mental image
- For identity to work, it must be conveyed through every available communication vehicle and brand contact
- Even a seller's physical space can be a powerful image generator

CHAPTER 9

DEALING WITH COMPETITION

CHAPTER NINE: DEALING WITH COMPETITION

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Explain how marketers identify primary competitors
- Analyze competitors' strategies, objectives, strengths, and weaknesses
- Advise on how market leaders can expand the total market and defend market share
- Detail how market challengers should attack market leaders
- Outline how market followers or nichers can compete effectively

PRESCRIBED READING

Chapter 11 - Kotler, P and Keller, KL.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall.

RECOMMENDED READING

Chapter 10 –Blythe, Jim(2006). Principles and Practice of Marketing. London: Thomson

Chapter 4 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè (2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

OPENING NOTE

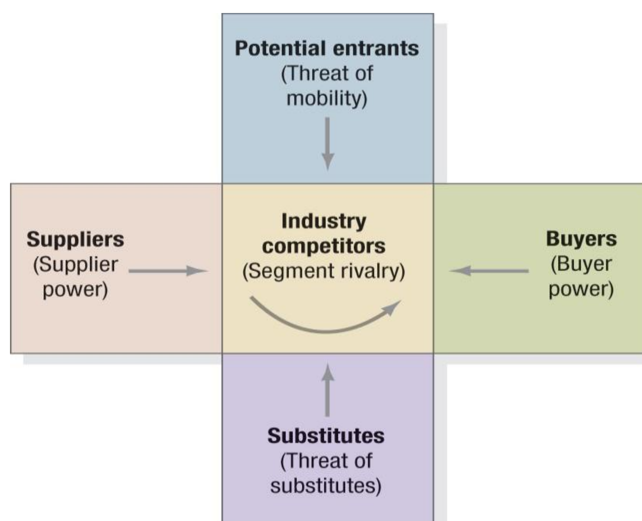
Building strong brands requires a keen understanding of competition, and competition grows more intense every year. New competition is coming from all directions - from global competitors; from online competitors; from private label and store brands; and from brand extensions from strong mega-brands leveraging their strengths to move into new categories. To effectively devise and implement the best possible brand positioning strategies, companies must pay keen attention to their competitors.

COMPETITIVE FORCES

Retaining a position in the market, or carving out a new one requires firms to attack competitors or defend themselves from attack. The moves that are available to each firm will depend on its position in the marketplace relative to competitors (Blythe, 2006:348).

Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers. The threats these forces pose are depicted on Figure 9.1 below:

Figure 9.1.



Source: Kotler,P and Keller,K.L.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. P335.

Threat of Intense segment rivalry
A segment is unattractive if it already contains numerous, strong, or aggressive competitors. It is even more unattractive if it is stable or declining, if fixed costs are high, if exit barriers are high and when competitors have high stakes in staying in the segment. It leads to frequent price wars, advertising battles and new product introductions.
Threat of new entrants
A segment's attractiveness varies with the height of its entry and exit barriers. The most attractive segment is one with high entry barriers and low exit barriers. Few new firms can enter the industry, and poor-performing firms can easily exit.
Threats of substitute products
A segment is unattractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits. The company has to monitor price trends closely.
Threats of buyers' growing bargaining power
A segment is unattractive if buyers possess strong or growing bargaining power. Buyers bargaining power grows when they become more concentrated or organised, when the product represents a significant fraction of the buyers' costs, when the product is undifferentiated, when buyers switching costs are low, when buyers are price sensitive or when buyers can integrate upstream. Sellers might select buyers who have the least power to negotiate, switch suppliers or develop superior offers that strong buyers cannot refuse.
Threats of suppliers' growing bargaining power
A segment is unattractive if the company's suppliers are able to raise prices or reduce quantity supplied. Suppliers tend to be powerful when they are concentrated or organised, when there are few substitutes or when suppliers can integrate downstream. The best defences are to build win-win relations with suppliers or use multiple supply sources (Kotler and Keller, 2009:334-335).

IDENTIFYING COMPETITORS

It would seem a simple task for a company to identify its competitors. However, the range of a company's actual and potential competitors can be very broad. Many businesses fail to look to the Internet for their most formidable competitors.

Industry Concept of Competition

What exactly is an industry? An industry is a group of firms that offer a product or class of products that are close substitutes for one another.

Industries are classified according to:

- Number of sellers
- Degree of product differentiation
- Presence or absence of entry
- Mobility
- Exit barriers
- Cost structure
- Degree of vertical integration
- Degree of globalization

Number of Sellers and Degree of Differentiation

The starting point for describing an industry is to specify the number of sellers and whether the product is homogeneous or highly differentiated. These characteristics give rise to four industry structure types:

- Pure monopoly
- Oligopoly
- Monopolistic competition
- Pure competition

Major entry barriers include:

- High capital requirements
- Economies of scale
- Patents and licensing
- Scarce locations
- Raw material

Even after a firm enters an industry, it might face mobility barriers when it tries to enter more attractive market segments. Firms often face exit barriers such as:

- Legal or moral obligations
- Government restrictions
- Low asset salvage value
- Lack of alternative opportunities
- High vertical integration
- Emotional barriers

Cost Structure

Each industry has a certain cost burden that shapes much of its strategic conduct.

Degree of Vertical Integration

Companies find it advantageous to integrate backward or forward (vertical integration).
Vertical integration often lowers costs, and the company gains a larger share of the value-added stream.

Degree of Globalization

Some companies are highly local; others are global.
Companies in global industries need to compete on a global basis if they are to achieve economies of scale.

Market Concept of Competition

Using the market approach, competitors are companies that satisfy the same customer need. Marketers must overcome "marketing myopia" and stop defining competition in traditional category terms.

ANALYSING COMPETITORS

Once a company identifies its primary competitors, it must ascertain their strategies, objectives, strengths, and weaknesses.

Strategies: A group of firms following the same strategy in a given target market is called a strategic group.

Objectives: Once a company has identified its main competitors and their strategies, it must ask what each competitor is seeking in the marketplace. What drives each competitor's behaviour?

One useful initial assumption is that competitors strive to maximise profits. A company must monitor competitors' expansion plans.

Strengths and Weaknesses

A company needs to gather information on each competitor's strengths and weaknesses. In general, a company should monitor three variables when analysing competitors:

- Share of market
- Share of mind
- Share of heart
- Companies that make steady gains in mind share and heart share will inevitably make gains in market share and profitability.

Selecting Competitors

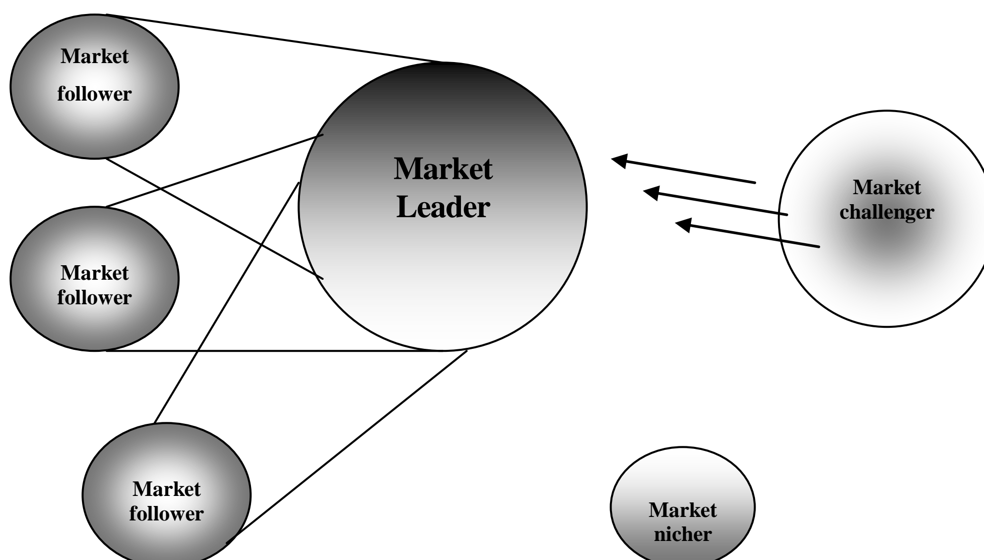
After the company has conducted value analysis and examined competitors carefully, it can focus its attack on one of the following classes of competitors: Strong versus weak, Close versus distant or "Good" versus "bad" (Kotler and Keller, 2009:336-341).

COMPETITIVE STRATEGIES FOR MARKET LEADERS

We can gain further insight by classifying firms by the roles they play in the target market:

- Leader
- Challenger
- Follower
- Nicher

Figure 9.2 – Basic market Positions



Source: Blythe, J.(2006). Principles and Practice of Marketing. London:Thomson. p349.

In Figure 9.2, the size of the circles represents the relative market share of each firm. The market leader has the largest market share, and drags the market followers behind it. The niche marketer occupies a position which does not represent a threat to any of the other firms, while the market challenger seeks to steel market share from the market leader (Blythe, 2006:349).

Expanding the Total Market

The dominant firm according to Kotler and Keller (2009:343) normally gains the most when the total market expands. In general, Kotler and Keller (2009:343) suggest that the market leader should look for new customers or more usage from existing customers.

New Customers

Every product class has the potential of attracting buyers who are unaware of the product or who are resisting it because of price or lack of certain features. A company can search for new users among three groups:

- Those who might use it but do not (market-penetration strategy)
- Those who have never used it (new-market segment strategy)
- Those who live elsewhere (geographical-expansion strategy)

More Usage

Usage can be increased by increasing the level of quantity of consumption or increasing the frequency of consumption. Increasing the amount of consumption can sometimes be done through packaging or product design. Increasing frequency of use involves identifying additional opportunities to use the brand in the same basic way or identifying completely new and different ways to use the brand.

To generate additional usage opportunities, a marketing programme can communicate the appropriateness and advantages of using the brand more frequently in new or existing situations and /or remind consumers to actually use the brand as close as possible to those situations. Another potential opportunity to increase frequency of use is when consumers' perceptions of their usage differ from the reality of their usage. The second approach is to identify completely new and different applications. Product development can spur new uses.

Defending Market Share

Kotler and Keller (2009:345) assert that while trying to expand total market size, the dominant firm must continuously defend its current business.

What can the market leader do to defend its terrain?

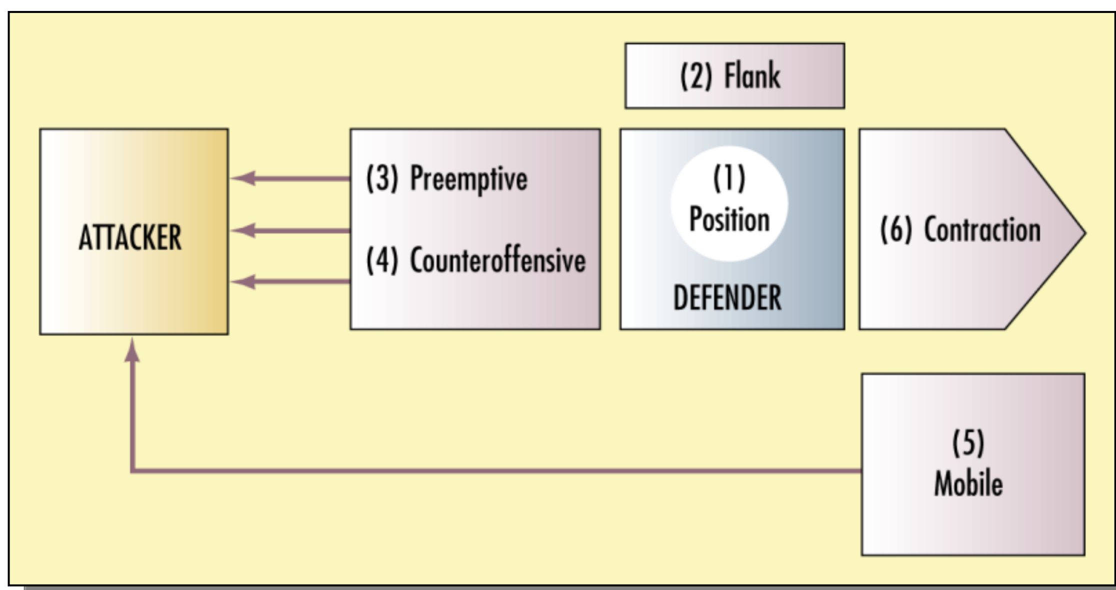
By continuous innovation—developing new product and customer services, distribution effectiveness, and cost cutting - it keeps its competitive strength and value to customers.

In satisfying customer needs, a distinction can be drawn between responsive marketing, anticipative marketing, and creative marketing. A responsive marketer finds stated need and fills it. An anticipative marketer looks ahead into what needs customers may have in the near future. A creative marketer discovers and produces solutions customers did not ask for but to which they enthusiastically respond. Even when it does not launch offensives, the market leader must not leave any major flanks exposed.

A dominant firm can use the six defence strategies:

- Position defence
- Flank defence
- Preemptive defence
- Counteroffensive defence
- Mobile defence
- Contraction defence

Figure 9.3 – Defence Strategies



Source: Kotler,P and Keller,K.L.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. P346.

Expanding Market Share

Market leaders can improve their profitability by increasing market share.

Gaining increased share in the served market does not automatically produce higher profits. A company should consider four factors before pursuing increased market share:

- The possibility of provoking antitrust action
- Economic cost
- Pursuing the wrong marketing-mix strategy
- The effect of increased market share on actual and perceived quality

OTHER COMPETITIVE STRATEGIES

According to Kotler and Keller (2009:348) firms that occupy second, third, and lower ranks in an industry are often called runner-up, or trailing firms. These firms can adopt one of two postures. Each can attack the leader and others in an aggressive bid for further market share (market challengers), or they can play ball and not "rock the boat" (market followers).

Market-Challenger Strategies

Many market challengers have gained ground or even overtaken the leader.

Defining the Strategic Objective and Opponents(s)

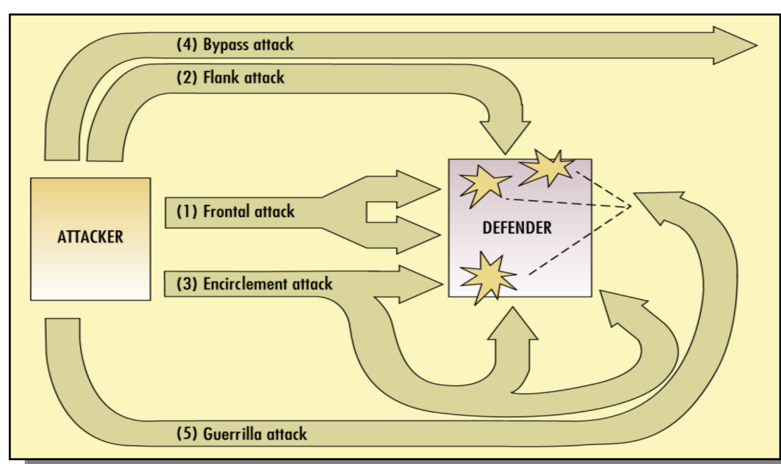
A market challenger must first define its strategic objective. The challenger must decide whom to attack:

- It can attack the market leader
- It can attack firms of its own size that are not doing the job and are under financed
- It can attack small local and regional firms

Choosing a General Attack Strategy

We can distinguish among five attack strategies depicted in Figure 9.4 below:

Figure 9.4



Source: Kotler,P and Keller,K.L.(2006). Marketing Management. (CD Rom).

Choosing a Specific Attack Strategy

The challenger must go beyond the five broad strategies and develop more specific strategies which are as follows:

- Price discount
- Lower price goods
- Value priced goods and services
- Prestige goods
- Product proliferation
- Product innovation
- Improved services
- Distribution innovation
- Manufacturing-cost reduction
- Intensive advertising promotion

A challenger's success depends on combining several strategies to improve its position over time.

Market-Follower Strategies

Many companies prefer to follow rather than challenge the market leader.

A market follower must know how to hold current customers and win a fair share of new customers. Each follower tries to bring distinctive advantages to its target market - location, services, and/or financing. Four broad strategies can be distinguished:

- Counterfeiter
- Cloner
- Imitator
- Adapter

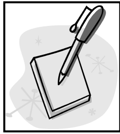
Market-Nicher Strategies

An alternative to being a follower in a large market is to be a leader in a small market, or niche. Firms with low shares of the total market can be highly profitable through smart niching. Such companies tend to offer high value, charge a premium price, achieve lower manufacturing costs, and shape a strong corporate culture and vision.

Why is niching so profitable? The main reason is that the market nicher ends up knowing the target customers so well that it meets their needs better than other firms selling to this niche. The nicher achieves high margin, whereas, the mass marketer achieves higher volume. Nichers have three tasks:

- Creating niches
- Expanding niches
- Protecting niches

Niching carries a major risk in that the market niche might dry up or be attacked. Because niches can weaken, the firm must continually create new ones. Multiple niching is preferable to single niching.



ACTIVITY 9.1

Pick an industry. Classify firms according to the four different roles they might play: leader, challenger, follower, or nicher. How would you characterise the nature of competition? Do the firms follow the principles described in the chapter?

Response at the end of this Section

TALKING POINT

If the safest way of running the business is to be a follower, why are so many firms so keen to be leaders? Why is it that firms spend millions on research and development, when it would be so much easier simply to sit back and wait for the competitors to do all the hard work and take the risks? (Blythe, 2006:352).

Attacking the market leader

Source: The Herald, March 31, 2006

BALANCING CUSTOMER AND COMPETITOR ORIENTATIONS

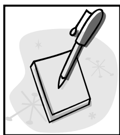
We have stressed the importance of a company's positioning itself competitively as a market leader, challenger, follower, or nicher. Kotler and Keller (2009:354) argue that a company must not spend all its time focusing on competitors.

Competitor-Centred Companies

A competitor-centred company sets its course based on reactions to its competitors.
This kind of planning has some pluses and minuses. On the positive side, the company develops a fighter orientation. On the negative side, the company is too reactive. Rather than formulating and executing a consistent, customer-orientated strategy, it determines its moves based on competitors' moves.

Customer-Centred Companies

A customer-centred company focuses more on customer developments in formulating its strategies: The customer-centred company is in a better position to identify new opportunities and set a course that promises to deliver long-run profits.



ACTIVITY 9.2

Discuss the pro's and con's of the following statement : The best way to challenge a leader is to attack its strengths versus the best way to attack a leader is to avoid a head-on assault and to adopt a flanking strategy.

Response at the end of this Section

CHAPTER SUMMARY

To prepare an effective marketing strategy, a company must study competitors as well as actual and potential customers. Companies need to identify competitors' strategies, objectives, strengths, and weaknesses. A company's closest competitors are those seeking to satisfy customers and needs and making similar offers. A company should also pay attention to latent competitors, who may offer new or other ways to satisfy the same needs. A company should identify competitors by using both industry and market-based analyses. A market leader has the largest market share in the relevant product market. To remain dominant, the leader looks for ways to expand total market demand, attempts to protect its current market share, and perhaps tries to increase its market share. A market challenger attacks the market leader and other competitors in an aggressive bid for more market share. Challengers can choose from five types of general attack; challengers must also choose specific attack strategies. A market follower is a runner-up firm that is willing to maintain its market share and not rock the boat. A follower can play the role of counterfeiter, cloner, imitator, or adapter. A market niche serves small market segments not being served by larger firms. The key to nichemanship is specialisation. Nichers develop offerings to fully meet a certain groups of customers' needs, commanding a premium price in the process. As important as a competitive orientation is in today's global markets, companies should not overdo the emphasis on competitors. They should maintain a good balance of consumer and competitor monitoring.

Response to Activity 9.1

Student answers will differ according to the industries picked and the role the firms play in that industry. All answers should contain some of the following:

- Leaders: largest market share, leads on price changes, new-product introductions, distribution coverage, and promotional intensity. Have products that generally hold a distinctive position in the minds of the consumers.
- Can use strategies that expand the total market demand: (new customers - market-penetration strategies, new-market segment strategies, geographic-expansion strategies).
- More usage (level of quantity or frequency of consumption).
- Protect its current market share through good defensive (position defenses, flank defense, preemptive defense, counteroffensive defense, mobile defense, contraction defense).
- Challengers, followers: can attack the leader for increased market share, (challengers), or followers ("not rock the boat"), through:
    - Frontal attack.
    - Encirclement attack.
    - Flank attack.
    - Bypass attack.
    - Guerrilla warfare.

Response to Activity 9.2

Pro: What are some of the strengths of a market leader? A market leader as defined here, generally, has the largest market share in the relevant product/market, usually leads the other firms in price changes, new-product introductions, distribution coverage, and promotional intensity. Market leaders may also have products that generally hold a distinctive position in consumers' minds. These strengths and competitive advantages can be formidable when used by a savvy and seasoned firm. Trying to attack the leader on its strengths requires point-of-differences in brands, sophisticated marketing positioning, and "deep pockets" for the challenger. The underling strategy for performing a head on attack to a market leader is: If the attacking firm sees that the market leader is not serving the market well; that the attacker has out-innovated the market leader through product innovations or other differentials; or if the market leader is conservatively spending or is "milking" the market.

Con: A flanker attack can be directed along two strategic directions - geographic and segmental. In a geographic attack, the challenger spots areas where the opponent is under performing. In segmental, the challenger uncovers underserved market needs and attempts to penetrate these markets with its products. Flanking is in the best tradition of modern marketing that holds that the purpose of marketing is to discover needs and satisfy them. Flanking is particularly attractive to challengers with fewer resources.

CHAPTER 10

THE PRODUCT

CHAPTER TEN: THE PRODUCT

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Explain the characteristics of products and how can they be classified
- Describe how companies can differentiate products
- Build and manage a company's product mix and product lines
- Discuss how companies can combine products to create strong co-brands or ingredient brands
- Explain how companies can use packaging, labeling, warranties, and guarantees as marketing tools

PRESCRIBED READING

Chapter 12 - Kotler,P and Keller,K.L.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall.

RECOMMENDED READING

Chapter 12 - Blythe, Jim (2006). Principles and Practice of Marketing. London: Thomson.

Chapter 11 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè (2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

Chapter 7 -Van der Walt, A Strydom, W.J Marx S and Jooste CJ (1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd.

OPENING NOTE

At the heart of a great brand is a great product. Product is a key element in the market offering. Market leaders generally offer products and services of superior quality. Marketing planning begins with formulating an offering to meet target customers' needs or wants. The customer will judge the offering by three basic elements: product features and quality, services mix and quality, and price.

PRODUCT CHARACTERISTICS AND CLASSIFICATIONS

A product is anything that can be offered to a market to satisfy a want or need.

Product Levels: The Customer Value Hierarchy

In planning its market offering, Kotler and Keller (2009:358) maintain that the marketer needs to address five product levels. Each level adds more customer value, and the five constitute a customer value hierarchy.

The fundamental level is the ***core benefit.*** i.e. the service or benefit the customer is really buying. Marketers must see themselves as benefit providers.

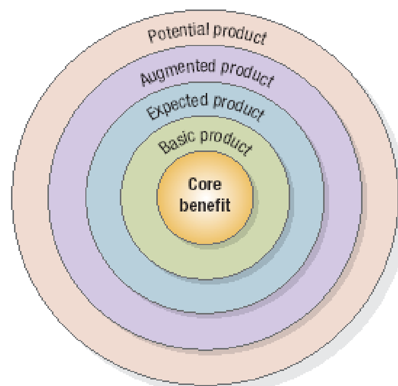
At the second level, the marketer has to turn the core benefit into a ***basic product***.

At the third level, the marketer prepares an ***expected product***, a set of attributes and conditions buyers normally expect when they purchase this product.

At the fourth level, the marketer prepares an ***augmented product*** that exceeds customer expectations. Differentiation arises on the basis of product augmentation. Product augmentation also leads the marketer to look at the ***total consumption system***: the way the user performs the tasks of getting and using products and related services.

At the fifth level stands the ***potential product*** that encompasses all the possible augmentations and transformations the product or offering might undergo in the future. Here is where companies search for new ways to satisfy customers and distinguish its individual offer.

Figure 10.1 – Five Product Levels



Source: Kotler,P and Keller,K.L.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall. P358.

Product Classifications

Marketers have traditionally classified products on the basis of characteristics: durability, tangibility, and use. Each product type has an appropriate marketing-mix strategy.
Kotler and Keller (2009:359-361) outlines strategy below:

Durability and Tangibility

Products can be classified into three groups, according to durability and tangibility. These are:

- Non-durable goods: tangible consumed in one or a few uses.
- Durable goods: tangible that normally survives many uses. Durable goods require more personal selling and service, command a higher margin, and require more seller guarantees.
- Services: intangible, inseparable, variable, and perishable products that require more quality control, supplier credibility, and adaptability.

Consumer-Goods Classification

The vast array of goods consumers buy can be classified on the basis of shopping habits. The consumer usually purchases ***convenience goods*** frequently, immediately, and with a minimum of effort. Shopping goods are goods that the consumer, in the process of selection and purchase, characteristically compares on such basis as suitability, quality, price, and style.

Homogeneous shopping goods are similar in quality but different enough on price to adjust shopping comparisons.
Heterogeneous shopping goods differ in product features and services that may be more important than price.
Specialty goods have unique characteristics or brand identification for which a sufficient number of buyers are willing to make a special purchasing effort.
Unsought goods are those that the consumer does not know about or does not normally think of buying. The classic examples of known but unsought goods are life insurance and cemetery plots.

Industrial-Goods Classification

An industrial good can be classified in terms of how it enters the production process and its relative costliness. We can distinguish three groups of industrial goods: materials and parts, capital items, and suppliers and business services.

Supplies and business services are short-term goods and services that facilitate developing or managing the finished product. Supplies are two kinds: Maintenance and repair items (including business advisory services such as, legal, consulting, and advertising) and operating supplies.

DIFFERENTIATION

To be branded, products must be differentiated. Physical products vary in potential for differentiation.

Marketers are always looking for new dimensions of differentiation.

Product Differentiation

- *Form:* Many products can be differentiated in form—the size, shape, or physical structure of a product.
- *Features:* Most products can be offered with varying features that supplement its basic function. A company can identify and select appropriate features by surveying buyers and then calculating *customer value* versus *company cost* for each feature. Each company must decide whether to offer feature customization at a higher cost or a few standard packages at a lower cost.
- *Performance quality* is the level at which the product's primary characteristics operate. The manufacturer must design a performance level appropriate to the target market and competitors' performance levels. A company must manage performance quality through time. Quality is becoming an increasingly important parameter for differentiation as companies adopt a value model and provide higher quality for less money.
- *Conformance quality:* Buyers expect products to have a high conformance quality that is the degree to which all the produced units are identical and meet the promised specifications.
- *Durability:* This is a measure of the product's expected operating life under natural or stressful conditions. Durability is a valued attribute for certain products. Buyers will generally pay more for products that have a reputation for being long lasting.
- *Reliability:* Buyers normally will pay a premium for more reliable products. Reliability is a measure of the probability that a product will not malfunction or fail within a specified time period
- *Style:* Describes the product's look and feel to the buyer. Style has the advantage of creating distinctiveness that is difficult to copy. Strong style does not always mean high performance (Kotler and Keller, 2009:363).

Design: The Integrative Force

As competition intensifies, design offers a potent way to differentiate and position a company's products and services. Design is the totality of features that affect how a product looks and functions in terms of customer requirements. To the company, a well-designed product is one that is easy to manufacture and distribute. To the customer, a well-designed product is one that is pleasant to look at and easy to open, install, use, repair, and dispose of.

Services Differentiation

When the physical product cannot easily be differentiated, the key to competitive success may lie in adding valued services and improving quality. The main service differentiators are ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.

Ordering Ease

Ordering ease refers to how easy it is for the customer to place an order with the company.

Delivery

Delivery refers to how well the product or service is delivered to the customer. It includes speed, accuracy, and care attending the delivery process.

Installation

Installation refers to the work done to make a product operational in its planned location.
Differentiating at this point in the consumption chain is particularly important for companies with complex products - ease of installation becomes a true selling point.

Customer Training

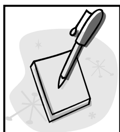
Customer training refers to training the customer's employees to use the vendor's equipment properly and efficiently.

Customer Consulting

Customer consulting refers to data, information systems, and advice services that the seller offers to buyers.

Maintenance and Repair

Maintenance and repair describes the service programme for helping customers keep purchased products in good working order (Kotler and Keller, 2009:365-367).



ACTIVITY 10.1

Consider the diverse means of differentiating products and services. Which ones have the most impact on your choices? Why? Can you think of certain brands that excel on a number of these different means of differentiation?

Response at the end of this Section

PRODUCT AND BRAND RELATIONSHIPS

Kotler and Keller (2009:368) indicate that each product can be related to other products.

The Brand Hierarchy

The product hierarchy stretches from basic needs to particular items that satisfy those needs.
We can identify six levels of the product hierarchy:

- Need family
- Product family
- Product class
- Product line
- Product type
- Item, also called *stock keeping unit (SKU)* or *product variant.*

Product Systems and Mixes

A product system is a group of diverse but related items that function in a compatible manner. A *product mix* (also called a *product assortment*) is a set of all products and items a particular seller offers for sale. A product mix consists of various product lines. A company's product mix has a certain width, length, depth, and consistency. The depth of a product mix refers to how many different product lines the company carries. The length of a product mix refers to the total number of items in the mix.

We can also talk about the average length of a line. This is obtained by dividing the total length by the number of lines. The width of a product mix refers to how many variants are offered of each product in the line. The consistency of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way.

Product-Line Analysis

In offering a product line, companies normally develop a basic platform and modules that can be added to meet different customer requirements. Product-line managers need to know the sales and profits of each item in their line in order to determine which items to build, maintain, harvest, or divest.

Sales and Profits

Every company's product portfolio contains products with different margins. A company can classify its products into four types that yield different gross margins, depending on sales volume and promotion:

- Core product
- Staples
- Specialties
- Convenience items

Market Profile

The product-line manager must review how the line is positioned against competitors' lines. The product map shows which competitors' items are competing against company X's items. The map also reveals possible locations for new items. Another benefit of product mapping is that it identifies market segments. Product-line analysis provides information for two key decision areas—product-line length and product-mix pricing.

Product-Line Length

Company objectives influence product-line length. One objective is to create a product line to induce upselling. A different objective is to create a product line that facilitates cross selling. Still another objective is to create a product line that protects against economic ups and downs. Product lines tend to lengthen over time. A company lengthens its product line in two ways: by line stretching and line filling.

Line Stretching

Line stretching occurs when a company lengthens its product line beyond its current range. *Down-market* stretch is when a company positioned in the middle market may want to introduce a lower-priced line. Moving down-market carries risk. *Up-market stretch* companies may wish to enter the high end of the market for more growth, higher margins and simply to position themselves as a full-line manufacturer. *Two-way stretch* is where companies serving the middle market might decide to stretch the line in both directions.

Line Filling

A product line can also be lengthened by adding more items within the present range. There are several motives for line filling:

- Reaching for incremental profits
- Trying to satisfy dealers who complain about lost sales because of missing items in the line
- Trying to utilise excess capacity
- Trying to be the leading full-line company
- Trying to plug holes to keep out competitors

Line filling is overdone if it results in self-cannibalization and customer confusion.

The company needs to differentiate each item in the consumer's mind. Each item should possess a just-noticeable difference. The company should also check that the proposed item meets a market need and is not being added simply to satisfy an internal need.

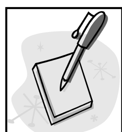
Line Modernization, Featuring, and Pruning

Product lines need to be modernized. In rapidly changing product markets, modernization is continuous. Companies plan improvement to encourage customer migration to higher-valued, higher-priced items. The product-line manager typically selects one or a few items in the line to feature. Product-line managers must periodically review the line for deadwood that is depressing profits.

Product-Mix Pricing

Price-setting logic according to Kotler and Keller (2009:375-376) must be modified when the product is part of a product mix. Pricing is difficult because the various products have demand, cost interrelationships, and are subject to different degrees of competition. We can distinguish six situations involving product-mix pricing: product-line pricing, optional-feature pricing, captive-product pricing, two-part pricing, by-product pricing, and product bundling pricing.

1) ***Product-line pricing:*** Companies normally develop product lines rather than single products and introduce price steps. In many lines of trade, sellers use well-established price points for the products in its personal line. The seller's task is to establish perceived-quality differences that justify the price differences.
2) ***Optional-feature pricing:*** Many companies offer optional products, features, and services along with their main product. Pricing is a sticky problem, because companies must decide which items to include in the standard price and which to offer as options.
3) ***Captive-product pricing:*** Some products require the use of ancillary or captive products. There is a danger in pricing the captive product too high in the aftermarket.
4) ***Two-part pricing:*** Service firms often engage in two-part pricing, consisting of a fixed fee plus a variable usage fee.
5) ***By-product pricing:*** The production of certain goods often results in by-products. If the by-products have value to a customer group, they should be priced on their value.
6) ***Product-bundling pricing:*** Sellers often bundle products and features. ***Pure bundling*** occurs when a firm only offers its products as a bundle (tied-in sales). In ***mixed-bundling,*** the seller offers goods both individually and in bundles. When offering a mixed bundle, the seller normally charges less for the bundle than if the items were purchased separately. Some customers will want less than the whole bundle. Studies have shown that as promotional activity increases on individual items in the bundle, buyers perceive less savings on the bundle and are less apt to pay for the bundle.



ACTIVITY 10.2

What do you understand by co-branding? What are the advantages and dangers of co-branding?

Response at the end of this Section

Ingredient Branding

Ingredient branding is a special case of co-branding that involves creating brand equity for materials, components, or parts that are necessarily contained within other branded products. An interesting take on ingredient branding is "self-branding" in which companies advertise and even trademark their own branded ingredients. Ingredient brands attempt to create sufficient awareness and preference for their product such that consumers will not buy a "host" product that does not contain the ingredient (Kotler and Keller 2009:377).

PACKAGING, LABELLING, WARRANTIES, AND GUARANTEES

Most physical products have to be packaged and labelled. Many marketers have called packaging a fifth P. Most marketers, however, treat packaging and labelling as an element of product strategy. Kotler and Keller (2009:379-382) describe packaging, labelling, warranties and guarantees as follows:

Packaging

Packaging can be defined as all the activities of designing and producing the container for a product.

Packages might include up to three levels of material:

- *Primary* package
- *Secondary* package
- *Shipping* package

Well-designed packages can create convenience and promotional value. We must include packaging as a styling weapon. The package is the buyer's first encounter with the product and is capable of turning the buyer on or off. Various factors have contributed to the growing use of packaging as a marketing tool:

- Self-service
- Consumer affluence
- Company and brand image
- Innovation opportunity

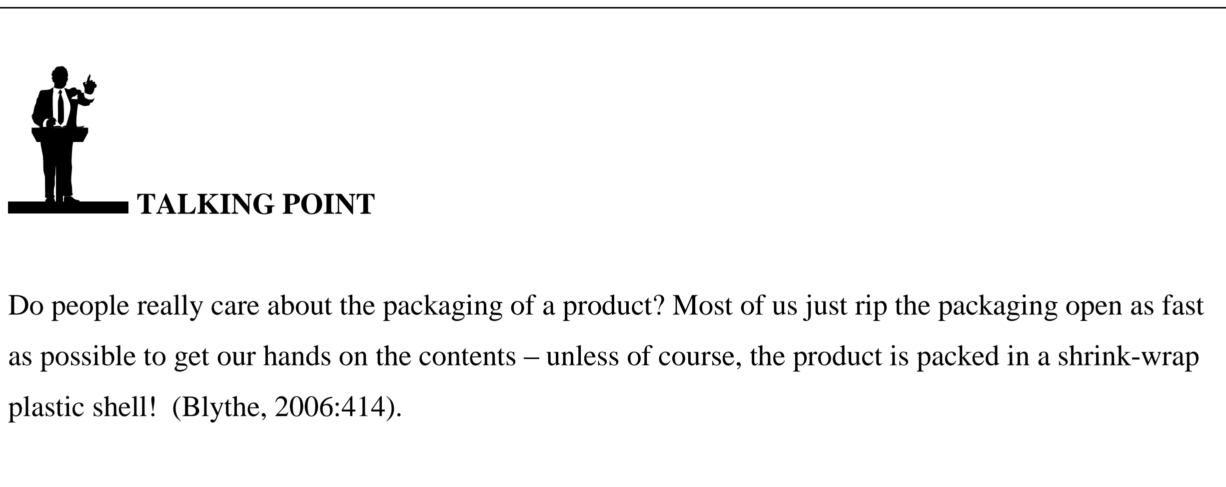
Developing an effective package requires a number of decisions. From the perspective of both the firm and consumers, packaging must achieve a number of objectives:

- Identify the brand
- Convey descriptive and persuasive information
- Facilitate product transportation and protection
- Assist at-home storage
- Aid product consumption

To achieve the marketing objectives for the brand and satisfy the desires of consumers, the aesthetic and functional components of packing must be chosen correctly. Aesthetic considerations relate to a package's:

- Size and shape
- Material
- Colour
- Text
- Graphics

Functionally, structural design is crucial. The various packaging elements must be harmonized. After packaging is designed, it must be tested. *Engineering tests* are conducted to ensure that the package stands up under normal conditions. *Visual tests* are used to ensure that the script is legible and the colours harmonious. *Dealer tests* are performed to ensure that dealers find the packages attractive and easy to handle. *Consumer tests* ensure favourable consumer response.



TALKING POINT

Do people really care about the packaging of a product? Most of us just rip the packaging open as fast as possible to get our hands on the contents – unless of course, the product is packed in a shrink-wrap plastic shell! (Blythe, 2006:414).

Labelling

Sellers must label products. Labels perform several functions:

- The label *identifies* the product or brand
- The label might also *grade* the product
- The label might *describe* the product
- Finally, the label might *promote* the product through attractive graphics.

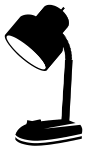
Labels eventually become outmoded and need freshening up. Companies with labels that have become icons need to tread very carefully when initiating a redesign.

Warranties and Guarantees

Warranties are formal statements of expected product performance by the manufacturer. Warranties, whether expressed or implied are legally enforceable. Many sellers offer either general guarantees or specific guarantees. Guarantees reduce the buyer's perceived risk. Guarantees are most effective in two situations - Where the company or the product is not well-known and where the product's quality is superior to the competition.

MARKETING SPOTLIGHT – TOYOTA

Case Study: Kotler and Keller (2006: 397-398)



- What have been the key success factors for Toyota?
- Where is Toyota vulnerable?
- What should Toyota watch out for?
- What recommendations would you make to senior marketing executives at Toyota?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

Product is the first and most important element of the marketing mix. Product strategy calls for making coordinated decisions on product mixes, product lines, brands, and packaging and labelling. In planning its market offering, the marketer needs to think through the five levels of the product: the core benefit, the basic product, the expected product, the augmented product, and the potential product that encompasses all the augmentations and transformations the product might ultimately undergo. Products can be classified in several ways. In terms of durability and reliability, products can be non-durable goods, durable goods, or services. In the consumer-goods category, products are convenience goods (staples, impulse goods, emergency goods), shopping goods (homogeneous and heterogeneous), specialty goods, or unsought goods. In the industrial-goods category, products fall into one of three categories: materials and parts (raw materials and manufactured materials and parts), capital items (installations and equipment), or suppliers and business services (operating supplies, maintenance and repair items, maintenance and repair services, and business advisory services). Brands can be differentiated on the basis of a number of different product or service dimensions: product form, features, performance, conformance, durability, reliability, repairability, style, and design, as well as such service dimensions as ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair. Most companies sell more than one product. A product mix can be classified according to width, length, depth, and consistency. These four dimensions are the tools for developing the company's marketing strategy and deciding which product lines to grow, maintain, harvest, and divest. To analyze a product line and decide how many resources should be invested in that line, product-line managers need to look at sales and profits and market profile. A company can change the product component of its marketing mix by lengthening its product via line stretching (down-market, up-market, or both) or line filling, by modernizing its products, featuring certain products, and pruning its products to eliminate the least profitable. Brands are often sold or marketed jointly with other brands. Ingredient brands and co-brands can add value assuming they have equity and are perceived as fitting appropriately. Physical products have to be packaged and labeled. Well-designed packages can create convenience value for customers and promotional value for producers. In effect, they can act as "five-second commercials" for the product. Warranties and guarantees can offer further assurance to consumers.

Response to Marketing Spotlight - Toyota

What have been the key success factors for Toyota?

- Product differentiation features
- Service differentiation features

Where is Toyota vulnerable?

- Rapid changes in the market for automobiles due to environmental or governmental changes
- Rapid copying by competitors

What should Toyota watch out for?

- External changes to the automobile market created by environmental or governmental regulations
- Changes in consumer attitudes and preferences in their consumption system and customer value hierarchy

What recommendations would you make to senior marketing executives at Toyota?

- Do not rest on past successes
- Continue to keep abreast of your target markets consumption system and customer value hierarchy

What should they be sure to do with their marketing?

- Appeal to those factors that are present in their target market's definitions of: core benefit, basic product, expected product, augmented product, and potential product
- Deliver to the "potential product" while ensuring that the core, basic, expected, and augmented products meet consumers definitions

Response to Activity 10.1

Student answers will differ according to the product/services chosen. However, student answers should encompass the following distinctions:

Products differentiation includes:	**Services differentiation includes:**
Form	Ordering ease
Features	Delivery installation
Performance quality	Customer training
Conformance quality	Customer consulting
Durability	Maintenance and repair
Reliability	
Repairability	
Style	

Response to Activity 10.2

Products are often combined with products from other companies in various ways. ***Co-branding*** which is also called *dual branding* or *brand bundling* occurs when two or more well known existing brands are combined into a joint product and/or marketed together in some fashion. One form of co-branding is ***same-company co-branding.*** Still another form ***is joint-venture co-branding.***

The main advantage to co-branding is that a product may be convincingly positioned by virtue of the multiple brands involved. Co-branding can generate greater sales from the existing target market as well as open additional opportunities with new consumers and channels. Co-branding can also reduce the cost of product introduction because two well-known images are combined, accelerating potential adoption. The potential disadvantages of co-branding are the risks and lack of control from becoming aligned with another brand in the minds of consumers. Consumer expectations about the level of involvement and commitment with co-brands are likely to be high, so unsatisfactory performance could have negative repercussions for the brands involved.

There is also risk of overexposure if the other brand has entered into a number of co-branding arrangements. It may also result in a lack of focus on existing brands. A necessary condition for co-branding success is that the two brands separately have brand equity - adequate brand awareness and a sufficiently positive brand image. The most important requirement is that there is a logical fit between the two brands such that the combined brand or marketing activity maximises the advantages of the individual brands while minimizing

the disadvantage. Research studies show that consumers are more apt to perceive co-brands favourable if the two brands are complementary rather than similar. Co-branding ventures must be entered into and executed carefully.

There must be the right kind of fit in value, capabilities, and goals, in addition to an appropriate balance of brand equity.

CHAPTER 11

DESIGNING AND MANAGING SERVICES

CHAPTER ELEVEN: DESIGNING AND MANAGING SERVICES

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Clarify how services are defined and classified, and how they differ from goods
- Express how services are marketed
- Discuss how service quality can be improved
- Explain how service marketers create strong brands
- Outline how goods-producing companies can improve customer support services

PRESCRIBED READING

Chapter 13- Kotler, P and Keller, KL.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall.

RECOMMENDED READING

Chapter 12 - Blythe, Jim (2006). Principles and Practice of Marketing. London: Thomson.

Chapter 10 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè (2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

OPENING NOTE

As a company finds it harder and harder to differentiate physical products, it turns to service differentiation. Companies seek to develop a reputation for superior performance in on-time deliveries, better and faster answering of inquiries, and quicker resolution of complaints. Service businesses increasingly fuel the world economy.

Service Industries Are Everywhere

Kotler and Keller (2009:386) define ***service*** as any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or not be tied to a physical product. Manufacturers, distributors, and retailers can provide value-added services or simply excellent customer service to differentiate themselves. Many pure service firms are now using the Internet to reach customers. The following are sectors which offer services:

- Government sector
- Private nonprofit sector
- Business sector
- Manufacturing sector
- Retail sector

Categories of Service Mix

A company's offering often includes some service. Kotler and Keller (2009:387) identify 5 categories of offerings that can be distinguished:

- Pure tangible goods
- Tangible goods with accompanying services
- Hybrid
- Major service with accompanying minor goods and services
- Pure service

Because of this varying goods-to-services mix it is difficult to generalise about services with further distinctions. Services vary as to whether they are Equipment-based or People-based. Service companies can choose among different *processes* to deliver their service.

Some services require the *client's presence* and some do not. Services differ as to whether they meet a *personal need* or a *business need.* Service providers typically develop different marketing programmes for personal and business markets. Service providers differ in their ***objectives*** and ***ownership.*** The nature of the service mix also has implications for how consumers evaluate quality. For some services, customers cannot judge the technical quality even after they have received the service.

At the left are goods high in ***search qualities -*** characteristics the buyer can evaluate before purchase. In the middle are goods and services high in ***experience qualities*** - characteristics the buyer can evaluate after purchase. At the right are goods and services high in ***credence qualities*** - characteristics the buyer normally finds hard to evaluate even after consumption. Because services are generally high in experience and credence qualities, there is more risk in purchase. This has several consequences:

- Service consumers generally rely on word of mouth rather than advertising
- Service consumers rely heavily on price, personnel, and physical cues to judge quality
- Service consumers are highly loyal to service providers that satisfy them
- Because of the switching costs involved, much consumer inertia can exist. It can be challenging to entice a customer away from a competitor.

Distinctive Characteristics of Services

Services according to Kotler and Keller (2009:389) have four distinctive characteristics that greatly affect the design of marketing programmes: intangibility, inseparability, variability, and perishability.

Intangibility

Unlike physical products, services cannot be seen, tasted, felt, heard, or smelled before they are bought. To reduce uncertainty, buyers will look for evidence of quality. They will draw inferences about quality from the place, people, equipment, communication material, symbols, and price that they see. Therefore, the service provider's task is to "manage the evidence," to "tangibilize the intangible." Service companies can try to demonstrate their service quality through *physical evidence and presentation.* Service marketers must be able to transform intangible services into concrete benefits.

Inseparability

Services are typically produced and consumed simultaneously. Because the client is also present as the service is produced, provider-client interaction is a special feature of service marketing. Several strategies exist for getting around this limitation:

- Work with larger groups
- Work faster
- Train more service providers

Variability

Because they depend on who provides them and when and where they are provided, services are highly variable. There are three steps service firms can take to increase quality control:

- Invest in good hiring and training procedures
- Standardise the service-performance process throughout the organisation
- Monitor customer satisfaction

Perishability

Services cannot be stored. Perishability is not a problem when demand is steady. When demand fluctuates, service firms have problems. Several strategies can produce a better match between supply and demand.
On the demand side:

- Differential pricing
- Non-peak demand
- Complementary services
- Reservation systems

On the supply side:

- Part-time employees
- Increased consumer participation
- Shared services
- Facilities for future expansion

MARKETING STRATEGIES FOR SERVICE FIRMS

At one time, service firms lagged behind manufacturing firms in their use of marketing because they were small or professional businesses that did not use marketing, or faced large demand or little competition. This has changed. Kotler and Keller (2009:392-399) explore the reasons for the change as follows:

Shifting Customer Relationship

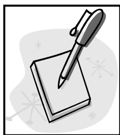
Not all companies, however, have invested in providing superior service, at least not to all customers. Companies now have so much data on individual consumers that each is able to classify its customers into profit tiers. Big spenders get special discounts, promotional offers, and lots of special service. Other customers get higher fees and stripped-down service. This shift from a customer service democracy to meritocracy is a response to lower profit margins resulting from customers becoming more price-driven and less loyal. Delivering services that maximises both customer satisfaction and company profitability can be challenging.

There are also shifts that favour the customer in the client relationship. Companies are becoming more sophisticated about buying product support services. Companies are pressing for "services unbundling." The Internet has empowered customers by letting them vent their rage around the world with a mouse click.

Holistic Marketing for Services

Because service encounters are complex interactions affected by multiple elements, adopting a holistic marketing perspective is especially important. The service outcome, and whether or not people will remain loyal to a service provider, is influenced by a host of variables. Holistic marketing for services requires external, internal, and interactive marketing.

External marketing describes the normal work of preparing, pricing, distributing, and promoting the service to customers. ***Internal marketing*** describes training and motivating employees to serve customers well. ***Interactive marketing*** describes the employees' skills in serving the client. Clients judge service by its t***echnical quality and functional quality.*** Companies must avoid pushing productivity so hard, that they reduce perceived quality.



ACTIVITY 11.1

Colleges, universities, and other educational institutions can be classified as service organisations. How can you apply the marketing principles developed in this chapter to MANCOSA? Do you have any advice as to how MANCOSA can become better service marketers?

Response at the end of this Section

MANAGING SERVICE QUALITY

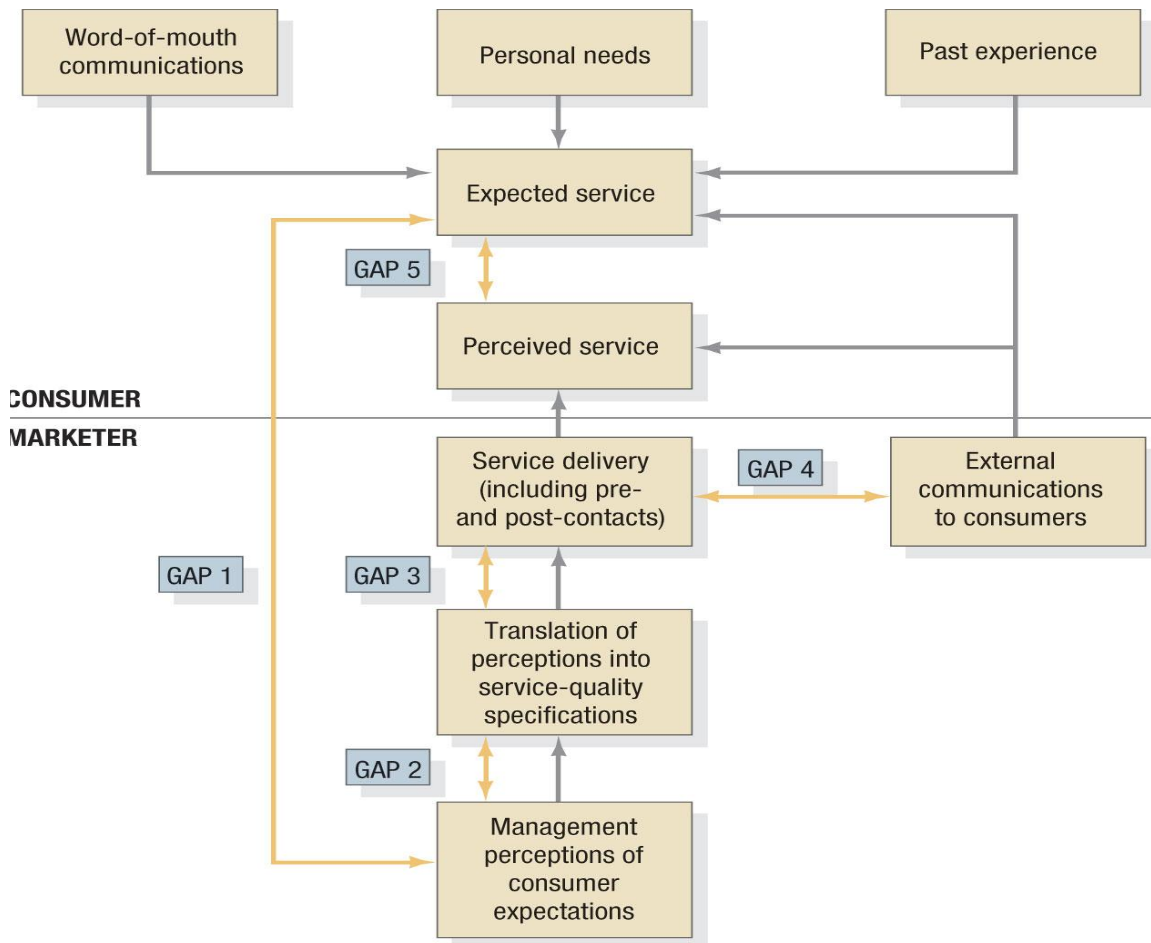
The service quality of a firm is tested at each service encounter.

Customer Expectations

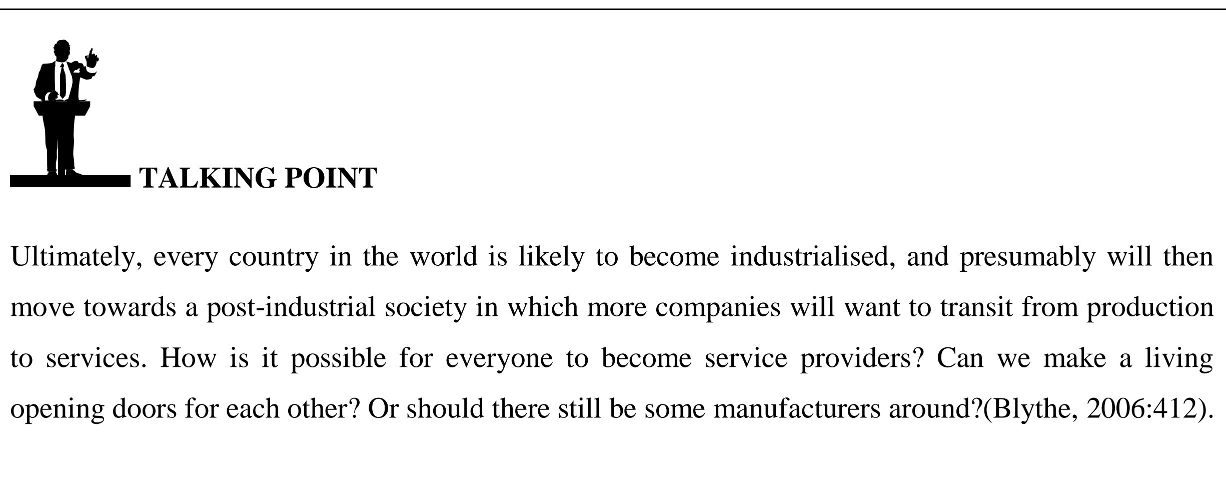
Customers form service expectations from many sources. Some expectations stem from past experiences, word-of-mouth and advertising. In general, customers compare the ***perceived service*** with the ***expected service***. If the perceived service falls below the expected service, customers are disappointed. If the perceived service meets or exceeds their expectations, they are apt to use the provider again. Successful companies add benefits to their offering that not only *satisfy customers* but also surprise and *delight* them. Delighting customers is a matter of exceeding expectations.

Parasuraman, Zeithaml, and Berry (1985) formulated a service-quality model that highlights the main requirements for delivering high service quality that identifies five gaps that cause unsuccessful delivery. The model is depicted in Figure 11.1 below:

Figure 11.1 – Service-Quality Model



Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. p400



TALKING POINT

Ultimately, every country in the world is likely to become industrialised, and presumably will then move towards a post-industrial society in which more companies will want to transit from production to services. How is it possible for everyone to become service providers? Can we make a living opening doors for each other? Or should there still be some manufacturers around?(Blythe, 2006:412).

Figure 11.1 reveals the following five gaps that cause unsuccessful delivery:

- Gap between consumer expectations and management perception
- Gap between management perception and service-quality specification
- Gap between service-quality specifications and service delivery
- Gap between service delivery and external communications
- Gap between perceived service and expected service

Based upon this service-quality model, these researchers identified the following five determinants of service quality, in order of importance:

- Reliability
- Responsiveness
- Assurance
- Empathy
- Tangibles

Based on these five factors, the researchers developed the 21-item SERVQUAL scale. This is shown on Table 11.1 below:

Table 11.1 – SERVQUAL Attributes

Reliability • Providing service as promised • Dependability in handling customers' service problems • Performing services right the first time • Providing services at the promised time • Maintaining error-free records **Responsiveness** • Keeping customers informed as to when services will be performed • Prompt service to customers • Willingness to help customers • Readiness to respond to customers' requests **Assurance** • Employees who instill confidence in customers • Making customers feel safe in their transactions • Employees who are consistently courteous • Employees who have the knowledge to answer customer questions	**Empathy** • Giving customers individual attention • Employees who deal with customers in a caring fashion • Having the customer's best interests at heart • Employees who understand the needs of their customers • Convenient business hours **Tangibles** • Modern equipment • Visually appealing facilities • Employees who have a neat, professional appearance • Visually appealing materials associated with the service

Source: Kotler and Keller,.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. p401

They also note that there is a ***zone of tolerance*** or range where consumer perceptions on service dimensions would be deemed satisfactory, anchored by the minimum level consumers would be willing to accept and the level that customer believe can and should be delivered.

Best Practices of Service Quality Management

According to Kotler and Keller (2009:402) various studies have shown that well-managed service companies share the following common practices: a strategic concept, a history of top-management commitment to quality, high standards, self-service technologies, systems for monitoring service performance and customer complaints, and an emphasis on employee satisfaction.

Strategic Concept

Top service companies are "customer obsessed." There is a clear sense of target customers and their needs.

Top-Management Commitment

Companies such as Marriott, Disney, and USAA have a thorough commitment to service quality.

High Standards

The best service providers set high service-quality standards. The standards must be set *appropriately high.* A service company can differentiate itself by designing a better and faster delivery system. There are three levels of differentiation:

- Reliability
- Resilience
- Innovativeness

Self-Service Technologies (SSTs)

As with products, consumers value convenience in services. Many person-to-person interactions are being replaced by self-service technologies. Not all SSTs improve service quality, but they have the potential of making service transactions more accurate, convenient, and faster for the consumer. While initiating self-service technologies, some companies have found that the biggest obstacle is not the technology itself, but convincing customers to use it.

Satisfying Customer Complaints

Studies of customer dissatisfaction show that customers are dissatisfied with their purchases about 25 percent of the time but that only about 5 percent complain. Of the 5 percent who complain, only about 50 percent report a satisfactory problem resolution.

Yet the need to resolve a customer problem in a satisfactory manner is critical:

- On average a satisfied customer tells three people
- The average dissatisfied customer gripes to 11 people!
- Customers whose complaints are satisfactorily resolved often become more company-loyal than customers who were never dissatisfied.
- Every complaint is a gift if handled well

Companies that encourage disappointed customers to complain, and also empower employees to remedy the situation on the spot, have been shown to achieve higher revenues and greater profits than companies that do not have a systematic approach for addressing service failures.

Satisfying Employees as Well as Customers

Excellent service companies know that positive employee attitudes will promote stronger customer loyalty. The product-line manager must review how the line is positioned against competitors' lines. Given the importance of positive employee attitudes, service companies must attract the best employees they can find. The need is to market a career rather than a job. It is important to audit employee job satisfaction regularly (Kotler and Keller (2009:406-407).

MANAGING SERVICE BRANDS

Some of the world's strongest brands according to Kotler and Keller (2009:407) are services. As with any brands, service brands must be skillful at differentiating themselves and developing appropriate brand strategies. Kotler and Keller (2009:407-410) offer the following discussion with regards to differentiation:

Differentiating Services

Service marketers frequently complain about the difficulty of differentiating their services. To the extent that customers view a service as fairly homogeneous, they care less about the provider than the price. Service offerings, however, can be differentiated in many ways. The offering can include innovative features. What the customer expects is called the ***primary service package.*** The provider can add ***secondary service features*** to the package.

Service providers can add a human element to their operations. Sometimes the company achieves differentiation through the sheer range of its service offering and the success of its cross-selling efforts. The major challenge is that most service offerings and innovations are easily copied. Still, the company that regularly introduces innovations will gain a succession of temporary advantages over competitors.

Developing Brand Strategies for Services

Developing brand strategies for a service brand requires special attention to choosing brand elements, establishing image dimensions, and devising the branding strategy.

Choosing Brand Elements

The intangibility of services has implications for the choice of brand elements. Because service decisions and arrangements are often made away from the actual service location itself, brand recall becomes critically important.

Other brand elements - logos, symbols, characters, and slogans - can also "pick up the slack" and complement the brand name to build awareness and brand image. These other brand elements often attempt to make the service and some of its key benefits more tangible, concrete, and real. Because a physical product does not exist, the physical facilities of the service provider, its primary and secondary signage, environmental design, reception area, and so on, are especially important. All aspects of the service delivery process can be branded.

Establishing Image Dimensions

Organisational associations - such as perceptions about the people who make up the organisation and who provide the service are likely to be particularly important brand associations that may affect evaluations of service quality directly or indirectly.

One particularly important association is company credibility and perceived expertise, trustworthiness and likeability

Service firms must therefore design marketing communication and information programmes so that consumers can learn more about the brand than the information it gets from service encounters alone. These programmes may involve marketing communications that may be particularly effective at helping the firm to develop the proper brand personality.

Devising Branding Strategy

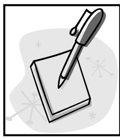
Finally, services also must consider developing a brand hierarchy and brand portfolio that permits positioning and targeting of different market segments. Classes of service can be branded vertically on the basis of price and quality. Vertical extensions often require sub-branding strategies where the corporate name is combined with an individual brand name or modifier.

MANAGING PRODUCT SUPPORT SERVICES

No less important are product-based industries that must provide a service bundle. Manufacturers of equipment all have to provide *product support services.* Product support service is becoming a major battleground for competitive advantage. In the global marketplace, companies that make a good product but provide poor local service support are seriously disadvantaged. Firms that provide high-quality service outperform less service-orientated competitors.

Identifying and Satisfying Customer Needs

The company must define customer needs carefully in designing a service support programme.



ACTIVITY 11.2

Identify at least three specific worries that customers have.

Response at the end of this Section

A buyer considers all these factors in choosing a vendor. The buyer tries to estimate the *life-cycle cost* that is the product's purchase cost plus the discounted cost of maintenance and repair less the discounted salvage value. Where reliability is important, manufacturers or service providers can offer guarantees to promote sales. To provide the best support, a manufacturer must identify the services that customers value most and their relative importance. A manufacturer can offer and charge for product support services in different ways. It can provide a standard offering plus a basic level of services.

If the customer wants additional services, it can pay extra or increase its annual purchases to a higher level, in which case the additional services would be included. Many service companies offer *service contracts* (also called *extended* warranties). Companies need to plan product design and service-mix decisions in tandem.

Post Sale Service Strategy

The quality of customer service departments varies greatly. In providing service, most companies progress through a series of stages. Manufacturers start off running their own parts-and-service departments. Over time, manufacturers switch more maintenance and repair service to authorised distributors and dealers. Customer service choices are increasing rapidly and this is holding down prices and profits on service (Kotler and Keller, 2009:411-412).

MARKETING SPOTLIGHT – KULULA

www.kulula.com

- What have been the key success factors for Kulula?
- Where is Kulula vulnerable?
- What should Kulula watch out for?
- What recommendations would you make to senior marketing executives at Kulula?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. It may or may not be tied to a physical product. Services are intangible, inseparable, variable, and perishable. Each characteristic poses challenges and requires certain strategies. Marketers must find ways to give tangibility to intangibles; to increase productivity of service providers; to increase and standardise the quality of the service provided; and to match the supply of services with market demand. Service industries lagged behind manufacturing firms in adopting and using marketing concepts and tools, but this situation has now changed. Service marketing must be done holistically; it calls not only for external marketing but also for internal marketing to motivate employees and interactive marketing to emphasise the importance of both "high tech" and "high touch." Customers' expectations play a critical role in their service experiences and evaluations. Companies must manage service quality by understanding the effects of each service customer. Top service companies excel at the following practices: a strategic concept, a history of top-management commitment to quality, high standards, self-service technologies, systems for monitoring service performance and customer complaints, and an emphasis on employee satisfaction. To brand a service organisation effectively, the company must differentiate its brand through primary and secondary service features and develop appropriate brand strategies. Effective branding programmes for services often employ multiple brand elements. They also develop brand hierarchies and portfolios and establish image dimensions to reinforce or complement service offerings. Even product-based companies must provide post purchase service. To provide the best support, a manufacturer must identify the services customers value most and their relative importance. The service mix includes both presales services (facilitating and value-augmenting services) and post sale services (customer service departments, repair and maintenance services).

Response to Marketing Spotlight – KULULA.COM

What have been the key success factors for Kulula?

- It has a strategic concept
- A history of top-management commitment to quality
- Maintaining high standards on a low cost strategy
- Systems for monitoring service performance and customer complaints
- An emphasis on employee satisfaction

Where is Kulula vulnerable?

- Other airlines duplicating the low-cost concept
- Other airlines trying to duplicate Kulula's commitment to customer service

What should Kulula watch out for?

- New or existing airline's efforts to duplicate their strategic direction
- Increases in self-service technologies in the airline business
- Internal complacency in meeting its high standards of customer service

What recommendations would you make to senior marketing executives at Kulula?

- First, do not rest on past successes - continue your strategic direction
- Second, monitor changes in your target market's definition of "service" and adapt to those changes

Response to Activity 11.1

Student answers will differ. However, the following marketing principles developed in the chapter were:

- A service differs from a product in its intangibility, inseparability, variability, and perishability
- Service marketing must be done holistically and calls for external, internal, and interactive marketing
- Service marketers must manage service quality by understanding the effects of each service encounter
- To brand a service, the company must differentiate its brand through primary and secondary service features and often employs multiple brand elements
- Service companies that excel in service have the following practices: A strategic concept toward service, top-management's commitment to quality, high standards, self-serving technologies, systems to monitor service performance and customer complaints, and an emphasis on employee satisfaction
- Product-based firms must provide post purchase service by identifying the "services" customers value the most and the relative importance of each

Response to Activity 11.2

- They worry about reliability and failure frequency
- They worry about *downtime*
- They worry about out-of-pocket costs

CHAPTER 12

PRICING STRATEGIES

CHAPTER TWELEVE: PRICING STRATEGIES

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Explain how consumers process and evaluate prices
- Describe how a company should set prices initially for products or services
- Discuss how a company should adapt prices to meet varying circumstances and opportunities
- Be familiar with when a company should initiate a price change
- Explain how a company should respond to a competitor's price change

PRESCRIBED READING

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OPENING NOTE

Price is the one element of the marketing mix that produces revenue; the other elements produce costs. Prices are perhaps the easiest element of the marketing programme to adjust. Price also communicates to the market the company's intended value positioning of its product or brand. A well-designed and marketed product can command a price premium. Pricing decisions are clearly complex and difficult. Holistic marketers must take into account many factors in making pricing decision - the company, customers, competition, and marketing environment. Pricing decisions must be consistent with the firm's marketing strategy and its target markets and brand positioning.

UNDERSTANDING PRICING

Price, according to Kotler and Keller (2009:416), is not just a number on a tag or an item. Throughout most of history, prices were set by negotiation between buyers and sellers. Setting one price for all buyers is a relatively modern idea. Today the Internet is partially reversing the fixed pricing trend. Traditionally, price has operated as the major determinant of buyer choice. Price remains one of the most important elements determining market share and profitability.

How Companies Price

Companies do their pricing in a variety of ways. In small companies, prices are often set by the boss. In large companies, pricing is handled by division and product-line managers. In large companies, top management sets general pricing objectives, policies, and often approves the prices proposed by lower levels of management. In industries where pricing is a key factor, companies will often establish a pricing department to set or assist others in determining appropriate prices. Many companies do not handle pricing well. Others use price as a key strategic tool. There are customized prices and offerings based on segment value and costs. Effectively designing and implementing pricing strategies requires a thorough understanding of consumer pricing psychology and a systematic approach to setting, adapting, and changing prices.

Consumer Psychology and Pricing

Marketers recognise that consumers often actively process price information, interpreting prices in terms of their knowledge from prior purchasing experiences, formal communications, and point-of-purchase or online resources. Purchase decisions are based on how consumers perceive prices. What they consider the current actual price - not the marketer's stated price. Consumers may have a lower price threshold below which prices may signal inferior or unacceptable quality. Upper price threshold above which prices are prohibitive are seen as not worth the money

Reference Prices

When examining products, consumers often employ reference prices. In considering an observed price, consumers often compare it to an internal reference price (pricing from memory) or an external frame of reference (posted "regular retail price"). All types of reference prices are possible. Sellers often attempt to manipulate reference prices. Reference-price thinking is also encouraged by stating a high manufacturer's suggested price or by indicating that the product was priced much higher originally or by pointing to a competitor's high price. Clever marketers try to frame the price to signal the best value possible. When consumers evoke one or more of these frames of reference, their perceived price can vary from the stated price.

Price Cues

Consumer perceptions of prices are also affected by alternative pricing strategies. Many sellers believe that prices should end in an odd number. Research has shown that consumers tend to process prices in a "left-to-right" manner rather than by rounding. "Sale" signs next to prices have been shown to spur demand, but only if not overused (Kotler and Keller, 2009:417-422).

SETTING THE PRICE

A firm must set a price for the first time when it develops a new product, when it introduces its regular product into a new distribution channel or geographic area, and when it enters bids on new contract work.

The firm must decide where to position its product on quality and price. Most marketers have 3–5 price points or tiers. Consumers often rank brands according to price tiers in a category. Within any tier, there is a range of acceptable prices, called price brands. The price brand provides managers with some indication of the flexibility and breadth they can adopt in pricing their brands within a particular price tier.

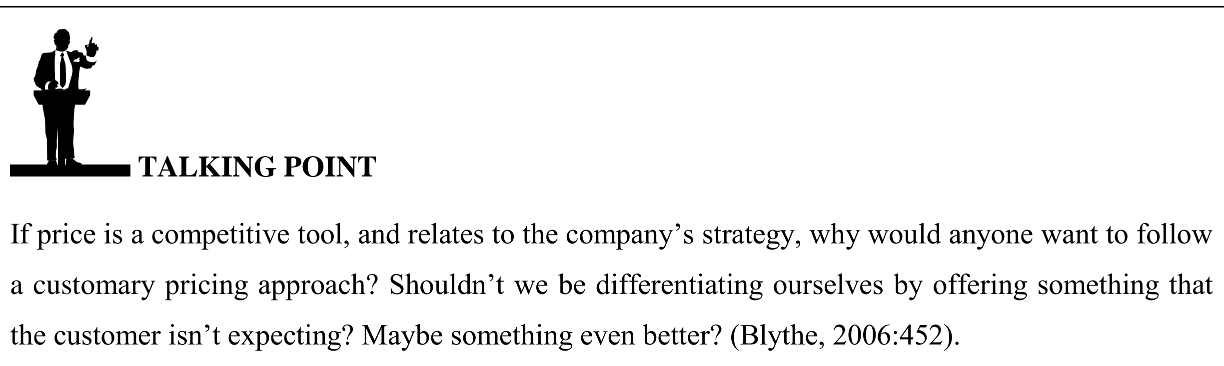
The firm has to consider many factors in setting its pricing policy. The following is a six-step procedure suggested by Kotler and Keller (2009:423-437) when setting pricing policy:

- Selecting the pricing objective
- Determining demand
- Estimating costs
- Analysing competitors' costs, prices, and offers
- Selecting a pricing method
- Selecting the final price

Step 1: Selecting the Pricing Objective

The company first decides where it wants to position its market offering. The clearer a firm's objectives, the easier it is to set price. A company can pursue any of five major objectives through pricing:

- Survival
- Maximum current profit
- Maximum market share
- Maximum market skimming
- Product-quality leadership



TALKING POINT

If price is a competitive tool, and relates to the company's strategy, why would anyone want to follow a customary pricing approach? Shouldn't we be differentiating ourselves by offering something that the customer isn't expecting? Maybe something even better? (Blythe, 2006:452).

Table 12.1 highlights the five major objectives through pricing

Table 12.1 – Pricing Objectives

Pricing	Objective
Survival	Companies pursue survival, as their major objective when they are plagued with overcapacity, intense competition, or changing consumer wants. Survival is a short-run objective.
Maximum Current Profit	Many companies try to set a price that will maximise current profits. They estimate the demand and costs associated with alternative prices and choose the price that produces maximum current profit, cash flow, or rate of return on investment. This strategy assumes that the firm has knowledge of its demand and cost functions.
Maximum Market Share	Some companies want to maximise their market share. They believe that a higher sales volume will lead to lower unit costs and higher long-run profit. This practice is called **market-penetration pricing.** The following conditions favour setting a low price: the market is highly price-sensitive, and a low price stimulates market growth. Production and distribution costs fall with accumulated production experience. A low price discourages actual and potential competition.
Maximum Market Skimming	Companies unveiling a new technology favour setting high prices to maximise market skimming. This is also called **market-skimming pricing,** where prices start high and are slowly lowered over time. Market skimming makes sense under the following conditions: A sufficient number of buyers have a high current demand. The unit costs of producing a small volume are not so high that they cancel the advantage of charging what the traffic will bear. The high initial price does not attract more competitors to the market. The high price communicates the image of a superior product.
Product-Quality Leadership	A company might aim to be the product quality leader in the market. Many brands strive to be "affordable luxuries"—products or services characterised by high levels of perceived quality, taste, and status with a price just high enough not to be out of consumer's reach.

Adapted: Kotler and Keller (2009:423-424).

Other Objectives

Non-profit and public organisations may have other pricing objectives. Whatever the specific objective, businesses that use price as a strategic tool will profit more than those who simply let costs or the market determine their pricing.

Step 2: Determining Demand

Each price will lead to a different level of demand and therefore have a different impact on a company's marketing objectives. The relation between alternative prices and the resulting current demand is captured in a demand curve. In the normal case, demand and price are inversely related; the higher the price, the lower the demand. In the case of prestige goods, the demand curve sometimes slopes upward.

Price Sensitivity

The demand curve shows the market's probable purchase quantity at alternative prices. The first step in estimating demand is to understand what affects price sensitivity. Generally speaking, customers are most price-sensitive to products that cost a lot or are bought frequently. Customers are less price-sensitive to low-cost items or items they buy infrequently. They are also less price-sensitive when price is only a small part of the total cost of obtaining, operating, and servicing the product over its lifetime (total cost of ownership—TCO). Companies prefer customers who are less price-sensitive.

Estimating Demand Curves

Most companies attempt to measure their demand curves using several different methods.
Statistical analysis of past prices, quantities sold, and other factors can reveal their relationships. In measuring the price-demand relationship, the market researcher must control various factors that will influence demand. The competitor's response will make a difference.

Price Elasticity of Demand

Marketers need to know how responsive or elastic demand would be to a change in price. If demand hardly changes with a small change in price, we say the demand is **inelastic.** If demand changes considerably, demand is **elastic.** Demand is likely to be less elastic under the following conditions:

- There are few or no substitutes or competitors
- Buyers do not readily notice a higher price
- Buyers are slow to change their buying habits
- Buyers think the higher prices are justified

If demand is elastic, sellers will consider lowering the price. A lower price will produce more total revenue as long as the costs of producing and selling more units do not increase disproportionately. It is a mistake not to consider the price elasticity of customers and their needs in developing marketing programmes. Price elasticity depends on the magnitude and direction of the contemplated price change. It may be negligible with a small price change or substantial with a large price change. It may differ for a price cut versus a price increase. There may be a **price indifference band** within which price changes have little or no effect. Long-run price elasticity may differ from short-run elasticity.

Step 3: Estimating Costs

Demand sets a ceiling on the price the company can charge for its product. Costs set the floor.

Types of Costs and Levels of Production

A company's costs take two forms, fixed and variable. Fixed costs (also known as overhead) are costs that do not vary with production or sales revenue. Variable costs vary directly with the level of production. Total costs consist of the sum of the fixed and variable costs for any given level of production. Average cost is the cost per unit at that level of production. Management wants to charge a price that will at least cover the total production costs at a given level of production. To price intelligently, management needs to know how its costs vary with different levels of production.

Accumulated Production

The decline in the average cost with accumulated production experience is called the experience curve or learning curve. Experience-curve pricing carries major risks. Aggressive pricing might give the product a cheap image. The strategy assumes that competitors are weak followers. Most experience-curve pricing has focused on manufacturing costs, but all costs, including marketing costs, can be improved on.

Activity-Based Cost Accounting

Today companies try to adapt their offers and terms to different buyers. To estimate the real profitability of dealing with different retailers, the manufacturer needs to use activity-based accounting (ABC). ABC accounting tries to identify the real costs associated with serving each customer. The key to effectively employing ABC is to define and judge "activities" properly.

Target Costing

Costs change with production scale and experience. They can also change as a result of a concentrated effort to reduce them through target costing. The objective is to bring the final cost projections into the target cost range.

Step 4: Analysing Competitors' Costs, Prices, and Offers

Within the range of possible prices determined by market demand and company costs, the firm must take competitors' costs, prices, and possible price reactions into account. The firm should first consider the nearest competitor's price.

Step 5: Selecting a Pricing Method

Given the 3Cs - the customers' demand schedule, the cost function, and competitors' prices, the company is now ready to select a price. Costs set the floor to the price. Competitors' prices and the price of substitutes provide an orienting point. Customers' assessment of unique features establish the price ceiling. There are six price-setting methods:

- Markup pricing
- Target-return pricing
- Perceived-value pricing
- Value pricing
- Going-rate pricing
- Auction-type pricing

Mark up Pricing

The most elementary pricing method is to add a standard **markup** to the product's cost.

Does the use of standard markups make logical sense? Generally, no. Any pricing method that ignores current demand, perceived value, and competition is not likely to lead to the optimal price. Markup pricing remains popular. Sellers can determine costs much more easily than they can estimate demand. By tying the price to cost, sellers simplify the pricing task. Where all firms in the industry use this pricing method, prices tend to be similar. Many people feel that cost-plus pricing is fairer to both buyers and sellers.

Target-Return Pricing

In **target-return pricing,** the firm determines the price that would yield its target rate of return on investments (ROI). Target-return pricing tends to ignore price elasticity and competitors' prices.

Perceived Value Pricing

An increasing number of companies base their price on the customer's **perceived value.** They must deliver the value promised by their value proposition, and the customer must perceive this value. Perceived value is made up of several characteristics:

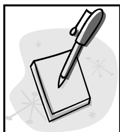
- Buyer's image of the product performance
- Channel deliverables
- The warranty quality
- Customer support
- Softer attributes such as:
  - Supplier's reputation
  - Trustworthiness
  - Esteem

Furthermore, each potential customer places different weights on these different elements, with the result that some will be:

- Price buyers
- Value buyers
- Loyal buyers

Companies need different strategies for each of these three groups. The key to perceived-value pricing is to deliver more value than the competitor and to demonstrate this to prospective buyers. The company can try to determine the value of its offering in several ways:

- Managerial judgments within the company
- Value of similar products
- Focus groups
- Surveys
- Experimentation
- Analysis of historical data
- Conjoint analysis



ACTIVITY 12.1

What do you understand by the concept of value pricing?

Response at the end of this Section

Going-Rate Pricing

In **going-rate pricing,** the firm bases its price largely on competitor's prices. The firm might charge the same, more, or less than major competitor (s). Going-rate pricing is quite popular where costs are difficult to measure or competitive response is uncertain.

Auction-type pricing

Auction-type pricing is growing more popular, especially with the growth of the Internet.

There are three types of auction-type pricing:

- English auctions (ascending bids)
- Dutch auctions (descending bids)
- Sealed-bid auctions

Step 6: Selecting the Final Price

Pricing methods narrow the range from which the company must select its final price. In selecting the price, the company must consider additional factors, including the impact of other marketing activities, company pricing policies, gain-and-risk sharing pricing, and the impact of price on other parties.

Impact of Other Marketing Activities

The final price must take into account the brand's quality and advertising relative to the competition. Farris and Reibstein's findings suggest that price is not as important as quality and other benefits in the market offering.

Company Pricing Policies

The price must be consistent with company pricing policies. Many companies set up a pricing department to develop policies and establish or approve pricing decisions. The aim is to ensure that salespeople quote prices that are reasonable to customers and profitable to the company.

Gain-and-Risk Sharing Pricing

Buyers may resist accepting a seller's proposal because of a high-perceived level of risk.

The seller has the option of offering to absorb part or all of the risk if he does not deliver the full promised value.

Impact of Price on Other Parties

Management must also consider the reactions of other parties to the contemplated price. How will distributors and dealers feel about it? Will the sales force be willing to sell at that price? How will competitors react? Will suppliers raise their prices when they see the company's price? Will the government intervene and prevent this price from being charged?

ADAPTING THE PRICE

Companies, according to Kotler and Keller (2009:437), usually do not set a single price, but rather a pricing structure that reflects variations in: Geographical demand and costs, Market-segment requirements, Purchase timing, Order levels, Delivery frequency, Guarantees or Service contracts. Other factors as a result of discounts, allowances, and promotional support, a company rarely realises the same profit from each unit of a product it sells.

Geographical Pricing (Cash, Countertrade, Barter)

Geographical pricing involves the company deciding how to price its products to different customers in different locations and countries. Should the company charge higher prices to distant customers to cover the higher shipping costs or a lower price to win additional business? How should exchange rates and the strength of different currencies be accounted for? Another issue is how to get paid. Many buyers want to offer other items in payment, a practice known as counter-trade. Counter-trade may account for 15 to 25 percent of world trade and takes several forms:

- Barter
- Compensation deal
- Buyback arrangement
- Offset

Price Discounts and Allowances

Most companies will adjust list prices and give discounts and allowances for early payment, volume purchases, and off-season buying. Discount pricing has become the modus operandi of a surprising number of companies offering both products and services.

Some product categories tend to self-destruct by always being on sale. Discounting can be a useful tool if the company can gain concessions in return. Sales management needs to monitor the proportion of customers who are receiving discounts. Higher levels of management should conduct a net price analysis to arrive at the “real price” of their offering.

Promotional Pricing

Companies can use several pricing techniques to stimulate early purchase:

- Loss-leader pricing
- Special-event pricing
- Cash rebates
- Low-interest financing
- Longer payment terms
- Warranties and service contracts
- Psychological discounting

Differentiated Pricing

Companies often adjust their basic price to accommodate differences in customers, products, locations, and so on. **Price discrimination** occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. In first-degree price discrimination, the seller charges a separate price to each customer depending on the intensity of his or her demand. In second-degree price discrimination, the seller charges less to buyers who buy a larger volume. In **third-degree price discrimination**, the seller charges different amounts to different classes of buyers:

- Customer-segment pricing
- Product-form pricing
- Image pricing
- Channel pricing
- Location pricing
- Time pricing

Yield pricing, and yield management systems are used to offer discounts based upon some criteria. Some forms of price discrimination are illegal. Price discrimination is legal if the seller can prove that its costs are different when selling different volumes or different quantities of the same product to retailers. Predatory pricing - selling below cost with the intent of destroying competition - is unlawful. For price discrimination to work, certain conditions must exist:

- The market must be segmentable and the segments must show different intensities of demands
- Members in the lower-price segment must not be able to resell the product to the higher-price segment
- Competitors must not be able to undersell the firm in the higher-price segment
- The cost of segmenting and policing the market must not exceed the extra revenue derived from price discrimination
- The practice must not breed customer resentment and ill will
- The particular form of price discrimination must not be illegal

(Kotler and Keller, 2009:437-442).

INITIATING AND RESPONDING TO PRICE CHANGES

Companies often face situations when they may need to cut or raise prices. Kotler and Keller (2009:442-446) elaborate as follows:

Initiating Price Cuts

Several circumstances might lead a firm to cut prices:

- Excess plant capacity
- Companies may initiate a price cut in a drive to dominate the market through lower costs
- Either the company starts with lower costs or initiates price cuts in the hope of gaining market share and lower costs

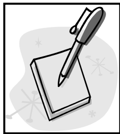
A price-cutting strategy involves possible traps:

- Low-quality trap
- Fragile-market-share trap
- Shallow-pockets trap

Initiating Price Increases

A successful price increase can raise profits considerably. A major circumstance provoking price increases is cost inflation. Rising costs unmatched by productivity gains squeeze profit margins and lead companies to regular rounds of price increases. Companies often raise their prices by more than the cost increase in anticipation of further inflation or governmental price controls, in a practice called anticipatory pricing. Another factor leading to price increase is over-demand. The price can be increased in the following ways:

- Delayed quotation pricing
- Escalator clauses
- Unbundling
- Reduction of discounts



ACTIVITY 12.2

What considerations should a company take into account when raising prices? What do consumers prefer? What can a marketer do to prevent a hostile reaction during a price increase?

Response at the end of this Section

Reactions to Price Changes

Any price change can provoke a response from customers, competitors, distributors, suppliers, and even government.

Customer Reactions

Customers often question the motivation behind price changes. A price cut can be interpreted in different ways:

- The item is about to be replaced by a new model
- The item is faulty and is not selling well
- The firm is in financial trouble
- The price will come down even further
- The quality has been reduced

A price increase may carry some positive meanings to customers:

- The item is "hot"
- The item represents an unusually good value

Competitor Reactions

Competitors are most likely to react when:

- The number of firms are few
- The product is homogeneous
- Buyers are highly informed.

How can a firm anticipate a competitor's reactions?

One way is to assume that the competitor reacts in a set way to price changes. The other is to assume that the competitor treats each price change as a fresh challenge and reacts according to self-interests at that time.

Responding to Competitors' Price Changes

How should a firm respond to a price cut initiated by a competitor?

In markets characterised by high product homogeneity, the firm should search for ways to enhance its augmented product. If not it will have to meet the price reduction. In non-homogeneous product markets, the firm has more latitude. It needs to consider the following:

- Why did the competitor change the price?
- Does the competitor plan to make the price change temporary or permanent?
- What will happen to the company's market share and profits if it does not respond?
- Are other companies going to respond?
- What are the competitor's and other firm's responses likely to be to each possible reaction?

Market leaders frequently face aggressive price cutting by smaller firms trying to build market share. The brand leader can respond in several ways:

- Reduction of discounts
- Maintain price
- Maintain price and add value
- Reduce price
- Increase price and improve quality
- Launch a low-price fighter line

The best response varies with the situation. The company has to consider the products:

- Stage in the life cycle
- Its importance in the company's portfolio
- The competitor's intentions and resources
- The market's price and quality sensitivity
- The behaviour of costs with volume
- The company's alternative opportunities

An extended analysis of alternatives may not be feasible when the attack occurs. It would make better sense to anticipate possible competitors' price changes and to prepare contingent responses.

CHAPTER SUMMARY

Despite the increased role of non-price factors in modern marketing, price remains a critical element of the marketing mix. Price is the only one of the 4Ps that produces revenue; the others produce costs. In setting pricing policy, a company follows a six-step procedure. It selects its pricing objective. It estimates the demand curve—the probable quantities it will sell at each possible price. It estimates how its costs vary at different levels of output, at different levels of accumulated production experience, and for differentiated marketing offers. It examines competitors' costs, prices, and offers. It selects a pricing method. It selects the final price. Companies do not usually set a single price, but rather a pricing structure that reflects variations in geographical demand and costs, market-segment requirements, purchase timing, order levels, and other factors. Several price-adaptation strategies are available: (1) geographical pricing; (2) price discounts and allowances; (3) promotional pricing; and (4) discriminatory pricing. After developing pricing strategies, firms often face situations in which they need to change prices. A price decrease might be brought about by excess plant capacity, declining market share, a desire to dominate the market through lower costs, or economic recession. A price increase might be brought about by cost inflation or over demand. Companies must carefully manage customer perceptions in raising prices. Companies must anticipate competitor price changes and prepare a contingent response. A number of responses are possible in terms of maintaining or changing price or quality.

Response to Activity 12.1

In recent years, several companies have adopted **value pricing**: they win loyal customers by charging a fairly low price for a high-quality offering. Value pricing is not a matter of simply setting lower prices. It is a matter of re-engineering the company's operations to become a low-cost producer without sacrificing quality. Lowering pricing significantly helps to attract a large number of value-conscious customers. An important type of value pricing is **everyday low pricing (EDLP)** that takes place at the retail level. A retailer who holds to an EDLP pricing policy charges a constant low price with little or no price promotions and special sales. In **high-low pricing**, the retailer charges higher prices on an everyday basis but then runs frequent promotions in which prices are temporarily lowered below the EDLP level. The two different pricing strategies have been shown to affect consumer price judgments. Deep discounts (EDLP) can lead to lower perceived prices by consumers over time than frequent shallow discounts (high-low) even if the actual averages are the same. Some retailers have even based their entire marketing strategy around what could be called **extreme** everyday low pricing.

Response to Activity 12.2

A company needs to decide whether to raise its price sharply on a one-time basis or to raise it by small amounts several times. Consumers, generally, prefer small price increases on a regular basis to sudden, sharp increases. In passing on price increases to consumers, the company must avoid looking like a price gouger. Customer memories are long, and they can turn against companies they perceive as price gougers. Several techniques help consumers avoid sticker shock and a hostile reaction when prices rise:

- A sense of fairness must surround any price increase
- Customers must be given advance notice so that they can do forward buying or shop around
- Sharp price increases need to be explained in understandable terms
- Making low-visibility price moves first is also a good technique. This can be done by:
    - Eliminating discounts
    - Increasing minimum order sizes
    - Curtailing production of low-margin products

CHAPTER 13

NETWORKS, CHANNELS AND INTERMEDIARIES

CHAPTER THIRTEEN: NETWORKS, CHANNELS AND INTERMEDIARIES

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Discuss what is a marketing channel system and a value network
- Explain the work marketing channels perform
- Detail how channels should be designed
- Clarify the decisions companies face in managing their channels
- Discuss how companies should integrate channels and manage channel conflict
- Describe the future of e-commerce
- Outline what marketing decisions marketing intermediaries make
- Identify the major trends with marketing intermediaries

PRESCRIBED READING

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OPENING NOTE

Successful value creation needs successful value delivery. Holistic marketers are increasingly taking a value network view of their businesses. Instead of limiting their focus to their immediate suppliers, distributors, and customers, they are examining the whole supply chain that links raw materials, components, and manufactured goods and shows how they move toward the final consumers. Companies are looking at the suppliers' suppliers upstream and at the distributors' customers downstream. Each is looking at customer segments and how company resources can best be organised to meet needs. Companies today must build and manage a continuously evolving value network. Intermediaries, retailers, wholesalers, and logistical organisations, must forge marketing strategies and strive for marketing excellence like any company or suffer the consequences. Some intermediaries dominate the manufacturers who deal with them. Many use strategic planning, advanced information systems, and sophisticated marketing tools. They measure performance more on a return-on-investment than on a profit-margin basis. They segment their markets, improve their market targeting and positioning, and aggressively pursue market expansion and diversification strategies.

MARKETING CHANNELS AND VALUE NETWORKS

Most producers do not sell their goods directly to the final users; between them stands a set of intermediaries performing a variety of functions. These intermediaries constitute a marketing channel (also called a trade channel or distribution channel). **Marketing channels** are sets of interdependent organisations involved in the process of making a product or service available for use or consumption. Some intermediaries buy, take title to and resell the merchandise, they are called **merchants.** Others search for customers and may negotiate on the producer's behalf but do not take title to the goods, they are called **agents**. Still others assist in the distribution process but neither takes title to goods nor negotiates purchases or sales, they are called **facilitators** (Kotler and Keller, 2009:450).

The Importance of Channels

Kotler and Keller (2009:450) state that a marketing channel system is the particular set of marketing channels employed by a firm. Decisions about the marketing channel system are among the most critical facing management. Marketing channels also represent a substantial opportunity cost. Converting potential buyers into profitable orders is one of the chief roles of marketing channels. Marketing channels must not just serve markets, they must also make markets. The channels chosen affect all other marketing decisions:

- The company's pricing depends on whether it uses mass-merchandisers or high-quality boutiques
- The firm's sales force and advertising decisions depend on how much training and motivation dealers need

In addition, channel decisions involve relatively long-term commitments to other firms as well as a set of policies and procedures. In managing its intermediaries, the firm must decide how much effort to devote to push versus pull marketing. A **push strategy** involves the manufacturer using its sales force and trade promotion money to induce intermediaries to carry, promote, and sell the product to end user. Push strategy is appropriate where there is low brand loyalty in a category, brand choice is made in the stores, the product is an impulse item, and product benefits are well understood. A **pull strategy** involves the manufacturer using advertising and promotion to induce consumers to ask intermediaries for the product, thus inducing the intermediaries to order it. Pull strategy is appropriate when there is high brand loyalty and high involvement in the category, when people perceive differences between brands, and when people choose the brand before they go to the store.

Channel Development

A new firm, according to Kotler and Keller (2009:451), typically starts as a local operation selling in a limited market, using existing intermediaries. If the firm is successful, it might branch into new markets and use different channels in different markets. Today's successful companies are also multiplying the number of "go-to-market" or **hybrid** channels in any one-market area.

Companies that manage hybrid channels must make sure these channels work well together and match each target customer's preferred ways of doing business. Customers expect **channel integration,** characterised by the following features:

- The ability to order a product online and pick it up at a convenient retail location
- The ability to return an online ordered product to a nearby store of the retailer
- The right to receive discounts based on total online and off-line purchases

Different consumers have different needs during the purchase process. Nunes and Cespedes (2003) argue that in many markets, buyers fall into one of four categories:

- Habitual shoppers
- High value deal seekers
- Variety-loving shoppers
- High-involvement shoppers

The same consumer may choose to use different channels for different functions in making a purchase. Consumers may seek different types of channels depending on the particular types of goods involved. Some consumers are willing to "trade up." Others are willing to "trade down."

Value Networks

A supply chain view of a firm sees markets as destination points and amounts to a linear view of the flow. The company should first think of the target market, and then design the supply chain backward from that point. This view has been called demand chain planning. An even broader view sees a company at the centre of a value network—a system of partnerships and alliances that a firm creates to source, augment, and deliver its offerings. A value network includes a firm's suppliers, its suppliers' suppliers, its immediate customers, and their end customers. A company needs to orchestrate these parties to enable it to deliver superior value to the target market. Demand chain planning yields several insights:

- The company can estimate whether more money is made upstream or downstream
- The company is more aware of disturbances anywhere in the supply chain that might cause costs, prices, or supplies to change suddenly
- Companies can go online with their business partners to carry on faster and more accurate communications, transactions, and payments to reduce costs, speed up information, and increase accuracy

Managing this value network has required companies to make increasing investments in information technology (IT) and software. Marketers have traditionally focused on the side of the value network that looks toward the customer. In the future, they will increasingly participate in, influence their companies' upstream activities, and become network managers.

THE ROLE OF MARKETING CHANNELS

Why would a producer delegate some of the selling job to intermediaries? Delegation means relinquishing some control over how and to whom the products are sold. Producers do gain several advantages by using intermediaries. Many producers lack the financial resources to carry out direct marketing. Producers who do establish their own channels can often earn a greater return by increasing investment in their main business. In some cases direct marketing simply is not feasible. Intermediaries normally achieve superior efficiency in making goods widely available and accessible to target markets. Through their contacts, experiences, specialisation, and scale of operations, intermediaries usually offer the firm more than it can achieve on its own.

Channel Functions and Flows

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time, place, and possession gaps that separate goods and services from those who need and want them. Members of the marketing channel perform a number of key functions. Some functions constitute a ***forward flow*** of activity from the company to the customer. Other functions constitute a

backward flow from customers to the company. Still others occur in both directions. A manufacturer selling a physical product and services might require three channels:

- A sales channel
- A delivery channel
- A service channel

The question is not *whether* various channel functions need to be performed but rather, *who* is to perform them. All channel functions have three things in common:

- They use up scarce resources
- They can often be performed better though specialisation
- They can be shifted among channel members

Channel Levels

The producer and the final consumer are part of every channel.
A *zero-level channel* (also called a *direct-marketing channel*) consists of - a manufacturer selling directly to the final consumer.
A *one-level channel* contains one selling intermediary - such as a retailer.
A *two-level channel* contains two intermediaries - wholesaler and a retailer.
A *three-level channel* contains - wholesalers, jobbers, and retailers.

Channels normally describe a forward movement of products from source to user. One can also talk about *reverse-flow channels.* Reverse-flow channels are important in the following cases:

- To reuse products or containers
- To refurbish products for resale
- To recycle products
- To dispose of products and packaging

Service Sector Channels

Marketing channels are not limited to the distribution of physical goods. Producers of services and ideas also face the problem of making their output available and accessible to target populations. Marketing channels also keep changing in “person” marketing. As the Internet and other technologies advance, service industries are taking place through new channels (Kotler and Keller, 2009:450-456).

CHANNEL-DESIGN DECISIONS

Designing a marketing channel system involves analysing customer needs, establishing channel objectives, identifying major channel alternatives, and evaluating major channel alternatives.

Analysing Customers' Desired Service Output Levels

In designing the marketing channel, the marketers must understand the service output levels desired by target customers. Channels produce five service outputs:

- Lot size
- Waiting and delivery time
- Spatial convenience
- Product variety
- Service backup

The marketing-channel designer knows that providing greater service outputs means increased channel costs and higher prices for customers.

Establishing Objectives and Constraints

Channel objectives should be stated in terms of targeted service output levels. Channel institutions should arrange their functional tasks to minimize total channel costs and still provide desired levels of service outputs. Planners can identify several market segments that want different service levels. Channel objectives vary with product characteristics. Channel design must take into account the strengths and weaknesses of different types of intermediaries. Legal regulations and restrictions also affect channel design.

Identifying Major Channel Alternatives

Companies can choose from a wide variety of channels for reaching customers—from sales forces, to agents, distributors, dealers, direct mail, telemarketing, and the Internet. Each channel has unique strengths as well as weaknesses. Most companies now use a mix of channels. Each channel hopefully reaches a different segment of buyers and delivers the right products to each at the least cost. A channel alternative is described by three elements:

- The types of available business intermediaries
- The number of intermediaries needed
- The terms and responsibilities of each channel member

Types of Intermediaries

A firm needs to identify the types of intermediaries available to carry on its channel work. Companies should search for innovative marketing channels. Sometimes a company chooses an unconventional channel because of the difficulty or cost of working with the dominant channel. The advantage is that the company will encounter less competition during the initial move into this channel.

Price Sensitivity

Companies have to decide on the number of intermediaries to use at each channel level. Three strategies are available: exclusive distribution, selective distribution, and intensive distribution. ***Exclusive distribution*** means severely limiting the number of intermediaries.

It is used when the producer wants to maintain control over the service level and outputs offered by the resellers. Often it involves ***exclusive dealing*** arrangements. Exclusive deals between suppliers and retailers are becoming a mainstay for specialists looking for an edge in a business world. ***Selective distribution*** involves the use of more than a few, but less than all, of the intermediaries who are willing to carry a particular product.

Intensive distribution consists of the manufacturer placing goods or services in as many outlets as possible. Manufacturers are constantly tempted to move from exclusive or selective distribution to intensive distribution to increase coverage and sales.

Terms and Responsibilities of Channel Members

The producer must determine the rights and responsibilities of participating channel members. The main elements in the "trade-relations mix" are:

- Price policy
- Conditions of sale
- Distributors' territorial rights
- Mutual services and responsibilities

Evaluating the Major Alternatives

Each channel alternative needs to be evaluated against economic, control, and adaptive criteria.

Economic Criteria

Each channel will produce a different level of sales and costs. When sellers discover a convenient lower-cost channel, they try to get their customers to us it. Companies that are successful in switching customers to lower-cost channels, assuming no loss of sales or deterioration in service quality, will gain a *channel advantage*.

Control and Adaptive Criteria

To develop a channel, members must make some degree of commitment to each other for a specified period of time

These commitments invariably lead to a decrease in the producer's ability to respond to a changing marketplace. In rapidly changing, volatile, or uncertain product markets, the producer needs channel structures and policies that provide high adaptability (Kotler and Keller, 2009:457-463).

CHANNEL-MANAGEMENT DECISIONS

After a company has chosen a channel alternative, individual intermediaries must be selected, trained, motivated, and evaluated. Channel arrangements must be modified over time.

Selecting Channel Members

Companies need to select their channel members carefully. To facilitate channel member selection, producers should determine what characteristics distinguish better intermediaries. They should evaluate the:

- Number of years in business
- Other lines carried
- Growth and profit records
- Financial strength
- Cooperativeness
- Service reputation

If the intermediaries are sales agents, producers should evaluate the number and character of other lines carried and the size and quality of the sales force.

If the intermediaries are department stores that want exclusive distribution, the producer should evaluate:

- Locations
- Future growth potential
- Type of clientele

Training Channel Members

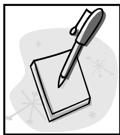
Companies need to plan and implement careful training programmes for their intermediaries.

Motivating Channel Members

A company needs to determine intermediaries' needs and construct a channel position such that its channel offering is tailored to provide superior value to these intermediaries.

Stimulating channel members to top performance starts with understanding their needs and wants. The company should provide training programmes and market research programmes to improve intermediaries' performance. The company must constantly communicate its view that the intermediaries are partners in a joint effort to satisfy end users of the product.

Producers vary greatly in skill in managing distributors. ***Channel power*** can be defined as the ability to alter channel members behaviour.



ACTIVITY 13.1

Identify and outline the types of power manufacturers can draw upon to elicit cooperation.

Response at the end of this Section

Evaluating Channel Members

Producers must periodically evaluate intermediaries performance against such standards as sales quota attainment, average inventory levels, customer delivery times, treatment of damaged and lost goods, and cooperation in promotional and training programmes. Under performers need to be counseled, retrained, motivated, or terminated.

Modifying Channel Arrangements

A producer must periodically review and modify its channel arrangements. Modification becomes necessary when the distribution channel is not working as planned. This usually occurs when :

- consumer-buying patterns change
- the market expands
- new competition arises
- innovative distribution channels emerge
- the product moves into the later stages in the product life cycle

No marketing channel will remain effective over the whole product life cycle. In competitive markets with low entry barriers, the optimal channel structure will inevitably change over time. The change could involve adding or dropping individual channel members, adding or dropping particular market channels and developing a totally new way to sell goods. The most difficult decision involves revising the overall channel strategy

(Kotler and Keller, 2009:465-466).

CHANNEL INTEGRATION AND SYSTEM

Distribution channels do not stand still. New wholesaling and retailing institutions emerge, and new channel systems evolve.

Vertical Marketing Systems

One of the most significant recent channel developments is the rise of vertical marketing systems. A ***conventional marketing system*** comprises an independent producer, wholesaler(s), and retailer(s). A ***vertical marketing system (VMS),*** by contrast, comprises the producer, wholesaler(s), and retailer(s) acting as a unified system. One channel member, the ***channel captain,*** owns the others, franchises them, or has so much power that they all cooperate. VMSs arose as a result of strong channel members' attempts to control channel behaviour and eliminate the conflict that results when independent members pursue their own objectives. VMSs achieve economies through: size, bargaining power and the elimination of duplicated services. There are three types of VMS: c*orporate, administered. and contractual.*

Corporate VMS

A ***corporate VMS*** combines successive stages of production and distribution under single ownership.

Administered VMS

An ***administered VMS*** coordinates successive stages of production and distribution through the size and power of one of the members. Manufacturers of a dominant brand are able to secure strong trade cooperation and support from resellers. The most advanced supply-distributor arrangement for administered VMS involves ***distribution programmeming*** that can be defined as building a planned, professionally managed, vertical marketing system that meets the needs of both manufacturer and distributors. The manufacturer establishes a department within the company called ***distributor-relations planning.*** Its job is to identify distributor needs and build up merchandising programmes to help each distributor operate as efficiently as possible.

Contractual VMS

A ***contractual VMS*** consists of independent firms at different levels of production and distribution integrating their programmes on a contractual basis to obtain more economies or sales impact than they could achieve alone. Contractual VMSs now constitute one of the most significant developments in the economy. They are of three types:

- Wholesaler-sponsored voluntary chains
- Retailer cooperatives
- Franchise organisations

The traditional system is the ***manufacturer-sponsored retailer franchise***. Another is the ***manufacturer-sponsored wholesaler franchise***. A new system is the ***service-firm-sponsored retailer franchise.***

The New Competition in Retailing

The new competition in retailing is no longer between independent business units but between whole systems of centrally programmemed networks (corporate, administered, and contractual) competing against one another to achieve the best cost economies and customer response.

Horizontal Marketing Systems

Another channel development is the horizontal marketing system, in which two or more unrelated companies put together resources or programmes to exploit an emerging marketing opportunity.

Multi-Channel Marketing Systems

Once, many companies sold to a single market through a single channel. Today, with the proliferation of customer segments and channel possibilities, more companies have adopted multi-channel marketing. *Multi-channel marketing* occurs when a single firm uses two or more marketing channels to reach one or more customer segments. By adding more channels, companies can gain three important benefits:

- Increased market coverage
- Lower channel cost
- More customized selling

The gains from adding new channels come at a price:

- New channels typically introduce conflict and control problems
- Two or more channels may end up competing for the same customers
- The new channel may be more independent and make cooperation more difficult

(Kotler and Keller, 2009:463-470).

CONFLICT, COOPERATION, AND COMPETITION

Channel conflict is generated when one channel member's actions prevents the channel from achieving its goal. Channel coordination occurs when channel members are brought together to advance the goals of the channel, as opposed to their own potentially incompatible goals.

Types of Conflict and Competition

Vertical channel conflict means conflict between different levels within the same channel.

Horizontal channel conflict involves conflict between members at the same level within the channel. ***Multi-channel conflict*** exists when the manufacturer has established two or more channels that sell to the same market.

Multi-channel conflict is likely to be especially intense when the members of one channel get a lower price (based on larger volume purchases) or work with a lower margin.

Causes of Channel Conflict

One major cause is goal incompatibility. Some conflict arises from unclear roles and rights. Conflicts can also stem from differences in perception. Conflict might additionally arise because of the intermediary's dependence on the manufacturer.

Managing Channel Conflict

As companies add channels to grow sales, they run the risk of creating channel conflict. Some channel conflict can be constructive and lead to better adaptation to a changing environment, but too much is dysfunctional. The challenge is not to eliminate conflict but to manage it better. There are several mechanisms for effective conflict management. One is the adoption of super-ordinate goals. Channel members come to an agreement on the fundamental goal they are jointly seeking. A useful step is to exchange persons between two or more channel levels. Co-optation is an effort by one organisation to win the support of the leaders of another organisation by including them in advisory councils, and the like. Much can be accomplished by encouraging joint membership in and between trade associations. When conflict is chronic or acute, the parties may have to resort to:

- Diplomacy
- Mediation
- Arbitration
- Lawsuits

Legal and Ethical Issues in Channel Relations

Companies are legally free to develop whatever channel arrangements suit them. In fact, the law seeks to prevent companies from using exclusionary tactics that might keep competitors from using a channel. Many producers like to develop exclusive channels for their products. When the seller requires that these dealers not handle competitors' products, this is called ***exclusive dealing.*** *Exclusive dealing* ***i***s legal as long as they do not substantially lessen competition or tend to create a monopoly, and as long as both parties enter into the agreement voluntarily. Exclusive dealing often includes exclusive territorial agreements. The producer may agree not to sell to other dealers in a given area. The buyer may agree to sell only in its own territory.

This second practice has become a major legal issue. Producers of a strong brand sometimes sell it to dealers only if they will take some or all of the rest of the line. This practice is called full-line forcing. Such tying agreements are not necessarily illegal, but they do violate U.S. law if they tend to lessen competition substantially. Producers are free to select their dealers, but their right to terminate dealers is somewhat restricted. Producers can drop dealers for "cause" but they cannot drop dealers if the dealer refuses to cooperate in doubtful legal arrangements (Kotler and Keller, 2009:470-474).

E-COMMERCE MARKETING PRACTICES

E-business describes the use of electronic means and platforms to conduct a company's business.

E-commerce means that the company or site offers to transact or facilitate the selling of products and services online.

E-purchasing means companies decide to purchase goods, services, and information from various online suppliers.

E-marketing describes company efforts to inform, communicate, promote, and sell its products and services over the Internet.

We can distinguish between ***pure-click*** companies and ***brick-and-click*** companies.

Pure-Click Companies

There are several kinds of pure-click companies:

- Search engines
- Internet Service Providers (ISPs)
- Commerce sites
- Transaction sites
- Content sites
- Enabler sites

The Internet is most useful for products and services when the shopper seeks greater ordering convenience and lower costs. It is useful when shoppers need information about product features and prices. The Internet is less useful for products that must be touched or examined in advance.

Business-to-Business E-Commerce

More activity is being conducted on business-to-business (B2B) sites. The impact of B2B sites is to make markets more efficient. With the Internet, buyers have easy access to a great deal of information. They can get information from s***upplier websites, infomediaries, market makers and customer communities.*** Suppliers of superior products will be able to offset price transparency with value transparency. Suppliers of undifferentiated products will have to drive down their costs in order to compete.

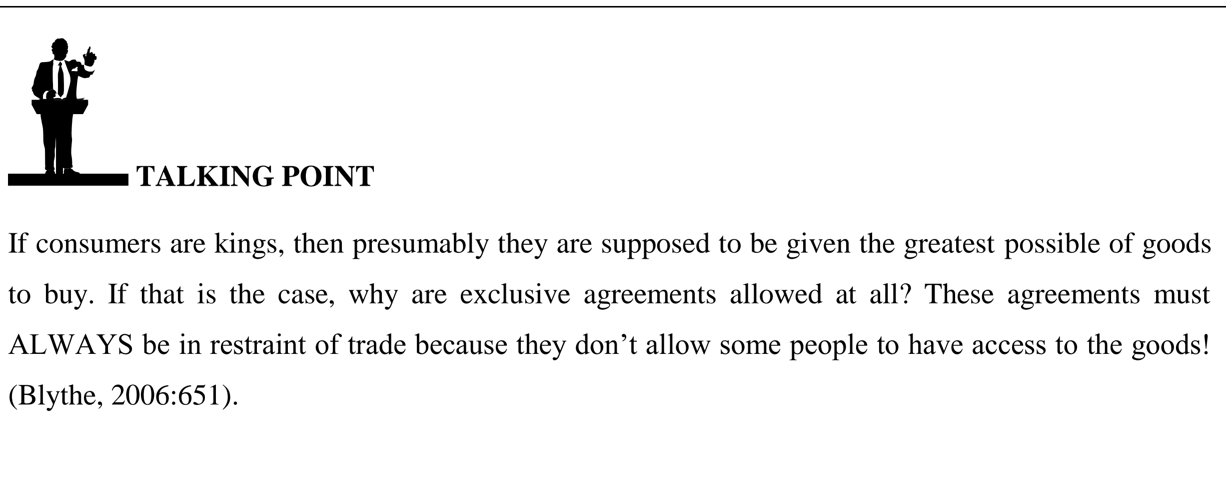
Brick-and-Click Companies

Many companies have agonized over whether to add an online e-commerce channel. Many companies opened Websites describing their business but resisted adding e-commerce to their sites. They felt that selling their products or services online would produce channel conflict. Adding an e-commerce channel creates the treat of a backlash from retailers, brokers, agents, or other intermediaries. The question is how to sell both through intermediaries and online.

There are at least three strategies for trying to gain acceptance from intermediaries:

- Offer different brands or products on the Internet
- Offer the off-line partners higher commissions to cushion the negative impact on sales
- Take orders on the Web site but have retailers deliver and collect payment

Some pure or predominately online companies have invested in brick-and-mortar sites. Ultimately, companies may need to decide whether to drop some or all of their retailers and go direct (Kotler and Keller, 2009:474-478).



TALKING POINT

If consumers are kings, then presumably they are supposed to be given the greatest possible of goods to buy. If that is the case, why are exclusive agreements allowed at all? These agreements must ALWAYS be in restraint of trade because they don't allow some people to have access to the goods! (Blythe, 2006:651).

RETAILING

Retailing, according to Kotler and Keller (2009:482), includes all the activities involved in selling goods or services directly to final consumers for personal, non-business use. A *retailer* or *retail store* is any business enterprise whose sales volume comes primarily from retailing. Any organisation selling to the final consumer - no matter *how* or *where* they are sold - is doing retailing.

Types of Retailers

Retail-type stores pass through stages of growth and decline that is described as the retail life cycle.

Levels of Service

The ***wheel-of-retailing*** hypothesis explains one reason that new types of stores emerge.
Conventional stores typically increase their services and raise prices to cover the incremental costs.

This then, provides, opportunities for new store forms to offer lower prices and less services Retailers can position themselves as offering one of four levels of service:

- Self-service
- Self-selection
- Limited service
- Full service

By combining these different levels with different assortment breadths, we can distinguish the four broad positioning strategies available to retailers. Non-store retailing has been growing much faster than store retailing. Non-store retailing falls into four major categories:

- Direct Selling (also called multi-level selling and network marketing)
- Direct marketing
- Automatic vending
- Buying service

Corporate Retailing

Although many retail stores are independently owned, an increasing number are part of some form of corporate retailing. Corporate retail organisations achieve:

- Economies of scale
- Greater purchasing power
- Wider brand recognition
- Better-trained employees

The major types of corporate retailing are:

- Corporate chain stores
- Voluntary chains
- Retailer cooperatives
- Franchises
- Merchandising conglomerates

New Models for Success

In the past, retailers held customers by offering convenient locations, special or unique assortments of goods, greater or better services than competitors, and store credit cards. All of this has changed! Models for department stores success seem to be emerging. These include strong retail brand approach, the showcase store and supermarkets that have opened larger stores, with more variety of items and upgraded facilities.

Marketing Decisions

We will examine retailers' marketing decisions in the areas of target market, product assortment and procurement, services and store atmosphere, price, communication, and location.

Target Market

A retailer's most important decision concerns the target market. Until the target market is defined and profiled, the retailer cannot make consistent decisions on product assortment, store décor, advertising messages and media, price, and service levels. Retailers are slicing the market into finer and finer segments and introducing new lines of stores to provide a more relevant set of offerings to exploit niche markets.

Product Assortment

The retailer's product assortment must match the target market's shopping expectations. The retailer has to decide on product-assortment ***breath*** and ***depth***.The real challenge begins after defining the store's product assortment, and that is to develop a product-differentiation strategy. Here are some possibilities:

- Feature exclusive national brands that are not available at competing retailers
- Feature mostly private branded merchandise
- Feature blockbuster distinctive merchandise events
- Feature surprise or ever-changing merchandise
- Feature the latest or newest merchandise first
- Offer merchandise customizing services
- Offer a highly targeted assortment.

Procurement

The retailer must establish merchandise sources, policies, and practices. In the corporate headquarters, specialist buyers (sometimes called merchandise managers*)* are responsible for developing brand assortments and listening to salespersons' presentations. Retailers are rapidly improving their skills in demand forecasting, merchandising selection, stock control, space allocation, and display. When retailers do study the economics of buying and selling individual products there are typical findings:

- One-third of their square footage is tied up with products that do not make an economic profit
- One-third of the products have break-even economics
- One-third of the products create more than 100 percent of the economic profit

Stores are using *direct product profitability (DPP)* to measure a product's handling costs from the time it is received to when the customer buys it.

Services and Store Atmosphere

The services mix is a key tool for differentiating one store from another. Retailers must decide on the services mix to offer customers: Pre-purchase services, Post-purchase services and Ancillary services. Retailers also need to consider differentiating based on unerringly reliable customer service. Retailers are rediscovering the usefulness of customer service as a point of differentiation. Whatever retailers do to enhance customer service, they will have to keep women in mind. Approximately 85 percent of everything sold in this country is either bought or influenced by a woman. *Atmosphere* is another element in the store's arsenal. Every store has a "look" or "feel" that is influenced by colours, layout, smell, and music.

Store Activities and Experiences

The growth of e-commerce has forced traditional brick-and-mortar retailers to respond. In addition to the natural advantages over e-commerce:

- Products that consumers can actually see, touch, and test
- Real-life customer service
- No delivery lag time

They also provide a shopping experience as a strong differentiator. To entice Internet-savvy consumers to their stores, real-life retailers are developing new services and promotions:

- Calling each customer a "guest"
- Providing a place for people to congregate
- Creating in-store entertainment
- Creating "showcase" stores

Super-regional malls are anchoring themselves with unique and interesting shops, rather than the brand-name department stores and national retailers of old. They want to become "destination retail" locations.

Price Decision

Prices are a key positioning factor and must be decided in relation to the target market, the product-and-service assortment mix, and the competition. All retailers would like to achieve high volumes and high gross margins. These two generally do not go together, however. Retailers generally fall into either the *Higher-markup, lower volume* group, *Low-markup, or higher-volume* group. Retailers must also pay attention to pricing tactics such as traffic builders, storewide sales or markdowns on slow selling merchandise.

Communication Decisions

Retailers use a wide range of communication tools to generate traffic and purchases. Each retailer must use communications that support and reinforce its image positioning.

Location Decisions

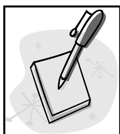
Retailers are accustomed to saying that the three keys to success are "location, location, and location." The problem breaks down in selecting regions of the country in which to open outlets, then particular cities, and then particular sites. Retailers can locate their stores in the:

- General business district
- Regional shopping centres
- Community shopping centers
- Strip malls (shopping strips)
- A location within a larger store

In view of the relationship between high traffic and high rents, retailers must decide on the most advantageous locations for their outlets. Retailers can use a variety of methods to assess locations e.g. traffic counts, survey of consumer shopping habits or analysis of competitive locations. Retailers can assess a particular store's sales effectiveness by looking at four indicators:

- Number of people passing by on an average day
- Percentage who enter the store
- Percentage of those entering who buy
- Average amount spent per sale

(Kotler and Keller, 2009:482-495).



ACTIVITY 13.2

Think of your favorite stores. What is it that they do that encourages your loyalty? What do you like about the in-store experience?

Response at the end of this Section

PRIVATE LABELS

A growing trend and major marketing decision for retailers concerns private labels.

A ***private label*** (also called *reseller, store, house,* or *distributor brand*) is one retailers and wholesalers develop. Some experts believe that 50 percent is the natural limit for carrying private brands because consumers prefer certain national brands or many product categories that are not feasible or attractive on a private-brand basis.

House Brands

Why do intermediaries bother to sponsor their own brands? They are more profitable than national brands. Retailers develop exclusive store brands to differentiate themselves from competitors. ***Generics*** are unbranded, plainly packaged, less expensive versions of common products. They offer standard or lower quality at a price that may be as much as 20 to 40 percent lower than nationally advertised brands. They are also 10 to 20 percent lower than private label brands. The lower price of generics is made possible by lower-quality ingredients, lower-cost labelling and packaging, and minimal advertising.

The Private Label Threat

In the confrontation between manufacturers' and private label brands, retailers have many advantages and increasing market power. Many supermarkets charge **a *slotting fee*** for accepting a new brand. The growing power of store brands is not the only factor weakening national brands. Other considerations are that:

- Consumers are more price-sensitive
- They are noting the better quality of the private-label brands
- There is a reduction in brand equity caused by a reduced advertising by national brand
- The endless stream of brand extensions and line extensions has blurred brand identity and led to a confusing amount of product proliferation.

Manufacturers have reacted to the private label threat by spending substantial amounts of money on consumer-directed advertising and promotion to maintain strong brand preference.To maintain their power, leading brand marketers should invest in heavy and continuous RandD, sustain a strong "pull" advertising programme or partner with major mass distributors in a joint search for logistical economies and competitive strategies that produce savings (Kotler and Keller, 2009:464-497).

WHOLESALING

Wholesaling includes all the activities involved in selling goods and services to those who buy for resale or business use. Wholesaling excludes farmers, manufacturers, and retailers.

Wholesalers (also called ***distributors***) differ from retailers in that:

- Wholesalers pay less attention to promotion, atmosphere, and location because they are dealing with business customers
- Wholesale transactions are usually larger than retail transactions
- Wholesalers cover a larger trade area than retailers
- The government deals with wholesalers and retailers differently in terms of legal regulations and taxes

Wholesalers are more efficient in performing the following functions:

- Selling and promoting
- Buying and assortment building
- Bulk breaking
- Warehousing
- Transportation
- Financing
- Risk bearing
- Market information
- Management services and counseling

The Growth and Types of Wholesaling

Wholesaling has grown in recent years an a number of factors explain why. These are:

- Growth of larger factories located some distance from the principal buyers.
- Production in advance orders rather than in response to specific orders.
- An increase in the number of levels of intermediate producers and users.
- The increasing need for adapting products to the needs of intermediate and final users in terms of quantities, packages and form.

Wholesaler Marketing Decisions

Wholesaler-distributors have faced mounting pressures in recent years. Each have had to develop appropriate strategic responses. One major response has been to increase asset productivity by managing inventories and receivables better. Each have had to improve their strategic decisions on target markets, product assortment, services, price, promotion and place.

Target Market

Wholesalers need to define target markets. Each can choose a target group of customers by size, type of customer or need for service. Within the target group they can identify the most profitable customers and discourage less profitable customers.

Product Assortment and Services

The wholesaler's "product" is their assortment. The key is to find a distinct mix of services valued by their customers.

Price Decision

Wholesalers usually mark up the cost of goods by a conventional percentage to cover their expenses.

Promotion Decision

Wholesalers rely primarily on their sales force to achieve promotional objectives.

Place Decision

Today, wholesalers have been improving materials-handling procedures and costs by developing automated warehouses and improving their supply capabilities through advanced information systems.

Trends in Wholesaling

Manufacturers always have the option of bypassing wholesalers or replacing inefficient ones with better ones. Manufacturers' major complaints against wholesalers are:

- They do not aggressively promote the manufacturer's product line and act more like order takers
- They do not carry enough inventory and therefore fail to fill customers' orders fast enough
- They do not supply the manufacturer with up-to-date market, customer, and competitive information
- They do not attract high-caliber managers to bring down their own costs
- They charge too much for their services

The most successful wholesalers-distributors adapted their services to meet their suppliers' and target customers' changing needs. They recognised that they had to add value to the channel. The wholesaling industry remains vulnerable to:

- Fierce resistance to price increases
- Winnowing out of suppliers based on cost and quality
- The trend toward vertical integration that is still strong (Kotler and Keller, 2009:498-560)

MARKET LOGISTICS

Physical distribution has now been expanded into the broader concept of supply chain management (SCM). Supply chain management starts before the physical distribution and involves :

- Procuring the right products
- Converting them efficiently into finished products
- Dispatching them to their final destinations

The supply chain perspective can help a company identify superior suppliers and distributors and help them improve productivity. Market logistics involves planning the infrastructure to meet demand, then 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. Market logistics has the following four steps:

- Deciding on the company's value proposition to its customers
- Deciding on the best channel design and network strategy for reaching the customers
- Developing operational excellence in sales forecasting, warehouse management, transportation management and materials management
- Implementing the solution with the best information systems, equipment, policies, and procedures

Market logistics leads to an examination of the most efficient way to deliver value.

Integrated Logistics Systems

The market logistics task calls for integrated logistics system (ILS), involving materials management, material flow systems and physical distribution abetted by information technology.

Information systems play a critical role in managing market logistics especially, especially:

- Computers
- Point-of-sale terminals
- Uniform product bar codes
- Satellite tracking
- Electronic data interchange (EDI)
- Electronic funds transfer (EFT)

These developments have:

- Shortened the order-cycle time
- Reduced clerical labour
- Reduced error rates in documents
- Provided improved control of operations

Market-Logistics Objectives

Many companies state their market-logistics objective as "getting the right goods to the right places at the right time for the least cost." Given that market-logistics involve strong trade-offs, decisions must be made on a total system basis. The company must research the relative importance of each of their service outputs. The company must consider competitors' service standards. The company ultimately has to establish some promise to the market. Given the market-logistic objectives, the company must design a system that will minimize the cost of achieving these objectives.

Market-Logistics Decisions

Four major decisions must be made with regard to market logistics:

- How should orders be handled (order processing)?
- Where should stocks be located (warehousing)?
- How much stock should be held (inventory)?
- How should goods be shipped (transportation)?

Order Processing

Most companies today are trying to shorten the order-to-payment cycle. - that is, the elapsed time between an order's receipt, delivery, and payment. The longer this cycle takes the lower the customer's satisfaction and the lower the company's profits.

Warehousing

Every company has to store finished goods until they are sold, because production and consumption cycles rarely match. The storage function helps smooth discrepancies between production and quantities desired by the market. The company must decide on the number of inventory stocking locations:

- More locations means that goods can be delivered to customers more quickly
- More locations also means higher warehousing and inventory costs

Storage warehouses store goods for moderate-to-long periods of time. ***Distribution warehouses*** receive goods from various company plant and suppliers and move them out as soon as possible. ***Automated warehouses*** employ advanced materials-handling systems under the control of a central computer. Some warehouses are now taking on activities formally done in the plant such as assembly, packaging and constructing promotional displays.

Inventory

Inventory levels represent a major cost. Inventory cost increases at an accelerating rate as the customer service level approaches 100 percent. Inventory decision making involves knowing when to order and how much to order. As inventory draws down, management must know at what stock level to place a new order. This stock level is called the ***order (reorder) point***. The order point should balance the risks of stockout against the costs of overstock. The company needs to balance order-processing costs and inventory-carrying costs. ***Order processing costs*** for a manufacturer consists of ***setup costs*** and ***running costs*** (operating costs when production is running). If setup costs are low, the manufacturer can produce the item often. If setup costs are high, the manufacturer can produce a long run and carry more inventory. Order-processing costs must be compared with ***inventory-carrying costs.*** The larger the average stock carried, the higher the inventory-carrying costs.

Carrying costs include:

- Storage charges
- Cost of capital
- Taxes and insurance
- Depreciation and obsolescence

The optimal order quantity can be determined by observing how order-processing costs and inventory-carrying costs sum up at different order levels.

Companies are reducing their inventory costs by treating inventory items differently. They are positioning inventory items according to risk and opportunity, distinguishing between:

- Bottleneck items (high risk, low opportunity)
- Critical items (high risk, high opportunity)
- Commodities (low risk, high opportunity)
- Nuisance items (low risk, low opportunity)

They are also keeping slow-moving items in a central location while keeping faster moving items closer to customers. The ultimate answer to carrying ***near-zero inventory*** is to build for order.

Transportation

Marketers need to be concerned with transportation decisions, as transportation choices will affect product pricing, on-time delivery performance, and the conditions of the goods upon arrival, all of which affects customer satisfaction.

In shipping goods the company can choose among five different transportation modes namely:

- Rail
- Air
- Truck
- Waterway, and
- Pipeline.

Shippers consider such criteria as:

- Speed
- Frequency
- Dependability
- Capability
- Availability
- Traceability, and
- Cost

Shippers are increasingly combining two or more transportation modes, thanks to containerization. Containerization consists of putting the goods in boxes or trailers that are easy to transfer between two transportation modes.

Piggyback describes the use of rail and trucks while ***Fishyback*** *describes* water and trucks, ***Trainship*** describes water and rail and ***Airtruck*** air and trucks. In deciding on transportation modes, shippers can choose from: private, contract and common carriers. If the shipper owns their own truck or air fleet, the shipper becomes a ***private carrier.*** A ***contract carrier*** is an independent organisation selling transportation services to others on a contract basis. A ***common carrier*** provides services between predetermined points on a scheduled basis and is available to all shippers at standard rates.

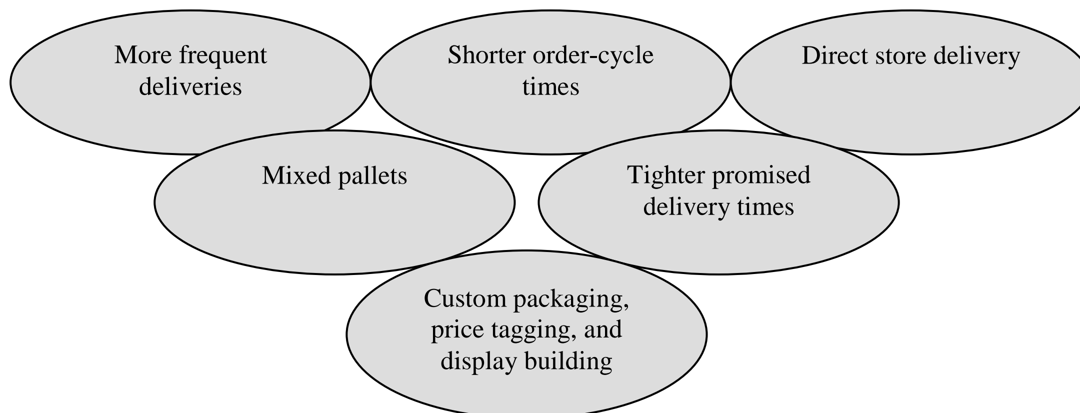
Organisational Lessons

Experience with market logistics has taught executives major lessons. Some of these lessons are:

- Companies should appoint a senior vice president of logistics who should hold periodic meetings to review inventory, operating costs, and customer service and satisfaction
- New software and systems are the key to achieving competitively superior logistic performance in the future
- Market-logistics strategies must be derived from business strategies, rather than from cost considerations
- The logistics system must be information-intensive. Establish electronic links among all the significant parties
- The company should set its logistics goals to match or exceed competitors' service standards and should involve members of all relevant teams in the planning process

(Kotler and Keller, 2009:501-506).

Today's stronger demands for logistical support from large customers will increase suppliers' costs. Customers want:



Suppliers cannot say no to many of these requests. Smart companies will adjust their offering to each major customers' requirements. They will set up *differentiated distribution* by offering bundled service programmes for different customers.

MARKETING SPOTLIGHT - AMAZON

- What have been the key success factors for Amazon?
- Where is Amazon vulnerable?
- What should Amazon.com watch out for?
- What recommendations would you make to senior marketing executives at Amazon.com?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

Most producers do not sell their goods directly to final users. Between producers and final users stands one or more marketing channels, a host of marketing intermediaries performing a variety of functions. Marketing-channel decisions are among the most critical decisions facing management. The company's chosen channel(s) profoundly affect all other marketing decisions. Companies use intermediaries when they lack the financial resources to carry out direct marketing, when direct marketing is not feasible, and when they can earn more by doing so. The most important functions performed by intermediaries are information, promotion, negotiation, ordering, financing, risk taking, physical possession, payment, and title. Manufacturers have many alternatives for reaching a market. They can sell direct or use one-, two-, or three-level channels. Deciding which type(s) of channel to use calls for analysing customer needs, establishing channel objectives, and identifying and evaluating the major alternatives, including the types and numbers of intermediaries involved in the channel. Effective channel management calls for selecting intermediaries, training, and motivating them. The goal is to build a long-term partnership that will be profitable for all channel members. Marketing channels are characterised by continuous and sometimes dramatic change. Three of the most important trends are the growth of vertical marketing systems, horizontal marketing systems, and multi-channel marketing systems. All marketing channels have the potential for conflict and competition resulting from such sources as goal incompatibility, poorly defined roles and rights, perceptual differences, and interdependent relationships. Companies can manage conflict by striving for super ordinate goals, exchanging people among two or more channel levels, co-opting the support of leaders in different parts of the channel, and encouraging joint membership in and between trade associations. Channel arrangements are up to the company, but there are certain legal and ethical issues to be considered with regard to practices such as exclusive dealing or territories, tying up agreements, and dealers' rights. E-commerce has grown in importance as companies have adopted "brick-and-click" channel systems.

Channel integration must recognise the distinctive strengths of online and off-line selling and maximise their joint contributions. Retailing includes all the activities involved in selling goods or services directly to final consumers for personal, non-business use. Retailers can be understood in terms of store retailing, non-store retailing, and retail organisations. Like products, retail-store types pass through stages of growth and decline. As existing stores offer more services to remain competitive, costs and prices go up. This opens the door to new retail forms that offer a mix of merchandise and services at lower prices. The major types of retail stores are specialty stores, department stores, supermarkets, convenience stores, discount stores, off-price retailers (factory outlets, independent off-price retailers, and warehouse clubs), superstores (combination stores and supermarkets), and catalogue showrooms. Although most goods and services are sold through stores, non-store retailing has been growing. The major types of non-store retailing are direct selling (one-to-one selling, one-to-many-party selling, and multilevel network marketing); direct marketing (that includes e-commerce and Internet retailing); automatic vending; and buying services. Although many retail stores are independently owned, an increasing number are falling under some form of corporate retailing. Retail organisations achieve many economies of scale, such as greater purchasing power, wider brand recognition, and better-trained employees. The major types of corporate retailing are corporate chain stores, voluntary chains, retailer cooperatives, consumer cooperatives, franchise organisations, and merchandising conglomerates. Like all marketers, retailers must prepare marketing plans that include decisions on target markets, product assortment, and procurement, services and store atmosphere, price, promotion, and place. These decisions must take into account major trends, such as the growth of private labels, new retail forms and combinations, growth of intertype retail competition, competition between store-based and non-store based retailing, growth of giant retailers, decline of middle market retailers, growing investment in technology, and the global presence of major retailers. Wholesaling includes all the activities in selling goods or services to those who buy for resale or business use. Wholesalers can perform functions better and more cost-effective than the manufacturer can. These functions include selling and promoting, buying and assortment building, bulk breaking, warehousing, transportations, financing, risk bearing, dissemination of market information, and provision of management services and consulting. There are four types of wholesalers: merchant wholesalers, brokers and agents, manufacturers' and retailers' sales branches, sales offices, and purchasing offices, and miscellaneous wholesalers such as agricultural assemblers and auction companies. Like retailers, wholesalers must decide on target markets, product assortment and services, price, promotion, and place. The most successful wholesalers are those who adapt their services to meet suppliers' and target customers' needs.

Response to Marketing Spotlight - Amazon

What have been the key success factors for Amazon?

- They have a strategic concept - vastly broader selection of titles than could be found in most local bookstores.
- Marketing channels must not just *serve* markets, they must also *make* markets
- They have replicated the features of a physical bookstore in its online channel
- Offers a personalized recommendation service
- Offers a built-in ranking system
- Offers peeks into the book

Where is Amazon vulnerable?

- Competitors duplicating or improving upon Amazon's presence
- Discounters
- Changes in technology and the use of technology by consumers

What should Amazon.com watch out for?

- Technological changes, difficulties, and emerging technologies
- Changes in consumer buying patterns and interests in reading

What recommendations would you make to senior marketing executives at Amazon.com?

- They should not rest on past successes - continue your strategic direction
- Monitor changes in their target market's definition of "service" and adapt to those changes
- They should resist opportunities to expand their market (width and breath) so that they begin to "lose" their "identity" with the consumer.

What should the company be sure to do with their marketing?

Emphasise strengths in variety, selection, service, price, and convenience.

Response to Activity 13.1

Manufacturers can draw on the following types of power to elicit cooperation:

- Coercive power
- Reward power
- Legitimate power
- Expert power
- Referent power

Coercive and reward power are objectively observable. Legitimate, expert, and referent power are more subjective and dependent on the ability and willingness of parties to recognise them. Most producers see gaining intermediarie's cooperation as a huge challenge. Companies that are more sophisticated try to forge a long-term partnership with distributors.

Response to Activity 13.2

Student answers will differ depending upon their favourite stores. However, all answers should include the definition of retailers:

- Levels of service: self-service, self-selection, limited service, and full service
- Strong retail brand approach, showcase store
- Feature exclusive national brands; private label brands; blockbuster distinctive merchandising events; surprise or ever-changing merchandise; newest merchandise first; offer merchandise customizing services; and offer a highly targeted assortment.
- Services mix: pre-purchase or post-purchase services, ancillary services
  Store atmosphere - "look," or "feel."
- Store activities and experiences: place to congregate, "guests," in-store entertainment.

CHAPTER 14

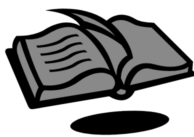
INTEGRATED MARKETING COMMUNICATIONS

CHAPTER FOURTEEN: INTEGRATED MARKETING COMMUNICATIONS

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Explain the role of marketing communications
- Identify and apply the major steps in developing effective communications
- Apply the communications mix strategy
- Discuss an integrated marketing communications programme
- Apply the steps involved in developing an advertising programme
- Describe how sales promotion decisions should be made
- Know the guidelines for effective brand-building events and experiences
- Clarify how companies can exploit the potential of public relations and publicity
- Outline how companies can use integrated direct marketing for competitive advantage
- Explain how companies can do effective e-marketing
- Recognise what decisions companies face in designing and managing a sales force



RECOMMENDED READING

Chapter 17, 18, 19 - Kotler,P and Keller,K.L.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall.

RECOMMENDED READING

Chapter 10 -Van der Walt, A Strydom, W.J Marx S and Jooste CJ(1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd.

Chapter 14 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè (2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

OPENING NOTE

Modern marketing calls for more than developing a good product, pricing it attractively, and making it accessible. Companies must also communicate with present and potential stakeholders, and the general public. For most companies, the question is not whether to communicate but rather what to say, how to say it, to whom, and how often. Marketers of all kinds are trying to come to grips with how to best use mass media in the new communication environment. Today, marketing communications are increasingly seen as an interactive dialogue between the company and its customers. Companies must ask not only, "How can we reach our customers?" but also, "How can our customers reach us?" Personalizing communications is critical: It is important to say and do the right thing to the right person at the right time.

THE ROLE OF MARKETING COMMUNICATIONS

Marketing communications, according to Kotler and Keller (2009:510), are the means by which firms attempt to inform, persuade, and remind consumers - directly or indirectly - about the products and brands that they sell. Marketing communications represent the "voice" of the brand and are a means by which it can establish a dialogue and build relationships with consumers. Marketing communications performs many functions for consumers.

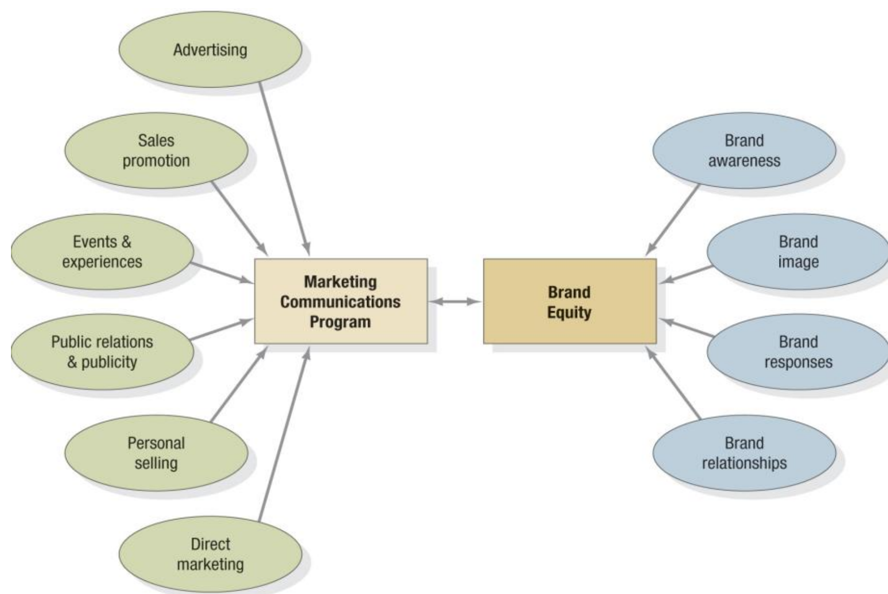
These include:

- Informing or showing the consumer how and why a product is used
- Advising the consumer about what kind of person should use the product or service
- Information on where and when the product can be used/found
- Information about the product, the company, and what it stands for
- Allowing consumers to be given an incentive or reward for usage or trial
- Allowing companies to link their brands to people, places, feelings, and events
- Contributing to brand equity by establishing the brand in memory and crafting a brand image

Marketing Communications and Brand Equity

The Marketing communications mix consists of six major modes of communication. These modes are depicted in Figure 14.1.

Figure 14.1 – Marketing Communication Modes



Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. P513

Every ***brand contact*** delivers an impression that can strengthen or weaken a customer's view of the company. Marketing communication activities contribute to brand equity in many ways:

- By creating awareness of the brand
- By linking the right associations to the brand image in the consumer's memory
- Eliciting positive brand judgments or feelings
- Facilitating a stronger consumer-brand connection

Kotler and Keller (2009:514) confirm that marketing communication activities must be integrated to deliver a consistent message and achieve the strategic positioning. The starting point in planning marketing communications is an audit of all the potential interactions that customers in the target market may have with the brand and the company. Marketers need to assess which experiences and impressions will have the most influence at each stage of the buying process. This understanding will help them allocate communications brands more efficiently, design, and implement the right communication programme. Armed with these insights, marketers can judge marketing communications according to its ability to build brand equity and drive brand sales. Marketers should evaluate *all* the different possible communication options according to effectiveness criteria. Brand awareness is a function of the number of brand-related exposures and experiences accumulated by the consumer. *Anything* that causes the consumer to notice and pay attention to the brand can increase brand awareness. To enhance brand recall, more intense and elaborate processing may be necessary so that stronger brand links to the product category or consumer needs are established to improve memory performance. *All* possible marketing communications options should be considered to create the desired brand image and knowledge.

The Communication Process Models

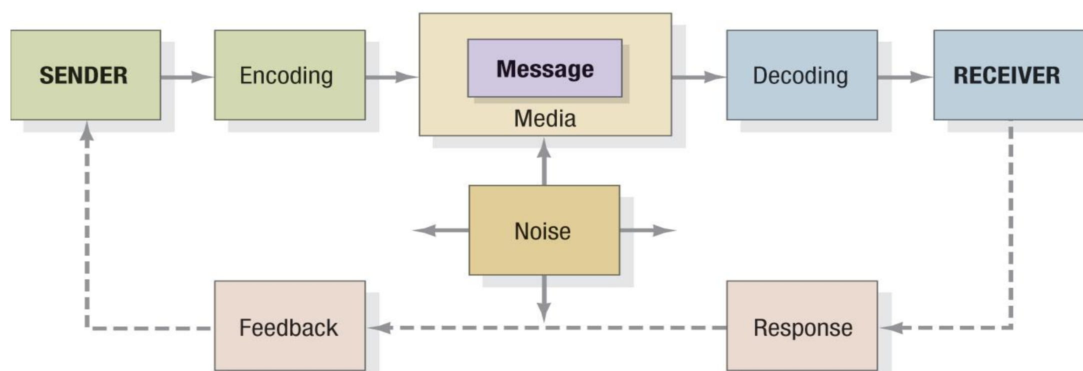
Marketers should understand the fundamental elements of effective communication. Two models are useful: a macro model and a micro model.

Macro Model of the Communication Process

The communication process incorporating the functions and tools is depicted on Figure 14.2 below where:

- The two major parties in a communication: ***Sender and Receiver*** is represented
- The two major communication tools: ***Message and Media*** is represented***, and***
- The four major communications functions: ***encoding, decoding, response and feedback*** are represented.

Figure 14.2 – Communication Process



Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. P514

The last element is ***noise***. The model above emphasises the key factors in effective communication. These are:

- Senders must know the audiences they want to reach and what response they want to get
- They must encode their messages so that the target audience can decode them
- They must transmit the message through media that reaches the target audience
- They should develop feedback channels to monitor the responses

The more the sender's field of experience overlaps with that of the receiver, the more effective the message is likely to be. It is important to note that ***Selective Attention, Distortion and Retention processes*** may be operating during communication.

Micro Model of Consumer Responses

Micro models of marketing communications concentrate on consumer's specific response to communications. All these models assume that the buyer passes through the following stages:

- Cognitive stage
- Affective stage
- Behavioural stage

This "learn-feel-do" sequence is appropriate when the audience has a high involvement with a product category perceived to have high differentiation. An alternative sequence, "do-feel-learn" is relevant when the audience has high involvement but perceives little or no differentiation within the product category. A third sequence, "learn-do-feel" is relevant when the audience has low involvement and perceives little differentiation within the product category. By choosing the right sequence, the marketers can do a better job of planning communications (Kotler and Keller, 2009:515-516).

TALKING POINT

If people are interested in the subject matter of the message, presumably they will pay attention to it. If they are not interested, presumably they will not act upon the message even if they are forced to hear it. So why do we need to worry about noise, interference, and so forth? Why not just put out messages, and assume that people will take in the ones they are interested in and ignore the ones that are irrelevant? (Blythe, 2006:258).

DEVELOPING EFFECTIVE COMMUNICATIONS

There are five steps in developing effective communications: identifying the target audience, determining the objectives, designing the communications, selecting the channels, and establishing the budget.

Identifying the Target Audience

The process starts with a clear target audience in mind. These could be potential buyers of the company's products, current users, deciders, influencers, individuals or groups.

The target audience is a critical influence on the communicator's decisions on:

- What to say
- How to say it
- When to say it
- Where to say it
- To whom to say it

The target audience can potentially be profiled in terms of any market segment. It is useful to define target audience in terms of usage or loyalty. Communication strategy will differ depending on the usage and loyalty involved. *Image analysis* can be conducted to profile the target audience in terms of brand knowledge to provide further insight. A major part of audience analysis is assessing the current image of the company, its products, and its competitors. *Image* is the set of beliefs, ideas, and impressions a person holds regarding an object. People's attitudes and actions toward an object are highly conditioned by that object's image. The first step is to measure the target audience's knowledge of the object using the *familiarity scale*. Respondents familiar with the product can be asked how they feel toward it using the *favourability scale*.

The two scales can be combined to develop insight into the nature of the communication challenge. Images are "sticky," they persist long after the organisation has changed. Image persistence is explained by the fact that once people have a certain image, they perceive what is consistent with that image.

Determine the Communication Objectives

Communication objectives can be set at any level of the hierarchy-of-effects model.
Rossiter and Percy (1997) identify four possible objectives:

- Category need
- Brand awareness
- Brand attitude
- Brand purchase intention

The most effective communications often can achieve multiple objectives.

Design the Communication

Formulating the communication to achieve the desired response will require solving three problems: what to say (message strategy), how to say it (creative strategy), and who should say it (message source).

Message Strategy

In determining message strategy, management searches for appeals, themes, or ideas that will tie into the brand positioning and help to establish points-of-parity or points-of-difference.

Some of these may be related directly to product or service performance:

- Quality
- Economy
- Value of the brand

Others may relate to more extrinsic considerations:

- Contemporary
- Popular
- Traditional

Some experts see buyers as expecting one of four types of reward from a product:

- Rational
- Sensory
- Social
- Ego satisfaction

Crossing the four types of rewards with the three types of experiences generates 12 types of messages that can be used. It is generally believed that industrial buyers are more responsive to performance messages.

Creative Strategy

Communication effectiveness depends on how a message is being expressed as well as the content of the message itself. Ineffective communication may mean that the wrong message was used or the right message was expressed poorly. ***Creative strategies*** are how marketers translate their messages into specific communication. Creative strategies can be broadly classified as either "informational" or "transformational" appeals.

Informational Appeals

An informational appeal elaborates on product or service attributes or benefits.
Examples are:

- Problem solving ads
- Product demonstration ads
- Product comparison ads
- Testimonials

Informational appeals assume very rational processing of the communication on the part of the consumer - logic and reason "rule." There are three types of informational appeals:

- Conclusion drawing
- One-versus-two-sided arguments
- Order of argument presentations

Each of these appeals has their supporters and distracters and depends heavily upon the target audience for the message.

Transformational Appeals

A transformational appeal elaborates on a non-product-related benefit or image. It might depict:

- What kind of person uses a brand
- What kind of experience results from using the brand
- Transformational appeals often attempt to stir up emotions that will motivate purchase

Communicators use negative appeals such as:

- Fear
- Guilt
- Shame

Messages are most persuasive when they are moderately discrepant with what the audience believes. Communicators also use positive emotional appeals such as:

- Humour
- Love
- Pride
- Joy

Motivational or “borrowed interest” devices are often employed to attract consumer attention and raise their involvement with an ad. Borrowed interest techniques are thought to be necessary in the tough new media environment characterised by low involvement consumer processing and while competing with ad and programmeming clutter.

These borrowed interest approaches can attract attention and create more liking and belief in the sponsor, but they may also:

- Detract from comprehension
- Wear out their welcome fast
- Overshadow the product

Attention getting tactics are often too effective and distract from brand or product claims. One challenge in arriving at the best creative strategy is figuring out how to “break through the clutter” to attract the attention of the consumer - but still be able to deliver the intended message. The magic of advertising is to bring concepts to life in the minds of the consumer target.

Message Source

Messages delivered by attractive or popular sources can potentially achieve higher attention and recall. What is important is the spokesperson's credibility.

The three factors underlining credibility are:

- Expertise
- Trustworthiness
- Likeability

The most highly credible source would be a person who scores high on all three dimensions. If a person has a positive attitude toward a source and a message, or a negative attitude toward both, a state of *congruity* is said to exist. What happens if a consumer holds one attitude towards the source and another toward the product?

Attitude change will take place in the direction of increasing the amount of congruity between the two evaluations. The consumer will end up respecting one somewhat less or somewhat more. The *principle of congruity* implies that communicators can use their good image to reduce some negative feelings toward a brand but in the process might lose some esteem with the audience. Multinational companies wrestle with a number of challenges in developing global communications programmes.

These challenges include:

- Whether the product is appropriate for a country
- Whether the market segment they address is both legal and customary
- If the style of the ad is acceptable
- Whether ads should be created at headquarters or locally

Companies that sell their products to different cultures or in different countries must be prepared to vary their messages.

Select the Communication Channels

Selecting efficient channels to carry the message becomes more difficult as channels of communication become more fragmented and cluttered. Communication channels may be personal and non-personal.

Personal Communication Channels

Personal communication channels involve two or more persons communicating directly face-to-face, person to audience, over the telephone, or through e-mail. Personal communication channels derive their effectiveness through individualized presentation and feedback.

Advocate channels consist of company salespeople contacting buyers in the target market.
Expert channels consist of independent experts making statements to target buyers.
Social channels consist of neighbors, friends, family members, and associates talking to target buyers. Personal influence carries especially great weight in two situations:

- With products that are expensive, risky, or purchased infrequently
- Where the product suggests something about the user's status or taste

Communication researchers are moving toward a social-structure view of interpersonal communication. They see society as consisting of *cliques,* small groups whose members interact frequently. A *liaison* is a person who connects two or more cliques without belonging to either. A *bridge* is a person who belongs to one clique and is linked to a person in another clique. Many companies are becoming acutely aware of the power of *word of mouth* or "*buzz*." In some cases, positive word of mouth happens in a natural way. "Buzz" is managed. Companies can take the following steps to stimulate personal influence channels to work on their behalf:

- Identify influential individuals and companies and devote extra effort to them
- Create opinion leaders by supplying certain people with the product on attractive terms
- Work through community influentials such as presidents of social, religious, and other organisations
- Use influential or believable people in testimonial advertising
- Develop advertising that has high "conversation value"
- Develop word-of-mouth referral channels to build business
- Establish an electronic forum
- Use viral marketing

Viral marketing involves passing on company-developed products, services, or information from user to user. Marketers must be careful in reaching out to consumers. Consumers can resent personal communications if unsolicited.

Non-Personal Communication Channels

Non-personal communication channels are communications directed to more than one person and includes media, sales promotions, events, and publicity. ***Media*** includes print, broadcast, network, electronic, and

display media. ***Sales promotions*** consist of consumer promotions, trade promotions, and business and sales-force promotion. ***Events and experiences*** include sports, arts, entertainment, and cause events. ***Public relations*** include communications directed internally or externally to consumers, other firms, media, and government.

Much of the recent growth of non-personal channels has been with events and experiences. A company can build its brand image through creating or sponsoring events. Companies are searching for better ways to quantify the benefits of sponsorship and are demanding greater accountability. Companies can create events designed to surprise the public and create a buzz. The increased use of attention-getting events is a response to the fragmentation of the media. The lasting effects of events on brand awareness, knowledge, or preference will depend upon the quality of the product, the event itself, and its execution.

Integration of Communication Channels

Although personal communication is often more effective than mass communication, mass media might be the major means of stimulating personal communication. Mass communications affect personal attitudes toward behaviour through a two-step process. Ideas flow from:

- Mass media to opinion leaders
- Opinion leaders to the less media-involved population groups

This two-step flow has several implications:

The influence of mass media on public opinion is not as direct, powerful, and automatic as supposed. It is mediated by opinion leaders. This two-step flow challenges the notion that consumption styles are primarily influenced by a "trickle-down" or "trickle up" effect from mass media. People interact primarily with their own social groups and acquire ideas from opinion leaders in their group. The two-step process suggests that mass communicators should direct messages specifically to opinion leaders and let them carry the message to others.

Establish the Total Marketing Communications Budget

One of the most difficult marketing decisions is determining how much to spend on promotion. Industries and companies vary considerably in how much they spend on promotion. Companies decide on the promotion budget in four common ways: the affordable method, percentage-of-sales method, competitive-parity method, and objective-and-task method.

Affordable Method

Many companies set the promotion budget at what they think the company can afford. This method completely ignores the role of promotion as an investment and the immediate impact on sales volume. It leads to an uncertain annual budget, and makes long-range planning difficult.

Percentage-of-Sales Method

Many companies set promotion expenditures at a specified percentage of sales (current or anticipated) or the sales price. Supporters of the percentage-of-sales method see a number of advantages. Promotion expenditures will vary with what the company can "afford." It encourages management to think of the relationship among promotion cost, selling price, and profit per unit. It encourages stability when competing firms spend approximately the same percentage of their sales on promotion. The percentage-of-sales method has little to justify it. It views sales as the determiner of promotion rather than as the result. It leads to a budget set by the availability of funds rather than by market opportunities. It discourages experimentation with countercyclical promotion or aggressive spending. Year-to-year sales fluctuations interfere with long-range planning.

There is no logical basis for choosing the specific percentage. It does not encourage building the promotion budget by determining what each product and territory deserves.

Competitive-Parity Method

Some companies set their promotion budget to achieve share-of-voice parity with competitors. Two arguments are made in support of the competitive-parity method. Competitors' expenditures represent the collective wisdom of the industry. Maintaining competitive parity prevents promotion wars. Neither argument is valid.

Objective-and-Task Method

The objective-and-task method calls upon marketers to develop promotion budgets by defining specific objectives, determining the tasks that must be performed to achieve these objectives, and estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget. The objective-and-task method has the advantage of requiring management to spell out its assumptions about the relationship among rands spent, exposure levels, trial rates, and regular usage. A major question is how much weight marketing communications should receive in relation to alternatives such as product improvement, lower prices, or better service. The answers depend on where the company's products are in their life cycles - Whether they are commodities or highly differentiable products or whether they are routinely needed or have to be "sold"

(Kotler and Keller, 2009:516-525).

DECIDING ON THE MARKETING COMMUNICATIONS MIX

Companies must allocate the marketing communications budget over the six major modes of communication—advertising, sales promotion, public relations and publicity, events and experiences, sales force, and direct marketing. Within the same industry, companies can differ considerably in their media and channel choices. Companies are always searching for ways to gain efficiency by replacing one promotional tool with others. The substitutability among promotional tools explains why marketing functions need to be coordinated.

Characteristics of the Marketing Communications Mix

Each communication tool has its own unique characteristics and costs.

Advertising

Advertising can be used to build up a long-term image for a product or trigger quick sales. Advertising can efficiently reach geographically dispersed buyers. Certain types of advertising require large budgets; others do not. Just the presence of advertising might have an effect on sales. Consumers might believe that the advertised brand must offer a "good value." Because of the many forms of advertising, it is difficult to make generalizations; however, the following qualities can be noted:

- Pervasiveness
- Amplified expressiveness
- Impersonality

Sales Promotion

Companies use sales-promotion tools to draw a stronger and quicker buyer response. Sales promotion can be used for short-run effects. Sales-promotion offers three distinct benefits:

- Communication
- Incentive
- Invitation

Public Relations and Publicity

Marketers tend to under-use public relations, yet a well-thought out programme coordinated with the other promotion-mix elements can be extremely effective.

Promotion Decision

Wholesalers rely primarily on their sales force to achieve promotional objectives. The appeal of public relations and publicity is based on three distinctive qualities:

- High credibility
- Ability to catch buyers off guard
- Dramatization

Events and Experiences

There are many advantages to events and experiences. They are relevant, involving and implicit.

Direct Marketing

The many forms of direct marketing—direct mail, telemarketing, and Internet marketing - share three distinctive characteristics. Direct marketing is:

- Customized
- Up-to-date
- Interactive

Personal Selling

Personal selling is the most effective tool at the later stages of the buying process, particularly in building up buyer preference, conviction, and action. Personal selling has three distinctive qualities:

- Personal interaction
- Cultivation
- Response

Factors in setting the marketing communications mix

Type of Product Market

Communication allocations vary between consumer and business markets. Consumer markets tend to spend comparatively more on sales promotion and advertising. Business marketers tend to spend comparatively more on personal selling. In general, personal selling is used more with:

- Complex, expensive and risky goods
- In markets with fewer and larger sellers

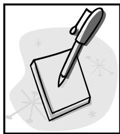
Advertising combined with personal selling can increase sales in the business market over what would have resulted if there had been no advertising. Corporate advertising can improve a company's reputation and improve the sales force's chance of getting a favourable first hearing and early adoption of the product.

Personal selling can also make a strong contribution in consumer goods marketing. An effectively trained company sales force can make the following four important contributions:

- Increased stock position
- Enthusiasm building
- Missionary selling
- Key account management

Buyer-Readiness Stage

Communication tools vary in cost-effectiveness at different stages of buyer readiness. Advertising and publicity play the most important roles in the awareness-building stage. Customer comprehension is primarily affected by advertising and personal selling. Customer conviction is influenced mostly by personal selling. Closing the sale is influenced mostly by personal selling and sales promotion. Reordering is also affected mostly by personal selling, sales promotion, and somewhat by advertising.



ACTIVITY 14.1

Describe how communication tools vary in cost-effectiveness at different stages of the product life cycle.

Response at the end of this Section

Measuring Communication Results

Senior managers want to know the outcomes and revenues resulting from their communications investments. Too often, communications directors supply only *outputs* and *expenses.* After implementing the communication plan, the communications director must measure its impact on the target audience.

The following questions posed to the target audience must be answered:

- Whether they recognise or recall the message
- How many times they saw it
- What points they recall
- How they felt about the message
- Previous and current attitudes toward the product and the company

The communications director should also collect behavioural measures of audience response (Kotler and Keller, 2009:526-531).

MANAGING THE INTEGRATED MARKETING COMMUNICATIONS PROCESS

As defined by the American Association of Advertising Agencies, integrated marketing communications (IMC) is a concept of marketing communications planning that recognises the added value of a comprehensive plan. Such a plan evaluates the strategic roles of a variety of communications disciplines such as general advertising, direct response, sales promotion, and public relations and combines these disciplines to provide clarity and consistency.

Coordinating Media

Media coordination can occur across and within media types. Personal and non-personal communication channels should be combined to achieve maximum impact. A ***single-vehicle, single-stage campaign*** is a one-time mailing offering a cookware item. A ***single-vehicle, multiple-stage campaign*** would involve successive mailings to the same prospect.

A more powerful approach is the *multiple-stage campaign*. Multiple media deployed within a tightly defined time frame can increase message reach and impact. Research has shown that promotions can be more effective when combined with advertising. Many companies are coordinating their online and off-line communication activities.

Implementing IMC

Integrated marketing communications has been slow to take hold for several reasons. Large companies employ several communications specialists to work with their brand managers who know comparatively little about the other communication tools. Many global companies use a large number of ad agencies located in differing countries and serving different divisions. Today a few larger agencies have substantially improved their integrated offerings through promotion agencies, public relations firms, package-design consultancies, web-site developers and direct mail houses. The result is integrated and more effective marketing communications and a much lower total communications cost. Integrated marketing communications can produce stronger message consistency and greater sales impact. It forces management to think about every way the customer:

- Comes in contact with the company
- How the company communicates its positioning
- The relative importance of each vehicle
- Timing issues

It gives someone the responsibility to unify the company's brand images and messages as they come through the thousands of company activities. IMC should improve the company's ability to reach the right customers with the right messages at the right time in the right place. IMC advocates describe it as a way of looking at the whole marketing process instead of focusing on individuals.

(Kotler and Keller, 2009:531-534).

DEVELOPING AND MANAGING AN ADVERTISING PROGRAMMEME

Kotler and Keller (2009:538) describe advertising as any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. Ads can be a cost-effective way to disseminate messages, whether to build a brand preference or to educate people. Organisations handle advertising in different ways. In small companies, advertising is handled by someone in the sales or marketing department. In larger firms, they set up their own department, whose manager reports to the vice president of marketing. The department's job is to:

- Propose a budget
- Develop strategy
- Approve ads and campaigns
- Handle direct-mail advertising
- Handle dealer displays
- Deal with other forms of advertising

Most companies use an outside agency to help create advertising campaigns and to select and purchase media. Today advertising agencies are redefining themselves as *communication companies* that assist clients to improve their overall communication effectiveness by offering strategic and practical advice on many forms of communication. In developing an advertising programme, marketing managers must always start by identifying the target market and buyer motives.

They then can make the five major decisions known as "the 5Ms":

- **M**ission: What are the advertising objectives?
- **M**oney: How much to spend?
- **M**essage: What message should be sent?
- **M**edia: What media should be used?
- **M**easurement: How should the results be evaluated?

Setting the Objectives

The advertising objectives must flow from prior decisions on target market, brand positioning, and the marketing programme. An ***advertising goal*** *(or objective)* is a specific communication task and achievement level to be accomplished with a specific audience in a specific period of time. Advertising objectives can be classified according to whether their aim is to i**nform, persuade, remind and reinforce.**

Types of Advertising

Information advertising aims to create brand awareness and knowledge of new products or new features of existing products.

Persuasive advertising aims to create liking, preference, conviction, and purchase of a product or service.

Reminder advertising aims to stimulate repeat purchase of products and services.

Reinforcement advertising aims to convince purchasers that they made the right choice. The advertising objective should emerge from a thorough analysis of the current marketing situation.

Deciding On the Advertising Budget

How does a company know if it is spending the right amount?

Although advertising is treated as a current expense, part of it really is an investment in building brand equity. The following are five specific factors to consider when setting the advertising budget:

- Stage in the product life cycle
- Market share and consumer base
- Competition and clutter
- Advertising frequency
- Product substitutability

Developing the Advertising Campaign

It is important to distinguish between the message strategy (what the ad attempts to convey about the brand) or positioning from the creative strategy (how the ad expresses the brand claim). A good ad normally focuses on *Creative brief* and the *Positioning statement.*

Creative Development and Execution

The ad's impact depends not only on what is said, but often more importantly, on how it is said. Message execution can be decisive. In preparing an ad campaign, the advertiser can prepare a *copy strategy statement* describing the:

- Objective
- Content
- Support
- Tone of the desired ad.

Every advertising medium has specific advantages and disadvantages.

Television Ads

Television is generally acknowledged as the most powerful advertising medium and reaches a broad spectrum of consumers. The wide reach translates to low cost per exposure. From a brand-building perspective, TV advertising has two particularly important strengths:

- It can be an effective means of vividly demonstrating product attributes and persuasively explaining their corresponding consumer benefits
- TV advertising can be a compelling means for dramatically portraying user and usage imagery, brand personality and other brand tangibles

Television advertising also has the following drawbacks:

- Because of the fleeting nature of the message and the potentially distracting creative elements, product-related messages and the brand itself can be overlooked
- The large number of ads and non-programmeming material creates clutter that makes it easy for consumers to ignore or forget ads
- TV advertising has high costs in production and placement

Properly designed and executed TV ads can improve brand equity and affect sales and profits. Even with the decline in audiences, a well-done TV commercial can still be a powerful marketing tool.

Print Ads

Print media offers a stark contrast to broadcast media. Print media can provide much detailed product information and can also effectively communicate user and usage imagery. However, the static nature of the visual images makes it difficult to provide dynamic presentations or demonstrations. It also can be a fairly passive medium. The two main print media-newspapers and magazines- have many of the same advantages and disadvantages. Newspapers are timely and pervasive. Magazines are more effective at building user and usage imagery. *Format* elements such as ad size, colour, and illustration affect a print ad's impact.

Radio Ads

Radio is a pervasive medium. Radio's main advantage is flexibility in that stations are targeted since ads are relatively inexpensive to produce and place; the short closing also allows for quick response. Radio is particularly effective in the morning. It allows a company to achieve a balance between broad and localized market coverage. The obvious disadvantages of radio are the lack of visual images and relatively passive nature of the consumer processing that results.

Social Responsibility Review

Advertisers and their agencies must be sure advertising does not overstep social and legal norms. Public policy makers have developed a substantial body of laws and regulations to govern advertising. Advertisers must be careful not to offend the general public as well as any ethnic groups, racial minorities, or special-interest groups

(Kotler and Keller, 2009:538-545).

DECIDING ON MEDIA AND MEASURING EFFECTIVENESS

After choosing the message, the advertiser's next task is to choose media to carry it. The steps here are deciding on desired reach, frequency, and impact; choosing among major media types; selecting specific media vehicles; deciding on media timing; and deciding on geographical media allocation. Then the results of these decisions need to be evaluated.

Deciding On Reach, Frequency, and Impact

Media selection is finding the most cost-effective media to deliver the desired number and type of exposures to the target audience. By that, the advertiser is seeking a specified advertising objective and response from the target audience. The next task is to find out how many exposures will produce a level of audience awareness. The effect of exposures on audience awareness depends on the exposures reach, frequency and impact. There are important trade-offs among reach, frequency, and impact namely: budget rands.

Many advertisers believe a target audience needs a large number of exposures for the advertising to work. Others doubt the value of high frequency. Another factor arguing for repetition is that of forgetting. The higher the forgetting rate associated with a brand, the higher the warranted level of repetition. Ads wear out and viewers tune them out so repetition is not enough. Advertisers should insist on fresh ads.

Choosing Among Major Media Types

The media planner has to know the capacity of the major advertising media types to deliver reach, frequency, and impact. Media planners make their choices by considering the following variables:

- Target audiences' media habits
- Product characteristics
- Message characteristics
- Costs

Given the abundance of media, the planner must first decide how to allocate the budget to the major media types. The distribution must be planned with the awareness that people are increasingly time-starved. Attention is becoming a scarce currency, and advertisers need strong devices to capture people's attention.

Marketers must also recognise that consumer response can be S-shaped: An ad threshold effect exists where some positive amount of advertising is necessary before any sales impact can be detected, but sales increases eventually flatten out.

Alternative Advertising Options

Many marketers are looking for alternative advertising media such as the following :

Place Advertising

Place advertising, also called out-of-home advertising, is a broadly defined category that captures many different alternative advertising forms. Marketers are using creative and unexpected ad placement to grab consumer's attention. The rationale is that marketers are better off reaching people in other environments, such as where they work, play or shop. Some of the options available include:

- Billboards
- Public places
- Product placement
- Point-of-purchase

Billboards

Billboards now use colourful, digitally produced graphics, backlighting, sounds, movement, and even three-dimensional images. Billboards do not have to be fixed. Marketers can buy space on billboard-laden trucks.

Public Spaces

Advertisers are placing traditional TV and print ads in unconventional places such as movies, airlines, lounges, classrooms, sports arenas, hotel elevators and other public places.
Advertisers can buy space in stadiums, on garbage cans, bicycle racks and other places.

Product Placement

Product placement has expanded from movies to all types of TV shows. Product placements can be combined with special promotions to publicize entertainment tie-ins. Some firms get product placement at no cost by supplying their product to the movie company. Marketers are finding other inventive ways to advertise during actual television broadcasts. Virtual logos networks add digitally to the playing field. Ads also appear in best-selling paperback books and movie videotapes. ***Advertorials*** are print ads that offer editorial content that reflects favourably on the brand and is difficult to distinguish from newspaper or magazine content.

Point-of-Purchase

There are many ways to communicate with consumers at the point-of-purchase (POP). In-store advertising includes ads on shopping carts, cart straps, aisles and shelves. The appeal of point-of-purchasing advertising lies in the fact that numerous studies show that in many product categories, consumers make the bulk of their final brand decisions in the store. One study suggested that 70 percent of all buying decisions are made in the store. In-store advertising is designed to increase the number of spontaneous buying decisions.

Evaluating Alternative Media

The main advantage of non-traditional media is that a very precise and captive audience often can be reached in a cost-effective manner. The challenge with non-traditional media is demonstrating its reach and effectiveness through credible, independent research. These new marketing strategies must be judged on how they contribute, directly or indirectly, to brand equity. There has been some consumer backlash when people see ads in traditionally ad-free spaces. Perhaps because of the sheer pervasiveness of advertising, consumers seem to be less bothered by non-traditional media now than in the past.

Selecting Specific Vehicles

The media planner must search for the most cost-effective vehicles within each chosen media type. In making choices, the planner has to rely on measurement services that provide estimates of audience size, composition, and media cost. Audience size has several possible measures:

- Circulation
- Audience
- Effective audience
- Effective ad-exposed audience

For example, when the media planner calculates the cost per thousand persons reached by a vehicle, several adjustments have to be applied to the cost-per-thousand measure:

- The measure should be adjusted for *audience quality*
- The exposure value should be adjusted for the *audience-attention probability*
- The exposed value should be adjusted for the magazine's *editorial quality* (prestige and believability)
- The exposure value should be adjusted for the magazine's *ad placement policies and extra services*

Media planners are increasingly using more sophisticated measures of effectiveness and employing them in mathematical models to arrive at the best media mix.

Deciding On Media Timing and Allocation

In choosing media, the advertiser faces both a macro-scheduling and a micro-scheduling problem. The ***macro-scheduling problem*** involves scheduling the advertising in relation to seasons and the business cycle. The ***micro-scheduling problem*** calls for allocating advertising expenditures within a short period to obtain maximum impact.

The most effective pattern depends on the communication objectives in relation to the:

- Product
- Target customers
- Distribution channels
- Other marketing factors

The timing pattern should also consider three factors:

Buyer turnover: the higher this rate, the more continuous the advertising should be.

Purchase frequency: the higher the purchase frequency, the more continuous the advertising should be.

Forgetting rate: the higher the forgetting rate, the more continuous the advertising should be. In launching a new product, the advertiser has to choose among:

- Continuity
- Concentration
- Flighting
- Pulsing

A company has to decide how to allocate its advertising budget over space as well as over time: ***Areas of dominant influence (ADIs) and Designated marketing areas (DMAs).***

Evaluating Advertising Effectiveness

Good planning and control of advertising depend on measures of advertising effectiveness. Most advertisers try to measure the communication effect of an ad— that is, the potential effect on awareness, knowledge, or preference. They would also like to measure the ad's sales effect.

Communication-Effect Research

Communication-effect research seeks to determine whether an ad is communicating effectively. Called copy testing, it can be done before an ad is put into media and after it is printed or broadcast.

There are three major methods of pre-testing:

The ***consumer feedback method*** asks consumers for their reactions to a proposed ad.

Portfolio tests ask consumers to view or listen to a portfolio of advertisements, then consumers are asked to recall all the ads and their contents.

Laboratory tests use equipment to measure physiological reactions to an ad.

Many advertisers use post tests to assess the overall impact of a completed campaign.

Sales-Effect Research

Advertising's sales effect is generally harder to measure than its communication effect. Sales are influenced by some of the following factors:

- Features
- Price
- Availability
- Competitors' actions

The sales impact is easiest to measure in direct-marketing situations and harder to measure in brand or corporate image-building campaigns. Companies are generally interested in finding out whether they are overspending or under spending on advertising. A company's share of advertising expenditures produces a share of voice, earns a share of consumers' minds and hearts or ultimately a share of market. Researchers try to measure the sales impact through analysing historical or experimental data. The historical approach involves correlating past sales to past advertising expenditures. Other researchers use an experimental design to measure advertising's sales impact.

(Kotler and Keller, 2009:545-554).

SALES PROMOTION

Sales promotion, a key ingredient in marketing campaigns, consists of a collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade.

Where advertising offers a *reason* to buy, sales promotion offers an *incentive* to buy.

Sales promotions includes tools for:

- Consumer promotion
- Trade promotion
- Business and sales-force promotion

Objectives

Sales promotions tools vary in their specific objectives:

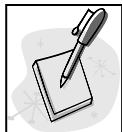
Sellers use incentive-type promotions to:

- Attract new users
- Reward loyal customers
- Increase the repurchase rates of occasional users

Sales promotions are often used to attract brand switchers. Sales promotions used in markets of high brand similarity can produce a high sales response in the short run. In markets of high brand dissimilarity, sales promotions may be able to alter market shares permanently. In addition to brand switching, consumers may engage in stockpiling during sales promotions. A number of sales-promotion benefits flow to manufacturers and consumers. Sales promotions enable manufacturers to adjust short-term variations in supply and demand.

Advertising Versus Promotion

A decade ago, the advertising-to-sales promotion ratio was about 60:40. Today, in many consumer packaged-goods companies, sales promotions accounts for 75 percent of the combined budget. Sales-promotion expenditures have been increasing as a percentage of budget expenditure annually for the last two decades.



ACTIVITY 14.2

Identify factors that have contributed to the rapid growth of sales promotion.

Response at the end of this Section

Advertising efficiency has declined because of rising costs, media clutter, and legal restraints. The question of whether or not sales promotion weakens brand loyalty is subject to interpretation. Sales promotions may devalue the product offering in the buyer's mind. Certain types of sales promotions can actually enhance brand image (added-value promotions). There is a risk in putting a well-known brand on promotion over 30 percent of the time. Dominant brands offer deals less frequently, because most deals subsidize only current users.

Sales promotions yield faster and more measurable responses in sales than advertising, but do not tend to yield new, long-term buyers in mature markets. Loyal brand buyers tend not to change their buying patterns as a result of competitive promotion. Advertising appears to be more effective at deepening brand loyalty. There is also evidence that price promotions do not build permanent total-category volume. Small-share competitors find it advantageous to use sales promotions because:

- They cannot match the market leaders large advertising budgets
- They cannot obtain shelf space without offering trade allowance
- They cannot stimulate consumer trial without offering incentives

Major Decisions

In using sales promotions, a company must establish its objectives, select the tools, develop the programme, pretest the programme, implement and control it, and evaluate the results.

Establishing Objectives

Sales promotion objectives are derived from broader promotion objectives that are derived from more basic marketing objectives developed for the product. For consumers, objectives may include:

- Encouraging purchase of larger-sized units
- Building trial among nonusers
- Attracting switchers away from competitors' brands

Ideally, promotions with consumers would have short-run sales impact as well as long-run brand equity effects. For retailers, objectives include persuading retailers to:

- Carry new items
- Have higher levels of inventory
- Encourage off-season buying
- Encourage stocking of related items
- Offset competitive promotions
- Build brand loyalty
- Gain entry into new retail outlets

For the sales force, objectives include:

- Encouraging support of a new product or model
- Encouraging more prospecting
- Stimulating off-season sales

Selecting Consumer-Promotion Tools

The promotion planner should take into account the type of market, sales-promotion objectives, competitive conditions, and each tool's cost-effectiveness. We can distinguish between manufacturers' promotions and retailer promotions. Manufacturers promotions are illustrated by uses of rebates and gifts. Retailer promotions include price cuts, feature advertising, coupons, contests, or premiums. We can also distinguish between sales-promotion tools that are consumer-franchise building and reinforce the consumer's brand preference and those that do not. Consumer franchise-building promotions offer the best of both worlds - they build brand equity while moving product. Sales promotion is usually most effective when used together with advertising.

Selecting Trade-Promotion Tools

Manufacturers use a number of trade-promotion tools, a higher proportion of the promotion pie is devoted to trade-promotion tools than to consumer promotion.

Manufacturers award money to the trade:

- To persuade the retailer or wholesaler to carry the brand
- To persuade the retailer or wholesaler to carry more units than the normal amount
- To induce retailers to promote the brand by featuring, displaying, and reducing prices.
- To stimulate retailers and their sales clerks to push the product

The growing power of large retailers has increased their ability to demand trade promotions at the expense of consumer promotion and advertising. Manufacturers face several challenges in managing trade promotions:

- They often find it difficult to police retailers. Manufacturers are increasingly insisting on proof of performance before paying allowance
- More retailers are doing *forward buying* **-** buying a greater quantity during the deal period than they can sell during the deal period
- Retailers are doing more diverting. Manufacturers are trying to handle forward buying and diverting by limiting the amount that they will sell at a discount.

Selecting Business-and Sales-Force-Promotion Tools

Companies spend billions of rands on business-and-sales force promotion tools. These tools are used to gather business leads, impress and reward customers, and motivate the sales force to greater effort.

Developing the Programme

In planning sales-promotion programmes, marketers are increasingly blending several media into a total campaign concept. In deciding to use a particular incentive, marketers have several factors to consider:

- The size of the incentive
- The conditions for participation
- The duration of the promotion
- The distribution vehicle
- The timing of the promotion
- The total sales-promotion budget

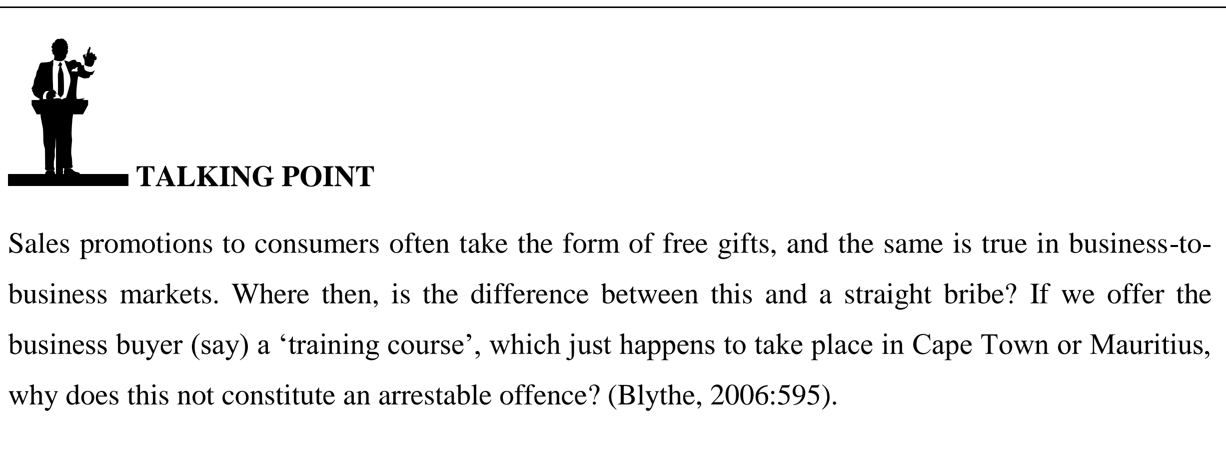
Pre-testing, Implementing, Controlling, and Evaluating the Programme

Pretests can determine if the tools are appropriate, the incentive size optimal, and the presentation method efficient. Most sales-promotion programmes are designed on the basis of experience. Marketing managers must prepare implementation and control plans for each individual promotion that cover lead-time and sell-in time.

Lead-time is the time necessary to prepare the programme prior to launching it.

Sell-in time begins with the promotional launch and ends when the merchandise is in the hands of consumers. Manufacturers can evaluate the programme using sales data, consumer survey and experiments. In general, sales promotions work best when they attract competitors' customers who switch offerings.

(Kotler and Keller, 2009:554-560).



TALKING POINT

Sales promotions to consumers often take the form of free gifts, and the same is true in business-to-business markets. Where then, is the difference between this and a straight bribe? If we offer the business buyer (say) a 'training course', which just happens to take place in Cape Town or Mauritius, why does this not constitute an arrestable offence? (Blythe, 2006:595).

EVENTS AND EXPERIENCES

According to the IEG Sponsorship report, $11.4 billion will be spent in North America in 2004 on sponsorships of events. By becoming part of a special and more personally relevant moment in consumers' lives, involvement with events can broaden and deepen the relationship in consumers' lives. Daily encounters with brands may also affect consumers' brand attitudes and beliefs. ***Atmospheres*** are "packaged environments" that create or reinforce leaning toward product purchase.

More firms are creating on-site or off-site product and brand experiences.

Events Objectives

Marketers sponsor events for some of the following reasons:

- To identify with a particular target market or life style
- To increase awareness of company or product name
- To create or reinforce consumer perceptions of key brand image associations
- To enhance corporate image dimensions
- To create experiences and evoke feelings
- To express commitment to the community or on social issues
- To entertain key clients or reward key employees
- To permit merchandising or promotional opportunities

Despite these potential advantages, there are a number of potential disadvantages to sponsorships. The success of the event can be unpredictable and out of the control of the sponsor and some consumers may still resent the commercialisation of events.

Major Decisions

Developing successful sponsored events involves choosing the appropriate events, designing the optimal sponsorship programme for the event, and measuring the effects of sponsorship.

Choosing Event Opportunities

Because of the huge amount of money involved and the number of events, many marketers are becoming more strategic about which events they will get involved in and the manner in which they will do so. The marketing objectives and communication strategy that have been defined for the brand must be met by the event.

The audience delivered by the event must match the target market of the brand. The event must have sufficient awareness. An "ideal" event might be one:

- Whose audience closely matches the desired target market
- That generates much favourable attention
- That is unique but not encumbered with many sponsors
- That lends itself to ancillary marketing activities
- That reflects or enhances the brand or corporate image of the sponsor

More and more firms are also using their names to sponsor the arenas, stadiums, and other venues that actually hold the event.

Designing Sponsorship Programmes

Many marketers believe that it is the marketing programme accompanying an event sponsorship that ultimately determines its success. At least 2 to 3 times the amount of the sponsorship expenditure should be spent on related marketing activities. ***Event creation*** is a particularly important skill in publicizing fund-raising drives for non-profit organisations.

Measuring Sponsorship Activities

As with public relations, measurement of events is difficult. There are two basic approaches to measuring the effects of sponsorship activities:

- ***Supply-side method*** focuses on potential exposure to the brand by assessing the extent of media coverage
- ***Demand-side method*** focuses on reported exposure from consumers

Supply-side methods attempt to approximate the amount of time or space devoted to media coverage of an event. This measure of potential "impressions" is then translated into an equivalent "value" in advertising rands according to the fees associated in actually advertising in the particular media vehicle. This method's validity can be questioned. In equating media coverage with advertising exposure the content of the respective communications consumers receive is ignored. Advertisers use media space and time to communicate a strategically designed message: Media coverage and telecasts only expose the brand and do not necessarily embellish its meaning in any direct way. The demand-side method attempts to identify the effects sponsorship has on consumers' brand knowledge. Tracking or customized surveys can explore the ability of the event sponsors want to affect by awareness, attitudes and sales.

(Kotler and Keller, 2009:560-563).

PUBLIC RELATIONS

Not only must the company relate constructively to customers, suppliers, and dealers, it must also relate to a large number of interested publics.

A ***public*** is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives. ***Public relations (PR)*** involves a variety of programmes designed to promote or protect a company's image to its individual products. The wise company takes concrete steps to manage successful relations with its key publics. Most companies have a public-relations department that monitors the attitudes of the organisations' publics and distributes information and communications to build goodwill.

PR departments perform the following five functions:

- Press relations
- Product publicity
- Corporate communications
- Lobbying
- Counseling

Marketing Public Relations

Many companies are turning to marketing public relations (MPR) to support corporate or product promotion and image making. The old name for MPR was ***publicity*** that was seen as the task of securing editorial space to promote or "hype" a product, service, idea, etc. MPR goes beyond simple publicity and plays an important role in the following tasks:

- Assisting in the launch of new products
- Assisting in repositioning a mature product
- Building interest in a product category
- Influencing specific target groups
- Defending products that have encountered public problems
- Building the corporate image in a way that reflects favourably on its products

As the power of mass advertising weakens, marketing managers are turning to MPR to build awareness and brand knowledge for both new and established products. MPR is also effective in blanketing local communities and reaching specific groups. MPR must be planned jointly with advertising. Creative public relations can affect public awareness at a fraction of the cost of advertising. Some experts say that consumers are five times more likely to be influenced by editorial copy than by advertising.

Major Decisions in Marketing PR

In considering when and how to use MPR, management must establish the marketing objectives, choose the PR messages and vehicles, implement the plan carefully, and evaluate the results.

Establishing Objectives

MPR can:

- Build *awareness* by placing stores in the media to bring attention to a product, service, person, organisation, or idea
- It can build *credibility* by communicating the message in an editorial context
- It can help boost sales-force and dealer enthusiasm with stores about a new product before it is launched
- It can hold down *promotion costs* because MPR costs less than direct mail and media advertising

Choosing Message and Vehicles

The MPR manager must identify or develop interesting stories about the product. Each event is an opportunity to develop a multitude of stories directed at different audiences. The best MPR practitioners are able to find or create stories even for mundane or out-of-fashion products.

Implementing the Plan and Evaluating Results

MPRs contribution to the bottom line is difficult to measure, because it is used along with other promotional tools. The three most commonly used measures of MPR effectiveness are:

- Number of exposures
- Awareness, comprehension, or attitude change
- Contribution to sales and profits

(Kotler and Keller, 2009:563-569).

DIRECT MARKETING

Direct marketing, according to Kotler and Keller (2009:572), is the use of consumer-direct (CD) channels to reach and deliver goods and services to customers without using marketing middlemen. These channels include:

- Direct mail
- Catalogues
- Telemarketing
- Interactive TV
- Kiosks
- Websites
- Mobile devices

Direct marketers seek a measurable response, typically a customer order. This is sometimes called ***direct-order marketing***. Today, many direct marketers use direct marketing to build a long-term relationship with the customer. Direct marketing is one of the fastest growing avenues for serving customers. More and more businesses have turned to direct mail and telemarketing in response to the high and increasing costs of reaching business markets through a sales force. Companies are seeking to substitute mail- and phone-based selling units to reduce field sales expenses.

The Benefits of Direct Marketing

The extraordinary growth of direct marketing is the result of many factors. ***Market de-massification*** has resulted in an ever-increasing number of market niches. Societal changes and difficulties are encouraging at-home shopping. Direct marketing benefits customers in many ways:

- Home shopping can be fun, convenient, and hassle-free
- Saves time
- Introduces consumers to a larger selection of merchandise
- There is ease of comparative shopping
- Consumers can order goods for themselves and others
- Business customers can benefit by learning about available products and services

Sellers benefit as well. Direct marketers can:

- buy a mailing list containing the names of almost any group such as left handed people, overweight people, millionaires, etc
- customize and personalize messages
- build a continuous relationship with each customer.
- measure responses to their campaigns to decide which one has been more profitable.
- can use a number of channels to reach individual prospects and customers:
    - Direct mail
    - Catalogue marketing
    - Telemarketing
    - TV and other direct-response media
    - Kiosk marketing
    - E-marketing .

Direct marketing:

- can be timed to reach prospects at the right moment and can receive higher readership because it is sent to more interested prospects.
- permits the testing of alternative media and messages in a cost-effective approach.

Every *brand contact* delivers an impression that can strengthen or weaken a customer's view of the company.

Direct Mail

Direct-mail marketing involves sending an offer, announcement, reminder, or other item to a person. Direct marketing is a popular medium because it:

- Permits target market selectivity
- Can be personalized
- Is flexible
- Allows for early testing and response measurement

Direct mail marketing has passed through a number of stages:

- Carpet bombing
- Database marketing
- Interactive marketing
- Real-time personalized marketing
- Lifetime value marketing

In constructing an effective direct-mail campaign, direct marketers must decide on their:

- Objectives
- Target market
- Prospects
- Offer elements
- Means of testing the campaign
- Measures of campaign success

Objectives

Most direct marketers aim to receive an order from prospects. A campaign's success is judged by the response rate. An order-response rate of 2 percent is normally considered good, although this number varies with product category and price. Direct mail can achieve other communication objectives as well:

- Producing prospect leads
- Strengthening customer relationships
- Informing and educating customers
- Reminding customers of offers
- Reinforcing recent customer purchase decisions

Testing Elements

One of the great advantages of direct marketing is the ability to test, under real marketplace conditions, different elements of an offer strategy, such as products, product features, copy platform, mailer type, envelope, prices, or mailing lists. Direct marketers must remember that response rates typically understate a campaign's long-term impact. To derive a more comprehensive estimate of the promotion's impact, some companies are measuring direct marketing's impact on:

- Awareness
- Intention to buy
- Word of mouth

Measuring Campaign Success: Lifetime Value

By adding up the planned campaign costs, the direct marketer can figure out in advance the needed break-even response rate. By carefully analysing past campaigns, direct marketers can steadily improve performance. Even when a specific campaign fails to break-even in the short-run, it can still be profitable in the long run if customer lifetime is factored in.

Catalogue Marketing

In catalogue marketing, companies may send full-line merchandise catalogues, specialty consumer catalogues, and business catalogues. Catalogues are huge business - 71 percent of Americans shop from home using catalogues, by phone, mail, or the Internet. The success of a catalogue business depends on the company's ability to manage its:

- Customer lists
- Control inventory
- Quality merchandise so returns are low
- Projection of a distinctive image

Global consumers in Asia and Europe are catching onto the catalogue craze. Business marketers are making inroads to global consumers as well.

Telemarketing

Telemarketing is the use of the telephone and call centres to attract prospects, sell to ***existing customers, and provide service by taking orders and answering questions.*** Telemarketing helps companies increase revenue, reduce selling costs, and improve customer satisfaction. Companies use calls centres for:

- Inbound telemarketing
- Outbound telemarketing

Companies carry out four types of telemarketing:

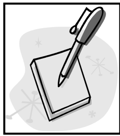
- Telesales
- Telecoverage
- Teleprospecting
- Customer service and technical support

(Kotler and Keller, 2009:572-578).

INTERACTIVE MARKETING

The newest channels for direct marketers are electronic. The Internet provides marketers and consumers with opportunities for much greater interaction and individualization. Today companies can send individualized content and consumers themselves can further individualize the content. Companies can interact and dialogue with much larger groups than in the past. The exchange process has become increasingly customer-initiated and customer-controlled where customers:

- Define the rules of engagement
- Define what information they need
- Indicate what offering they are interested in
- Indicate what price they are willing to pay



ACTIVITY 14.3

Discuss the benefits of Interactive Marketing.

Response at the end of this Section

Designing An Attractive Web Site

Clearly all companies need to consider and evaluate e-marketing and e-purchasing opportunities. A key challenge is designing a site that is attractive on first viewing and interesting enough to encourage repeat visits. Rayport and Jaworski have proposed that effective Websites feature seven design elements that they call the 7Cs:

- Context
- Content
- Community
- Customization
- Communication
- Connection
- Commerce

To encourage repeat visit, companies need to pay special attention to context and content factors and embrace another "C" - constant change. Visitors will judge a site's performance on its ease of use and its physical attractiveness. Ease of use breaks down into three attributes:

- The Website downloads quickly
- The first page is easy to understand
- The visitor finds it easy to navigate to other pages that open quickly

Physical attractiveness is determined by the following factors:

- The individual pages are clean looking and not overly crammed with content
- The typefaces and font sizes are very readable
- The site makes good use of colour (and sound)

Placing Ads and Promotion Online

A company has to decide which forms of Internet advertising will be most cost-effective in achieving advertising objectives.

Banner ads are small rectangular boxes containing text and perhaps a picture. Companies pay to place banner ads on relevant Websites. Sponsorships are best placed in well-targeted sites where they can offer relevant information or service. A microsite is a limited area on the Web, managed and paid for by an external advertiser/company. Interstitials are advertisements that pop up between changes on a Web site. The hottest growth area has been search-related ads. A newer trend, content-target advertising links ads not keywords to the content of Web pages. Companies can set up alliances and affiliate programmes (when one Internet company works with another one, they end up advertising each other). Web advertising is showing double-digit growth.

E-Marketing Guidelines

If a company does an e-mail campaign right, not only can it build customer relationships, but also reap additional profits. The following are some guidelines followed by pioneering e-mail marketers:

- Give the customer a reason to respond
- Personalize the content of your e-mails
- Offer something the customer could not get via direct mail
- Make it easy for customers to "unsubscribe."

Direct marketing must be integrated with other communications

(Kotler and Keller, 2009:578-591).

DESIGNING THE SALES FORCE

The original and oldest form of direct marketing is the field sales call. Today most industrial companies rely heavily on a professional sales force to:

- Locate prospects
- Develop them into customers
- Grow the business

U.S. firms spend over a trillion rands annually on sales forces and sales-force materials—more than they spend on any other promotional method. Nearly 12 percent of the total workforce work full time in sales occupations. No one debates the importance of the sales force in marketing programmes. However, companies are sensitive to the high and rising costs of maintaining a sales force. The term *sales representative* covers a broad range of positions. Six can be distinguished, ranging from the least to the most creative types of selling:

- Deliverer
- Order taker
- Missionary
- Technician
- Demand creator
- Solution vendor

Sales personnel serve as the company's personal link to the customers. The sales representative is the company to many of its customers. The sales representative brings back much needed information about the customer. Therefore, the company needs to carefully consider issues in sales force design, namely:

- Development of sales force objectives
- Strategy
- Structure
- Size
- Compensation

Sales-Force Objectives and Strategy

The days when all the sales force would do was "sell, sell, sell" are long gone. Today, sales reps need to know how to diagnose a customer's problem and propose a solution. Salespeople show a customer-prospect how their company can help a customer improve profitability.

Companies need to define the specific objectives they want their sales force to achieve.

The specific allocation scheme depends on the kind of products and customers, but regardless salespeople will have one or more of the following specific tasks to perform:

- Prospecting
- Targeting
- Communicating
- Selling
- Servicing
- Information gathering
- Allocating

Because of the expense, most companies are moving to the concept of a ***leveraged sales force***. A *leveraged sales force* is where the sales force focuses on selling the company's more complex and customized products to large accounts. Low-end selling is done by inside salespeople and Web ordering. Tasks such as lead generation, proposal writing, order fulfillment, and post-sale support are turned over to others. As a result, salespeople handle fewer accounts, but are awarded for key account growth. Today's sales representatives act as "account manager" who arrange fruitful contacts between various people in the buying and selling organisations. Selling increasingly calls for teamwork requiring the support of other personnel such as top management, technical people, customer service representatives and office staff. To maintain a market focus, salespeople should know how to:

- Analyze sales data
- Measure market potential
- Gather market intelligence
- Develop marketing strategies and plans

Once the company decides on an approach, it can use a direct or a contractual sales force. A ***direct (company) sales force*** consists of full- or part-time paid employees who work exclusively for the company. A ***contractual sales force*** consists of manufacturers' reps, sales agents, and brokers who are paid a commission based on sales.

Sales-Force Structure

The sales-force strategy has implications for the sales-force structure. Established companies need to revise their sales-force structure as market and economic conditions change.

Sales-Force Size

Sales representatives are one of the company's most productive and expensive assets. Increasing their number will increase both sales and costs. Once the company establishes the number of customers it wants to reach, it can use a ***workload approach*** to establish sales-force size.

Sales-Force Compensation

To attract top-quality sales reps, the company has to develop an attractive compensation package. Kotler and Keller (2006:619), suggest that a company must use the following four components in determining sales-force compensation:

- The ***fixed amount***
- The ***variable amount***
- ***Expense allowances***
- ***Benefits***

Fixed compensation receives more emphasis in jobs with a high ratio of non-selling to selling duties and in jobs where the selling task is technically complex and involves teamwork. Variable compensation receives more emphasis in jobs where sales are cyclical or depend on individual initiative. Fixed and variable compensation give rise to three basis types of compensation plans:

- ***Straight salary***
- ***Straight commission***
- ***Combination salary and commission***

Some companies see a new trend toward de-emphasising volume measures in favours of factors such as profitability, customer satisfaction, and customer retention. Other companies are basing the rep's reward partly on a sales team's performance or even company wide performance.

Managing the Sales Force

Once the company has established objectives, strategy, structure, size and compensation, it has to recruit, select, train, supervise, motivate, and evaluate sales representatives.

Recruiting and Selecting Representatives

At the heart of a successful sales force is the selection of effective representatives. One survey revealed that the top 27 percent of the sales force brought in over 52 percent of the sales. Selecting sales reps would be simple if one knew what traits to look for. One good starting point is to ask customers what traits they prefer. Finding what traits will actually lead to sales success is challenging. Numerous studies have shown little relationship between sales performance and background and experience variables. Once management develops its selection criteria it must then recruit.

Training and Supervising Sales Representatives

Today's customers expect salespeople to have deep product knowledge, to add ideas to improve the customer's operations, and to be efficient and reliable. Companies use sales-promotion tools to draw a stronger and quicker buyer response. These demands have required companies to make a much higher

investment in sales training. New reps may spend a few weeks to several months in training. Training time varies with the complexity of the selling task and the type of person recruited into the sales organisation. New methods of training are continually emerging. Companies vary in how closely they supervise sales reps.

Sales Rep Productivity

Some research has suggested that today's sales reps are spending too much time selling to smaller, less profitable accounts when they should be focusing more of their efforts on selling to larger, more profitable accounts.

Norms for Prospect Calls

Companies often specify how much time reps should spend prospecting for new accounts. Companies set up prospecting standards for a number of reasons. Left to their own devices, many reps will spend most of their time with current customers. Some companies rely on a missionary sales force to open new accounts.

The appeal of public relations and publicity is based on the following three distinctive qualities:

(1) Using Sales Time Efficiently

Studies have shown that the best sales reps are those who manage their time effectively. One planning tool is *time-and-duty analysis*. Companies are constantly seeking ways to improve sales-force productivity. To cut costs, reduce time demands on their outside sales force, and take advantage of computer and telecommunications innovations, many companies have increased the size and responsibilities of their inside sales force. Inside salespeople are of three types:

- Technical support people
- Sales assistants
- Telemarketers

The inside sales force frees the outside reps to spend more time:

- Selling to major accounts
- Identifying and converting new major prospects
- Placing electronic ordering systems in customers' facilities
- Obtaining more blanket orders and systems contracts

(2) Motivating Sales Representatives

The majority of sales representatives require encouragement and special incentives. Most marketers believe that the higher the salesperson's motivation, the greater the effort and the resulting performance, rewards, and satisfaction, and thus further motivation. Such thinking is based on several assumptions. Sales managers

must be able to convince salespeople that they can sell more by working harder or by being trained to work smarter.

Sales managers must be able to convince salespeople that the rewards for better performance are worth the extra effort. To increase motivation, marketers reinforce intrinsic and extrinsic rewards of all types.

(3) Evaluating Sales Representatives

We have been describing the feed-forward aspects of sales supervision - how management communicates what the sales reps should be doing and motivates them to do it, but good feed-forward requires good feedback, which means getting regular information from reps to evaluate performance.

(Kotler and Keller, 2009:591-601).

PRINCIPLES OF PERSONAL SELLING

Effective salespersons have more than instinct; they are trained in methods of analysis and customer management. Today's companies spend hundreds of millions of rands each year to train salespeople in the art of selling. Sales-training approaches try to convert a salesperson from a passive order taker into an active order getter who engages in customer problem solving. Most sales-training programmes agree on the major steps involved in any effective sales process:

The Six Steps

Step 1: Prospecting and Qualifying

The first step in selling is to identify and qualify prospects.

More companies are taking responsibility for finding and qualifying leads.

Leads can be categorized, with "hot" prospects turned over to the field sales force.

Step 2: Pre-approach

The salesperson needs to learn as much as possible about the prospect company. The salesperson should set call objectives.

Step 3: Presentation and Demonstration

The salesperson now tells the product "story" to the buyer, following the AIDA formula:

Gaining *attention.*

Holding *interest.*

Arousing *desire.*

Obtaining *action*

Step 4: Overcoming Objections

Customers typically pose objections during the presentation or when asked for the order.

To handle these objections, the salesperson maintains a positive approach, asks the buyer to clarify the objection, questions the buyer in a way that the buyer has to answer his or her own objection, denies the validity of the objections and turns the objection into a reason for buying. One potential problem is for salespeople to give in too often when customers demand a discount. "Sell the price" rather than "sell through price."

Step 5: Closing

Salespeople need to know how to recognise closing signs from the buyer.

Step 6: Follow-Up and Maintenance

Follow-up and maintenance are necessary if the salesperson wants to ensure customer satisfaction and repeat business. Immediately after the closing, the salesperson should cement any details on delivery time, purchase terms, and other matters important to the customer.

Negotiation

Marketing is concerned with exchange activities and the manner in which the terms of the exchange are established. In routine exchanges, the terms are established by administered programmes of pricing and distribution. In negotiated exchange, price and other terms are set via bargaining behaviour. Although price is the most frequently negotiated issue, other issues include:

- Contract completion time
- Quality of goods and services
- Purchase volume
- Responsibility for financing
- Risk taking
- Promotion
- Title
- Product safety

Marketers who find themselves in bargaining situations need certain traits and skills to be effective.

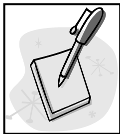
Relationship Marketing

The principles of personal selling and negotiation described above are largely transaction-orientated, but in many cases the company is not seeking an immediate sale, but rather to build up long-term supplier-customer relationship. Today's customers are large and often global.

They prefer suppliers who can:

- Sell and deliver a coordinated set of products and services to many locations
- Quickly solve problems that arise in different locations
- Work closely with customer teams to improve products and processes

Salespeople working with key customers must do more than call when they think the customers might be ready to place orders.



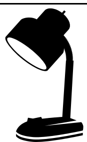
ACTIVITY 14.4

Describe other activities salespeople must engage in when working with key customers that are ready to place orders.

Response at the end of this Section

When a relationship management programme is properly implemented, the organisation will begin to focus on managing its customers as it does on managing its products. Ultimately, companies must judge which segments and which specific accounts will respond to relationship management.

(Kotler and Keller, 2009:601-602).



MARKETING SPOTLIGHT - INTEL

- What have been the key success factors for Intel?
- Where is Intel vulnerable?
- What should Intel watch out for?
- What recommendations would you make to senior marketing executives at Intel?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

Modern marketing calls for more than developing a good product, pricing it attractively, and making it accessible to target customers. Companies must also communicate with present and potential stakeholders, and with the general public. The marketing communications mix consists of six major modes of communications: advertising, sales promotion, public relations and publicity, events and experiences, direct marketing, and personal selling. The communication process consists of nine elements: sender, receiver, message, media, encoding, decoding, response, feedback, and noise. To get their messages through, marketers must encode their messages in a way that takes into account how the target audience usually decodes messages. They must also transmit the message through efficient media that reach the target audience and develop feedback channels to monitor response to the message. Consumer response to a communication can be often modeled in terms of a response hierarchy and "learn-feel-do" sequence.

Developing effective communications involves eight steps:

(1) Identify the target audience
(2) Determine the communications objectives
(3) Design the communication
(4) Select the communication channels
(5) Establish the total communications budget
(6) Decide on the communications mix
(7) Measure the communications' results, and
(8) Manage the integrated marketing communications process.

In identifying the target audience, the marketer needs to close any gap that exists between current public perception and the image sought. Communications objectives may involve category needs, brand awareness, brand attitude, or brand purchase intention. Formulating the communication requires solving three problems: what to say (message strategy), how to say it (creative strategy), and who should say it (message source).

Communication channels may be personal (advocate, expert, and social channels) or non-personal (media, atmospheres, and events). The objective-and-task method of setting the promotion budget, which calls upon marketers to develop their budgets by defining specific objectives, is most desirable. In deciding on the marketing communications mix, marketers must examine the distinct advantages and costs of each communication tool and the company's market rank. They must also consider the type of product market in which they are selling, how ready consumers are to make a purchase, and the product's stage in the products life cycle. Measuring the marketing communications mix's

effectiveness involves asking members of the target audience whether they recognise or recall the communication, how many times they saw it, what points they recall, how they felt about the communication, and their previous and current attitudes toward the product and the company. Managing and coordinating the entire communications process calls for integrated marketing communications (IMC): marketing communications planning which recognises the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines and combines these disciplines to provide clarity, consistency, and maximum impact through the seamless integration of discrete messages.
Advertising is any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. Advertisers include not only business firms but also charitable, non-profit, and government agencies.

Developing an advertising programme is a five-step process:
(1) Set advertising objectives
(2) Establish a budget
(3) Choose the advertising message and creative strategy
(4) Decide on the media; and
(5) Evaluate communication and sales effects.

Sales promotion consists of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade. Sales promotion includes tools for consumer promotion, trade promotion, and business and sales-force promotion (trade shows and conventions, contests for sales reps, and specialty advertising). In using sales promotion, a company must establish its objectives, select the tools, develop the programme, pre-test the programme, implement and control it, and evaluate the results. Events and experiences are a means to become part of special and more personally relevant moments in consumers' lives. Involvement with events can broaden and deepen the relationship of the sponsor with its target market, but only if managed properly. Public relations (PR) involves a variety of programmes designed to promote or protect a company's image or its individual products. Many companies today use marketing public relations (MPR) to support the marketing department in corporate or product promotion and image making. MPR can affect public awareness at a fraction of the cost of advertising, and is often much more credible. The main tools of PR are publications, events, news, speeches, public-service activities, and identity media.

Direct marketing is an interactive marketing system that uses one or more media to effect a measurable response or transaction at any location. Direct marketing, especially electronic marketing is showing explosive growth. Direct marketers plan campaigns by deciding on

objectives, target markets and prospects, offers, and prices. This is followed by testing and establishing measures to determine the campaign's success. Major channels for direct marketing include face-to-face selling, direct mail, catalogue marketing, telemarketing, interactive TV, kiosks, Websites, and mobile devices. Interactive marketing provides marketers with opportunities for much greater interaction and individualization through well-designed Websites as well as online ads and promotions. Sales personnel serve as a company's link to its customers. The sales rep is the company to many of its customers, and it is the rep who brings back to the company much-needed information about the customer. Designing the sales force requires decisions regarding objectives, strategy, structure, size, and compensation. Objectives may include prospecting, targeting, communicating, selling, servicing, information gathering, and allocating. Determining strategy requires choosing the most effective mix of selling approaches. Choosing the sales-force structure entails dividing territories by geography, product, or market (or some combination of these). Estimating how large the sales force needs to be involves estimating the total workload and how many sales hours (and hence salespeople) will be needed. Compensating the sales force entails determining what types of salaries, commissions, bonuses, expense accounts, and benefits to give, and how much weight customer satisfaction should have in determining total compensation.

There are five steps involved in managing the sales force:

(1) Recruiting and selecting sales representatives

(2) Training the representatives in sales techniques and in the company's' products, policies, and customer-satisfaction orientations

(3) Supervising the sales force and helping reps to use their time efficiently

(4) Motivating the sales force, balancing quota, monetary rewards, and supplementary motivators; and

(5) Evaluating individual and group sales performance.

Effective salespeople are trained in the methods of analysis and customer managements, as well as the art of sales professionalism. No approach works best in all circumstances, but most trainers agree that selling is a seven-step process: prospecting and qualifying customers, pre-approach, approach, presentation and demonstration, overcoming objectives, closing, and follow-up and maintenance.

Response to Marketing Spotlight - Intel

What have been the key success factors for Intel?

- They have a strategic concept
- They chose a trademark name for their chips
- Intel has developed a programme with computer manufacturers to co-op marketing if the name/logo/sticker was visible on the outside of the computer
- Intel advertised to the consumer to “look for” the Intel logo in the purchasing of their computers
- Intel integrated marketing programmes featuring both consumer and corporate programmes

Where is Intel vulnerable?

- There is overexposure of their trademarked name
- There is a danger of the name becoming “common speech” (aspirin), thereby losing their competitive advantage in the naming

What should Intel watch out for?

The transformation in the consumer’s mind of the “computer product” to the “every type of product” - losing brand identity and positioning in the minds of the consumer (brand proliferation).

What recommendations would you make to senior marketing executives at Intel?

- They do not rest on past successes and continue their strategic direction of having an integrated marketing communications programme
- They should monitor consumer’s perceptions of the effectiveness of sound integrated marketing communications programmes - consumers may begin to feel “manipulated” or “brain-washed” by constant and consistent exposure to such programmes
- They should develop flanker brands or other brands consistent with new areas of technology (TVs ,etc.) so as to protect their parent brand from overexposure or brand proliferation.

What should the company be sure to do with their marketing?

Capitalise on the “moment” and be ready to change, adapt, or discontinue the programmes as consumer attitudes changes.

Response to Activity 14.1

Communication tools also vary in cost-effectiveness at different stages of the product life cycle. In the ***introduction stage,*** advertising and publicity have the highest cost-effectiveness. This is followed by personal selling to gain distribution coverage. Sales promotion is then used to induce trial. In the ***growth stage,*** demand has its own momentum through word-of-mouth. In the ***maturity stage***, sales promotion, advertising and personal selling are utilised. In the ***decline stage*, s**ales promotion continues strongly, advertising and publicity are reduced and salespeople give the product only minimal attention.

Response to Activity 14.2

Several factors contribute to the rapid growth, especially in consumer markets:

- Promotion is now more accepted by top management as an effective sales tool
- More product managers are qualified to use sales-promotion tools
- Product managers are under greater pressure to increase current sales
- The number of brands has increased
- Competitors use promotions frequently
- Many brands are seen as similar
- Consumers are more price-orientated
- The trade has demanded more deals from manufacturers

Response to Activity 14.3

Interactive marketing offers many unique benefits. Messages delivered by attractive or popular sources can potentially achieve higher attention and recall. It is highly accountable and its effects can be easily traced. The Web offers the advantage of "contextual placements." Light consumers of other media can also be reached. The Web is especially effective at reaching people during the day. Young, high income, high education consumer's online media consumption exceeds that of TV.

Response to Activity 14.4

They should

- Call or visit at other times
- Make useful suggestions about the business
- Monitor key accounts
- Know customers' problems
- Be ready to serve them in a number of ways

CHAPTER 15

INTRODUCING NEW MARKET OFFERINGS

CHAPTER FIFTEEN: INTRODUCING NEW MARKET OFFERINGS

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Identify the challenges a company faces in developing new products
- Describe organisational structures that are used to manage new-product development
- Describe the main stages in developing new products
- Explain the best way to set up the new product development process
- Discuss the factors that affect the rate of diffusion and consumer adoption of newly launched products

PRESCRIBED READING

Chapter 20 - Kotler,P and Keller,K.L.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey : Prentice Hall.

RECOMMENDED READING

Chapter 13 - Blythe, Jim (2006). Principles and Practice of Marketing. London: Thomson.

Chapter 11 - Mullins, JW Walker, OC, Boyd, HW and Larrèchè (2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

OPENING NOTE

Companies need to grow their revenue over time by developing new products and expanding into new markets. New product development shapes the company's future: improved or replacement products will maintain or build sales. Marketers play a key role in the new-product process by identifying and evaluating new product ideas and working with RandD and others in every stage of development.

CHALLENGES IN NEW PRODUCT DEVELOPMENT

Kotler and Keller (2009:607) assert that a company can add new products through acquisition or development. The acquisition route can take three forms:

- The company can buy other companies
- It can acquire patents from other companies
- It can buy a license or franchise from another company

The development route can take two forms: It can develop new products in its own laboratories or it can contract with independent researchers or new-product development firms to develop new products. We can identify six categories of new products:

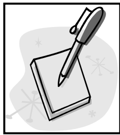
- New-to-the-world products
- New product lines
- Additions to existing product lines
- Improvements and revisions of existing products
- Repositioning
- Cost Reductions

According to Kotler and Keller (2009:611) less than 10 percent of all new products are truly innovative and new to the world. These products involve the greatest cost and risk because they are new to both the company and the marketplace. Most new-product activity is devoted to improving existing products. Continually innovating existing products to better satisfy consumer needs forces competitors to play catch-up. Launching new products as brand extensions into related product categories is one means of broadening the brand meaning. In an economy of rapid change, continuous innovation is necessary. Companies that fail to develop new products are putting themselves at risk. Existing products are vulnerable to:

- Changing customer needs and tastes
- New technologies
- Shortened product life cycles
- Increased domestic and foreign competition

Most established companies focus on ***incremental innovation***. Newer companies create ***disruptive technologies***. Established companies can be slow to react or invest in these disruptive technologies because they threaten their investment. Incumbent firms must carefully monitor the preferences of both customers and non-customers over time and uncover evolving, difficult-to-articulate customer needs. New-product development can be quite risky. New products according to Kotler and Keller (2009:611) continue to fail at between 90 to 95 percent in Europe and America. New products can fail for many reasons:

- Ignoring or misinterpreting market research
- Overestimating market size
- High development costs
- Poor design
- Incorrect positioning
- Ineffective advertising
- Wrong price
- Insufficient distribution support
- Competitors who fight back



ACTIVITY 15.1

Discuss the key factors that tend to hinder new product development.

Response at the end of this Section

What can companies do to develop successful new products? The number one success factor is a unique, superior product. Another key factor is a well-defined product concept.

Other factors are: technology and marketing synergy, quality of execution in all stages and market attractiveness.

ORGANISATIONAL ARRANGEMENTS

Once a company has carefully segmented the market, chosen its target customers, identified their needs, and determined its market positioning, it is better able to develop new products. Many companies today use customer-driven engineering to design new products. ***Customer-driven engineering*** attaches high importance to incorporating customer preferences in the final design. New product development requires senior management to define business domain, product categories, and specific criteria.

Budgeting for New-Product Development

Senior management must decide how much to budget for new-product development. Some companies solve this problem by financing as many projects as possible, hoping to achieve a few winners. Others apply conventional percentage of sales figures.

Organising New-product Development

Companies handle the organisational aspect of new-product development in several ways. Many companies assign responsibility for new product ideas to

- Product managers
- New-product manager
- High-level management committee
- New-product department
- Venture teams

A venture team is a cross-functional group charged with developing a specific product or business. These **skunk works** are informal places where intrapreneurial teams attempt to develop new products. Cross-functional teams can collaborate and use concurrent new-product development to push new products to market. Cross-functional teams help to ensure that engineers are not just driven to create a "better mousetrap" when potential customers do not really need or want one. Some possible criteria for staffing cross-functional new-product venture teams include:

- Desired team leadership style and level of expertise
- Team member skills and expertise
- Level of interest in the particular new-product concept
- Potential for personal reward
- Diversity of team members

Some companies use the following stage-gate system to manage the innovation process. The gatekeepers make one of four decisions at each stage of the process:

- Go
- Kill
- Hold
- Recycle

Many firms have multiple parallel sets of projects working through the process. The process can be depicted as a ***funnel***. Many firms use a ***spiral development process*** that recognises the value of returning to an earlier stage to make improvements before moving forward (Kotler and Keller, 2009:611-614).

MANAGING THE DEVELOPMENT PROCESS: IDEAS

According to Kotler and Keller (2006:640), the new product development process starts with the search for ideas.

Idea Generation

New product ideas can come from interacting with various groups and from using creativity-generating techniques.

Interacting with Others

Ideas for new products can come from many sources, such as customers, scientists, competitors, employees, channel members, and top management. Customer needs and wants are the logical place to start the search. One-on-one interviews and focus group discussions can explore product needs and reactions. Technical companies can learn a great deal by studying customers who make the most advanced use of the company's products and who recognise the need for improvements before other customers do. Employees throughout the company can be a source of ideas for improving production, products, and services. Companies can also find good ideas by researching competitors' products and services. They can find out what customers like and dislike about competitors' products. They can buy the competitors products and take them apart. Company sales representatives and intermediaries are a particularly good source of ideas.

These groups have firsthand exposure to customers and are often the first to learn about competitive developments. Top management can be another major source of ideas. New-product ideas can also be gleaned from:

- Inventors
- Patent attorneys
- University and commercial laboratories
- Industrial consultants
- Advertising agencies
- Marketing research firms
- Industrial publications

Although ideas can flow from a variety of sources, receiving these ideas often depends upon someone in the organisation taking the role of product champion.

Creativity Techniques

Here is a sampling of techniques for stimulating creativity in individuals and groups:

- Attribute listing
- Forced relationships
- Morphological analysis
- Reverse assumption analysis
- New contexts
- Mind-mapping

Increasingly, new product ideas arise from ***lateral marketing*** that combines two product concepts or ideas to create a new offering.

Idea Screening

A company should motivate its employees to submit new ideas to an idea manager. Ideas should be written down and reviewed each week by an idea committee. The company then sorts the proposed ideas into three groups:

- Promising ideas
- Marginal ideas
- Rejects

Kotler and Keller (2009:614-620).

MANAGING THE DEVELOPMENT PROCESS: CONCEPT TO STRATEGY

Attractive ideas must be refined into testable product concepts. A *product idea* is a possible product the company might offer to the market. A *product concept* is an elaborated version of the idea expressed in consumer terms.

Concept Development and Testing

A product idea can be turned into several concepts. Questions to ask include:

- Who will use this product?
- What primary benefit should this product provide?
- When will people consume this product?

Each concept represents a ***category concept*** that defines the product's competition. Next, the product concept has to be turned into a *brand concept*.

Concept Testing

Concept testing involves presenting the product concept to target consumers and getting their reactions. The concepts can be presented symbolically or physically. In the past, creating physical prototypes was costly and time-consuming. Today firms can use ***rapid prototyping*** to design products. Companies are also using *virtual reality* to test product concepts. Concept testing entails presenting consumers with an elaborated version of the concept. After receiving information, researchers measure product dimensions by having consumers respond to the following:

- Communicability and believability
- Need level
- Gap level
- Perceived value
- Purchase intention
- User targets, purchase occasions, purchasing frequency

The respondents' answers indicate:

- Whether the concept has a broad consumer appeal
- What products this new product competes against
- Which consumers are the best targets

Conjoint Analysis

Consumers' preferences for alternative product concepts can be measured through conjoint analysis, a method for deriving the utility values that consumers attach to varying levels of a product's attributes. Respondents are shown different hypothetical offers formed by combining varying levels of the attributes, then asked to rank the various offers. Management can identify the most appealing offer and the estimated market share and profit the company might realise .The marketer now uses a statistical programme to derive the consumer's utility functions for each of the five attributes. The higher the utility, the stronger the consumer's preference for that level of attribute.

Clearly, this consumer sees price and package design as the most important attributes. When preference data are collected from a sufficient sample of target consumers, the data can be used to estimate the market share any specific offer is likely to achieve, given any assumptions about competitive response. The most customer-appealing offer is not always the most profitable offer to make. Conjoint analysis has become one of the most popular concept-development and testing tools.

Marketing Strategy

Following a successful concept test, the new-product manager will develop a preliminary strategy plan for introducing the new product into the market. The plan consists of three parts:

1) The first part describes the:
   - Target market's size
   - Structure
   - Behaviour
   - Planned product's positioning
   - Sales
   - Market share
   - Profit goals in the first few years

2) The second part outlines:
   - Planned price
   - Distribution strategy
   - Marketing budget for the first year

3) The third part describes the:
   - Long-run sales and profit goals
   - Marketing-mix strategy over time

Business Analysis

After management develops the product concept and marketing strategy, it can evaluate the proposal's business attractiveness. Management needs to prepare sales, cost, and profit projections to determine whether they satisfy company objectives. If it does, then the concept can move into the development stage.

Estimating Total Sales

Total estimated sales are the sum of estimated first-time sales, replacement sales, and repeat sales. Sales-estimation methods depend on whether the product is a one-time purchase, an infrequently purchased product, or a frequently purchased product. Infrequently purchased products exhibit replacement cycles dictated by physical wearing out or by obsolescence. Frequently purchased products have product life cycles sales. In estimating sales, the manager's first task is to estimate first-time purchases of the new product in each period. To estimate replacement sales, management has to research the product's *survival-age distribution*. Because replacement sales are difficult to estimate before the product is in use, some manufacturers base the decision to launch a new product solely on the estimate of first-time sales. For a frequently purchased new-product, the seller has to estimate repeat sales as well as first-time sales.

Estimating Costs and Profits

Costs are estimated by the RandD, manufacturing, marketing, and finance departments. The payback period here is approximately three and a half years. Management has to decide whether to risk a maximum investment loss of $4.6 million and a possible payback period of three and a half years. Companies use other financial measures to evaluate the merit of a new-product proposal. The simplest is *breakeven analysis*. The more complex method is *risk analysis*.

Kotler and Keller (2009:621-626).

MANAGING THE DEVELOPMENT PROCESS: DEVELOPMENT TO COMMERCIALISATION

At this stage, the company will determine if the product idea can be translated into a technically and commercially feasible product.

Product Development

The job of translating target customer requirements into a working prototype is helped by a set of methods known as quality function deployment (QFD). This methodology takes the list of desired *customer attributes (CAs)* and turns them into a list of *engineering attributes (EAs).* A major contribution of QFD is that it improves communication between marketers, engineers, and the manufacturing people.

Physical Prototypes

The RandD department will develop one or more physical versions of the product concept. Its goal is to find a prototype that embodies the key attributes described in the product-concept statement that performs safely under normal use and conditions and can be produced within the budgeted manufacturing costs. With the emergence of the Web, there is a need for more rapid prototyping and more flexible development processes. Lab scientists must also communicate the products psychological aspects through physical cues. Marketers need to supply lab people with information on what attributes consumers seek and how consumers judge whether these attributes are present.

Customer Tests

When the prototypes are ready, they must be put through rigorous functional tests and consumer tests.

Alpha testing is a name given to testing the product within the company. ***Beta testing*** is testing the product with customers. Consumer testing can take several forms:

1) Bringing consumers into the laboratory
2) Give them samples to use in their homes

Consumer preferences can be measured in several ways:

- The ***rank-order*** method
- The ***paired-comparison*** method
- The ***monadic-rating*** method

Market Testing

The new product is introduced into an authentic setting to learn how large the market is and how consumers and dealers react to handling, using and repurchasing the product.

Not all companies undertake market testing. Many companies believe that market testing can yield valuable information about buyers, dealers, marketing programme effectiveness, and market potential. The amount of market testing is influenced by the investment cost, risk on the one hand, and time pressure and research on the other. High investment - high-risk products, where the chance of failure is high, must be market tested. High-risk products, those that create new-product categories or have novel features, warrant more market testing than modified products.

Consumer-Goods Market Testing

In testing consumer products, the company seeks to estimate four variables:

- Trial
- First repeat
- Adoption
- Purchase frequency

According to Kotler and Keller (2009:628 629) the following are four major methods of consumer goods market testing, from the least to most costly:

1) Sales-Wave Research

In sales-wave research, consumers who initially try the product at no cost are re-offered the product, or a competitor's product, at slightly reduced prices. They might be offered the product as many as five times (sales wave) with the company noting how many customers selected the product again and their reported levels of satisfaction. Sales-wave research can also expose consumers to one or more advertising concepts to see the impact of that advertising on repeat purchase. Sales-wave research can be implemented quickly, conducted with a fair amount of security and carried out without final packaging and advertising. It does not indicate what trial rates would be achieved with different sales-promotion incentives nor does it indicate the brand's power to gain distribution and favourable shelf positioning.

2) Simulated Test Marketing

Simulated test-marketing calls for finding 30 to 40 qualified shoppers and questioning them about brand familiarity and preferences in a specific product category. These people are then invited to a brief screening of both well-known and new commercials or print ads.

Consumers receive a small amount of money and are invited into a store where they may buy any items they wish.

The company notes how many consumers buy the new brand and competing brands. This provides a measure of the ad’s relative effectiveness against competing ads in stimulating trial. This method gives fairly accurate results on advertising effectiveness and trial rates in a shorter period of time. The results are incorporated into new-product forecasting models to project ultimate sales levels.

3) Controlled Test Marketing

In this method, a research firm manages a panel of stores that will carry new products for a fee. The company specifies the number of stores and the geographic locations it wants to test. The research firm delivers the product and controls shelf positioning, the number of facings, displays, point-of-purchase promotions, and pricing. Controlled test marketing allows the company to test the impact of in-store factors and limited advertising on buying behaviour. The controlled test market gives no information on how to sell the trade on carrying the new product. This method also exposes the product to competition.

4) Test Markets

The ultimate way to test a new consumer product is to put it into full-blown test markets. The company chooses the cities, the sales force tries to sell the trade on carrying the product and giving it good shelf exposure. The company puts on a full advertising and promotion campaign. The company can also test alternative marketing plans by varying the marketing programme in different cities. Management faces several decisions. These include:

- How many test cities
- Which cities
- Length of test
- What information
- What action to take

In spite of its benefits, many companies today skip test marketing and rely on faster and more economical testing methods.

Business-Goods Market Testing

Business goods can also benefit from market testing. Expensive industrial goods and new technologies will normally undergo alpha and beta testing (with vendors). A second common test method for business goods is to introduce the new product at trade shows. New industrial products can be tested in distributor and dealer display rooms. Industrial manufacturers come close to using full test marketing when they give a limited supply of the product to the sales force to sell in a limited number of areas that receive promotion support and printed catalogue sheets.

Commercialisation

If the company goes ahead with commercialisation, it will face its biggest costs to date. The company will have to contract for manufacturers or build or rent a full-scale manufacturing facility. Another major cost is marketing.

When (Timing)

In commercialising a new product, market-entry timing is critical. The company faces three choices:

- First entry
- Parallel entry
- Late entry

Additional considerations regarding the timing of new product launches relate to:

- If the new product replaces an older product
- If the product is seasonal
- If a "killer application" is contemplated

Complicating new product launches, many companies are encountering competitive "design-arounds"- rivals are imitating inventions but making their own versions just different enough to avoid patent infringement and the need to pay royalties.

Where (Geographic Strategy)

The company must decide whether to launch the new product in a single locality, a region, several regions, the national market, or the international market. Most will develop a planned rollout over time. Small companies will select an attractive city and put on a blitz campaign, they will enter other cities one at a time. Larger companies will introduce their products into a whole region and then move to the next region. Some companies will launch their products to the national market. Most companies design new products to sell primarily in the domestic market. If the product does well, they may decide to roll it out to other countries. In choosing rollout markets, the major criteria are:

- Market potential
- Company's local reputation
- Cost of filling the pipeline
- Cost of communications media
- Influence of area on other areas
- Competitive penetration

The presence of strong competitors will influence rollout strategy. With the Web connecting far-flung parts of the globe, competition is more likely to cross national borders.

To Whom (Target-Market Prospects)

Within the rollout markets, the company must target its initial distribution and promotion to the best prospect groups. These would be the:

- Early adopters
- Heavy users
- Opinion leaders
- Reached at a low cost

The company should rate the various prospect groups on these characteristics and target the best group.

How (Introductory Market Strategy)

The company must develop an action plan for introducing the new product into the rollout markets. To coordinate the many activities involved in launching a new product, management can use network-planning techniques such as critical path scheduling. *Critical path scheduling (CPS)* calls for developing a master chart showing the simultaneous and sequential activities that must take place to launch the product

(Kotler and Keller, 2009: 626-631).

THE CONSUMER-ADOPTION PROCESS

Adoption is an individual's decision to become a regular user of a product. The consumer-adoption process is followed by the ***Consumer-loyalty process,*** which is the concern of the established producer. Years ago, new-product marketers used a mass-market approach to launch new products. This process had two main drawbacks: It called for heavy marketing expenditures and it involved many wasted exposures. New-product marketers now aim at consumers who are early adopters.

Stages in the Adoption Process

An innovation is any goods, service, or idea that is perceived by someone as new. Innovations take time to spread through the social system. Adopters of new products have been observed to move through five stages:

- Awareness
- Interest
- Evaluation
- Trial
- Adoption

The new-product marketers should facilitate movement through these stages.

Factors Influencing the Adoption Process

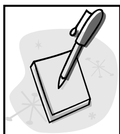
Marketers recognise the following characteristics of the adoption process: differences in individual readiness to try new products; the effect of personal influences; differing rates of adoption; and differences in the organisations' readiness to try new products.

Readiness to Try New Products and Personal Influence

In each product area, there are pioneers and early adopters. People can be classified into these adopter categories:

- Innovators
- Early adopters
- Early majority
- Late majority
- Laggards

Each of the five groups must be approached with a different type of marketing if the firm wants to move its innovation through the full product life cycle. ***Personal influence*** is the effect that one person has on another's attitude or purchase probability. Its significance is greater in some situations and for some individuals than for others. Personal influence is more important in the evaluation stage of the adoption process than in the other stages. It has more influence on late adopters than early adopters. It also is more important in risky situations. Companies often target innovators and early adopters with product rollouts.



ACTIVITY 15.2

New products should always target new adopters.

New products should always target the broadest market possible.

Compare the above two statements by considering the advantages and disadvantages of each.

Response at the end of this Section

Characteristics of the Innovation

Some products catch on immediately, whereas others take a long time to gain acceptance. Five characteristics influence the rate of adoption of an innovation:

- ***Relative advantage -*** the degree to which the innovation appears superior to existing products
- ***Compatibility -*** the degree to which the innovation matches the values and experiences of the individuals
- ***Complexity -*** the degree to which the innovation is relatively difficult to understand or use
- ***Divisibility -*** the degree to which the innovation can be tried on a limited basis.
- ***Communicability -*** the degree to which the beneficial results of use are observable or describable to others

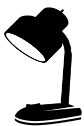
Other characteristics that influence the rate of adoption are costs, risk and uncertainty, scientific credibility and social approval. The new-product marketer has to research all these factors and give the key ones maximum attention in designing the new-product and marketing programmes.

Organisations' Readiness to Adopt Innovations

Adoption is associated with variables in the organisation's environment, the organisation itself, and the administrators. Other forces come into play in trying to get a product adopted into organisations that receive. A controversial or innovative product can be squelched by negative public opinion.

(Kotler and Keller, 2009: 632-635).

MARKETING SPOTLIGHT - NOKIA



http://www.nokia.com

- What have been the key success factors for Nokia?
- Where is Nokia vulnerable?
- What should Nokia watch out for?
- What recommendations would you make to senior marketing executives at Nokia?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

Once a company has segmented the market, chosen its target customer groups, identified their needs, and determined its desired market positioning, it is ready to develop and launch appropriate new products. Marketing should participate with other departments in every stage of new-product development. Successful new-product development requires the company to establish an effective organisation for managing the development process. Companies can choose to use a product manager, new-product managers, new-product committees, new-product departments, or new-product venture teams. Increasingly, companies are adopting cross-functional teams and developing multiple product concepts. Eight stages are involved in the new-product development process: idea generation, screening, concept development and testing, marketing-strategy development, business analysis, product development, market testing, and commercialisation. At each stage, the company must determine whether the ideas should be dropped or moved to the next stage. The consumer-adoption process is the process by which customers learn about new products, try them, and adopt or reject them. Today many marketers are targeting heavy users and early adopters of new products, because specific media can reach both groups and tend to be opinion leaders. The consumer-adoption process is influenced by many factors beyond the marketer's control, including consumers and organisations' willingness to try new products, personal influences, and the characteristics of the new product or innovation.

Response to Marketing Spotlight - Nokia

What have been the key success factors for Nokia?

- New products that are or have relative advantage (personalisation)
- Low degree of complexity
- Divisibility
- Compatibility
- Communicability
- A corporate culture that encourages new innovations and new products
- Use of cross-functional new-product teams or “skunkworks”

Where is Nokia vulnerable?

- Overexposure of their trademarked name
- Being the market leader or market innovator invites competition to challenge their dominance
- Use of internal associates to create new products - these people are not the target market for their products and as a result may not fully understand the market

What should Nokia watch out for?

- Consumer shifts in usage of their products
- New and/or cutting edge technology developing around them
- Quality and functionality of their products versus key competitors

What recommendations would you make to senior marketing executives at Nokia?

- They should not rest on past successes but should continue their strategic direction of investing in new products and continue to be involved in the process of creating new products
- Look at the potential of products in the far future - develop a “decade” vision and not a “year” vision

What should the company be sure to do with their marketing?

Continue to capitalise on their name and develop marketing programmes that cement the name Nokia in the minds of its consumers with the concept of innovation. Target innovators and heavy users in product launches for diffusion and adoption across the whole market.

Response to Activity 1

- Shortage of important ideas in certain areas
- Fragmented markets
- Social and governmental constraints
- Cost of development
- Capital shortage
- Faster required development time
- Shorter product life cycles

Response to Activity 2

Pro: Marketers should always target their new products to early adopters and heavy users simply because the investment is or can be great and the chances of success run very low. The heavy users or early adopters of a particular product tend to be consumer-influencers, opinion-leaders, or a combination of both. These persons have or demonstrate considerable influence in others by their assumed position or “power” in people’s lives. Personal influence is a considerable determinant of consumer purchasing decisions and as such cannot be ignored or “left to chance” in the marketing process. The heavy user and innovator clientele can also exhibit strong brand loyalty characteristics. Appealing to the family brand loyalties with the new product, can deepen or strengthen the family brand connection. Finally, due to more and more niche markets and target-market research techniques, identifying these heavy users and early adopters becomes economically feasible. As a result, the firm can affect their products broad market appeal quicker and more economically than other campaigns. The ultimate answer, of course, depends upon what is being marketed!

Con: Product creation and marketing is expensive. The “odds” of success are very low, even for the best-marketed companies. Considering these two factors, a company would be wise to market the new product to the widest possible audience in the shortest possible time. Targeting the mass-market via heavy TV advertisement and heavy promotional spending with channel partners will ensure that the product reaches all the adopter categories simultaneously. Today’s world is fast paced and becoming even faster as the speed of communication increases. The time lag between awareness, interest, evaluation, trial, and adoption normally measured in weeks, months, and years may suddenly find itself compressed into weeks due to the speed of diffusion caused by the speed of communication. A marketer must consider this speed for his/her new product and use mass-market techniques in the product roll out.

CHAPTER 16

GLOBAL MARKETING

CHAPTER SIXTEEN: GLOBAL MARKETING

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Identify the factors a company should review before deciding to go abroad
- Explain how companies can evaluate and select specific foreign markets to enter
- Discuss the major ways of entering a foreign market
- Apply to what extent the company must adapt its products and marketing programme to each foreign country
- Explain how the company should manage and organise its international activities

PRESCRIBED READING

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RECOMMENDED READING

Chapter 9 - Blythe, Jim (2006). Principles and Practice of Marketing. London: Thomson.

Chapter 17 -Van der Walt, A Strydom, W.J Marx S and Jooste CJ(1996). Marketing Management. (3rd Edition). Epping : Juta and Co, Ltd.

OPENING NOTE

With faster communication, transportation, and financial flows, the world is rapidly shrinking. Products developed in one country are finding enthusiastic acceptance in others. Although the opportunities for companies to enter and compete in foreign markets are significant, the risks can also be high. Companies selling in global industries, however, really have no choice but to internationalise their operations.

COMPETING ON A GLOBAL BASIS

Kotler and Keller (2009:638) maintain that many companies have conducted international marketing for decades. Domestic companies who never thought about foreign competitors suddenly find them in their backyards. The better way to compete is to continuously improve products at home and expand into foreign markets. A ***global industry*** is an industry in which the strategic positions of competitors in major geographic or national markets are fundamentally affected by their overall global positions. A ***global firm*** is a firm that operates in more than one country and captures research and development, production, logistical, marketing, and financial advantages in its costs and reputation that are not available to purely domestic competitors. Global firms plan, operate, and coordinate their activities on a worldwide basis. A company does not need to be large to sell globally. Small and medium-sized firms can practice global nichemanship. For a company of any size to go global it must make a series of decisions.

TALKING POINT

If globalisation is such a great idea, why is it that so many people protest about it?

DECIDING WHETHER TO GO ABROAD

According to Kotler and Keller (2009:640), most companies would prefer to remain domestic if their domestic market were large enough. Several factors are drawing more and more companies into the international arena. These factors are as follows:

- The company discovers that some foreign markets present higher profit opportunities than the domestic market
- The company needs a larger customer base to achieve economies of scale
- The company wants to reduce its dependence on any one market
- Global firms offering better products or lower prices can attack the company's domestic market
- The company may want to counter attack these competitors in their home markets
- The company's customers are going abroad and require international servicing

Before making a decision to go abroad the company must weigh some of the following risks:

- The company might not understand foreign customer preferences and fail to offer a competitively attractive product
- The company might not understand the foreign country's business culture or know how to deal effectively with foreign nationals
- The company might underestimate foreign regulations and incur unexpected costs
- The company might realise that it lacks managers with international experience
- The foreign country might change its commercial laws, devalue its currency, or undergo a political revolution and expropriate foreign property

Because of the competing advantages and risks, companies often do not act until some event thrusts them into the international arena. Most countries lament that too few of their companies participate in international trade. Many countries sponsor aggressive export-promotion programmes to get their companies to export.

The ***internationalisation process*** has four stages:

- No regular export activities
- Export via independent representatives (agents)
- Establishment of one or more sales subsidiaries
- Establishment of production facilities abroad

The first task is to get companies to move from stage 1 to stage 2. This move is helped by studying how firms make their first export decisions (hire agents). A company then engages further agents to enter additional countries. Later it establishes an export department to manage its agent relationships. Still later, the company replaces its agents with its own sales subsidiaries in its larger export markets. To manage these subsidiaries the company replaces the export department with an international department. If certain markets continue to be larger and stable, the company takes the next step in locating production facilities in those markets.

DECIDING WHICH MARKETS TO ENTER

In deciding to go abroad, the company needs to define its marketing objectives and policies. Ayal and Zif (1979) have argued that a company should enter fewer countries when:

- Market entry and market control are high
- Product and communication adaptation costs are high
- Population and income size and growth are high in the initial countries chosen
- Dominant foreign firms can establish high barriers to entry

How Many Markets to Enter

The company must decide how many countries to enter and how fast to expand. The company's entry strategy typically follows one of two possible approaches:

- A ***waterfall*** approach - countries are gradually entered sequentially
- A ***sprinkler*** approach - many countries are entered simultaneously within a limited period of time

Increasingly, companies are ***born global*** and market to the entire world right from the outset. When first mover advantage is crucial and a high degree of competitive intensity prevails, the sprinkler approach is preferred. The main risks are substantial resources involved and the difficulty of planning entry strategies in so many potentially diverse markets. The company must also decide on the types of countries to consider. Attractiveness is influenced by:

- The product
- Geography
- Income and population
- Political climate, and
- Other relevant factors

Developed Versus Developing Markets

The developed nations and the prosperous parts of developing nations account for less than 15 percent of the world's population. Is there a way for marketers to serve the other 85 percent? Successfully entering developing markets requires a special set of skills and plans. These marketers are able to capitalise on the potential of developing markets by changing their conventional marketing practices to sell their products and services more effectively. Smaller packaging and lower sales prices are often critical in markets where incomes are limited. The challenge is to think creatively about how marketing can fulfill the dreams of most of the world's population for a better standard of living.

Regional Free Trade Zones

Regional economic integration-trading agreements between blocs of countries has intensified in recent years. This development means that companies are more likely to enter entire regions at the same time. Certain countries have formed free trade zones or economic communities—groups of nations organised to work toward common goals in the regulation of international trade.

The European Union

The European Union (EU) set out to create a single European market by reducing barriers to the free flow of products, services, finances, and labour among member countries. The EU now contains more than 454 million consumers and accounts for 23 percent of the world's exports. It has a common

currency, the euro monetary system. European unification offers tremendous trade opportunities for non-European firms. It also poses threats:

- European companies will grow bigger and more competitive
- Low barriers inside Europe will only create thicker outside walls

Companies that plan to create "pan-European" marketing campaigns directed to a unified Europe, should proceed with caution. Creating an economic community will not create a homogeneous market.

NAFTA

The North American Free Trade Agreement (NAFTA) established a free trade zone among the United States, Mexico, and Canada. NAFTA will eliminate all trade barriers and investment restrictions among these three countries.

MERCOSUL

MERCOSUL links Brazil, Argentina, Paraguay, and Uruguay. It is likely that NAFTA will eventually merge with this and form an all-Americas free trade zone.

APEC

Twenty-one Pacific Rim countries, including the NAFTA member states, Japan and China, are working to create a pan-Pacific free trade area under the auspices of the Asian Pacific Economic Cooperation forum (APEC.)

Evaluating Potential Markets

However many nations and regions integrate their trading policies and standards; each nation still has unique features that must be understood. A nation's readiness for different products and services and its attractiveness as a market to foreign firms depend upon certain environments:

- Economic
- Political-legal
- Cultural

Many companies choose to sell to neighboring countries because they understand these countries better and can control their costs more effectively.

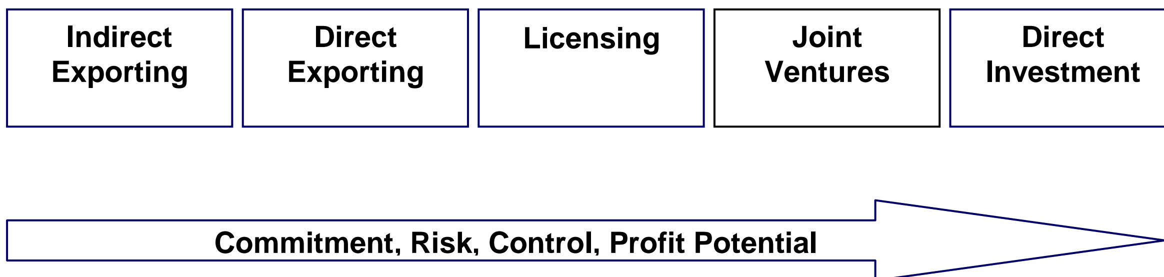
At other times, *psychic proximity* determines choices. Companies should be careful in choosing markets according to cultural distance. In general, a company prefers to enter countries in which it possesses a competitive advantage.

(Kotler and Keller, 2009: 640-646).

DECIDING HOW TO ENTER THE MARKET

Once a company decides to target a particular country, it has to determine the best mode of entry. Its broad choices are indirect exporting, direct exporting, licensing, joint ventures, and direct investment. Each succeeding strategy (as indicated on figure 16.1) involves more commitment, risk, control, and profit potential.

Figure 16.1 – Market Entry Strategies



Indirect and Direct Export

The normal way to get involved in an international market is through export.

Occasional exporting is a passive level of involvement in which the company exports from time to time, either on its own initiative or in response to unsolicited orders from abroad. ***Active exporting*** takes place when the company makes a commitment to expand into a particular market. In either case, the company produces its goods in the home country and might or might not adapt them to the international market. Companies typically start with ***indirect exporting -*** working through independent intermediaries.

Domestic-based export merchants buy the manufacturer's products and then sell them abroad. ***Domestic-based export agents*** seek and negotiate foreign purchases and are paid a commission (including trading companies). ***Cooperative organisations*** carry on exporting activities on behalf of several producers. ***Export-management companies*** agree to manage a company's export activities for a fee. Indirect export has two advantages:

- It involves less investment
- It involves less risks

Companies eventually may decide to handle their own exports. The investment and risk are greater, but so is the potential return. A company can carry on direct exporting in several ways:

- Domestic-based export department or division
- Overseas sales branch or subsidiary
- Traveling export sales representatives
- Foreign-based distributors or agents

Whether companies decided to export indirectly or directly, many companies use exporting as a way to "test the waters" before further investments.

Using a Global Web Strategy

One of the best ways to initiate or extend export activities used to be to exhibit at an overseas trade show. With the Web, it is not even necessary to attend trade shows to show one's wares. Electronic communication via the Internet is extending the reach of companies large and small to worldwide markets.

Major marketers doing global e-commerce are using the Web to reach new customers:

- Outside their home countries
- To support existing customers who live abroad
- To source from international suppliers
- To build global brand awareness

These companies adapt their Websites to provide country-specific content and services to their best potential international markets. The Internet has become an effective means of:

- Gaining free exporting information and guidelines
- Conducting market research
- Offering customers a secure process for ordering and paying for products

"Going abroad" on the Internet does pose special challenges. The global marketer may run up against governmental or cultural restrictions.

Licensing

Licensing is a simple way to become involved in international marketing. The licensor licenses a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty. The licensor gains entry at little risk. The licensee gains production expertise or a well-known product or brand name. Licensing has potential disadvantages:

- The licensor has less control over the licensee than it does over its own production and sales facilities
- If the licensee is very successful, the firm has given up profits
- If and when the contract ends, the company might find that it has created a competitor

To avoid this, the licensor usually supplies some proprietary ingredients or components needed in the product. The best strategy is for the licensor to lead in innovation so that the licensee will continue to depend on the licensor. There are several variations on the licensing arrangement:

- Management contracts
- Contract manufacturing
- Franchising

Joint Ventures

Foreign investors may join with local investors to create a joint venture company in which they share ownership and control. A joint venture may be necessary or desirable for economic or political reasons. The foreign firm might lack the financial, physical and managerial resources needed to undertake the venture alone. Foreign governments might require joint ownership for entry.

Joint ownership has certain drawbacks. These include:

- The partners might disagree over investment
- Disagreement over marketing
- Disagreement over other policies
- Preventing a multinational company from carrying out specific manufacturing and marketing policies on a worldwide basis

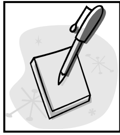
Direct Investment

The ultimate form of foreign involvement is direct ownership of foreign-based assembly or manufacturing facilities. The foreign company can buy part or full interest in a local company or build its own facilities. If the market appears large enough, foreign production facilities offer distinct advantages. These include

- The firm can secure cost economies in the form of cheaper labour or raw materials, foreign-government investment incentives and/or freight savings
- The firm can strengthen its image in the host country because it creates jobs
- The firm can develop a deeper relationship with government, customers, local suppliers, and distributors
- The firm can retain full control over its investment
- The firm can assure itself access to the market

The main disadvantage of direct investment is that the firm can expose a large investment to risks such as blocked or devalued currencies, worsening markets or expropriation.

(Kotler and Keller, 2009:646-649).



ACTIVITY 16.1

Why is choosing the most appropriate market entry and development strategy one of the most difficult decisions for the international marketer?

Response at the end of this Section

DECIDING ON THE MARKETING PROGRAMME

International companies must decide to what extent to adapt their marketing strategy to local conditions. The new product is ready to be introduced into an authentic setting with a brand name and packaging, to learn how large the market is, and how consumers and dealers react to handling, using, and repurchasing the product.

At one extreme are companies that use a globally ***standardised marketing mix*** worldwide. Standardisation of the product, communications, and distribution channels promise the lowest costs. At the other extreme is an ***adapted marketing mix*** where the producer adjusts the marketing programme to each target market.

Between the two extremes many possibilities exist. Most brands are adapted to some extent to reflect significant differences in:

- Consumer behaviour
- Brand development
- Competitive forces
- Legal and political environment

Satisfying different consumer needs and wants can require different marketing programmes. Cultural differences can often be pronounced across countries. Hofstede identifies four cultural dimensions that can differentiate countries:

- Individualism versus collectivism
- High versus low power distance
- Masculine versus feminine
- Weak versus strong uncertainty avoidance

Product

Some types of products travel better across borders than others. Keegan (1995) has distinguished five adaptation strategies of product and communications to a foreign market.

The product adaptation strategies are:

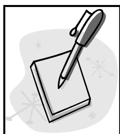
- ***Straight extension, which*** means introducing the product in the foreign market without any change.
- ***Product adaptation,*** which involves altering the product to meet local conditions or preferences.

> A company can produce a ***regional version*** of its product
> A company can produce a ***country version*** of its product
> A company can produce a ***city version*** of its product
> A company can produce different ***retailer versions*** of its product

Product invention consists of creating something new. These strategies could include:

- ***Backward invention*** - reintroducing earlier product forms that are well adapted to a foreign country's needs.
- ***Forward invention*** - creating a new product to meet a need in another country.

Product invention is a costly strategy, but the payoffs can be great, particularly if a company can parlay a product innovation into other countries. In launching products and services globally, certain brand elements may have to be changed.



ACTIVITY 16.2

How would you distinguish between services and products? What are the main implications of this difference for the global marketing of services?

Response at the end of this Section

Communications

Companies can run the same marketing communications programmes as used in the home market or change them for each local market, a process called communication adaptation.

If it adapts both the product and the communication, the company engages in ***dual adaptation***. The company can use one message everywhere, varying only the language, name, and colours. The second possibility is to use the same theme globally but adapt the copy to each local market. The positioning stays the same, but the creative execution reflects local sensibilities. The third approach consists of developing a global pool of ads from which each country selects the most appropriate ones. Finally, some companies allow their country managers to create country-specific ads. The use of media also requires international adaptation because media availability varies from country to country. Marketers must also adapt sales-promotion techniques to different markets. Personal selling tactics may have to change as well. Figure 16.2 depicts adaptation. Invention or extension of product communication.

Figure 16.2 – Communication (Adaptation, Invention or Extension)

Communications	Product: Do Not Change Product	Product: Adapt Product	Product: Develop New Product
Do Not Change Communications	Straight extension	Product adaptation	Product invention
Adapt Communications	Communication adaptation	Dual adaptation	

Source: Kotler and Keller.(2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. P651

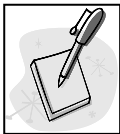
Price

Multinationals face several pricing problems when selling abroad. They must deal with price escalation, transfer prices, dumping charges, and grey markets. When companies sell their goods abroad they face a ***price escalation*** problem. Depending on the added costs of transportation, tariffs, importer margins, and currency fluctuations the product might have to sell for two to five times as much in another country to make the same profit for the manufacturer. Because cost escalation varies from country to country, companies have three choices:

- Set a uniform price everywhere
- Set a market-based price in each country
- Set a cost-based price in each country

Another problem arises when a company sets a ***transfer price*** (the price it charges another unit in the company) for goods that it ships to its foreign subsidiaries. If the company charges too high a price - it may end up paying higher tariff duties. If it charges too low a price - it can be charged with dumping. ***Dumping*** occurs when a company charges either less than its costs or less than it charges in its home market, in order to win a market. Various government agencies force companies to charge the ***arm's-length price*** that is the price charged by other competitors for the same or similar product. Multinationals are plagued by the grey-market problem.

The ***grey market*** consists of branded products diverted from normal or authorised distribution channels in the country of product origin or across international borders. Very often, a company finds some enterprising distributors buying more than they can sell in their own country and reshipping the goods to another country to take advantage of price differentials. Multinationals try to prevent grey markets by policing the distributors, by raising their prices to lower-cost distributors, or by altering the product characteristics or service warranties for different countries. The Internet will also reduce price differentiation between countries. Another global pricing challenge that has arisen in recent years is that countries with overcapacity, cheap currencies, and the need to export aggressively, have pushed prices down and devalued their currencies.



ACTIVITY 16.3

Explain how exchange rate and inflation affect the way you price your product.

Response at the end of this Section

Distribution Channels

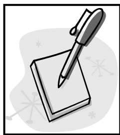
Too many U.S. manufacturers think their job is done once the product leaves the factory. They should pay attention to how the product moves within the foreign country. They should take a whole-channel view of the problem of distributing products to the final users.

In the first link, *seller's international marketing headquarters,* the export department, or international division makes decisions on channels and other marketing-mix elements. In the second link, *channels between nations,* gets the products to the borders of the foreign nations. The decisions made in this link include:

- Types of intermediaries (agents, trading companies)
- Type of transportation
- Financing and risk arrangements

The third link, *channels within foreign nations,* gets the products from their entry point to the final buyers and users. Distribution channels within countries vary considerably. Another difference lies in the size and character of retail units abroad. When multinationals first enter a country they prefer to work with local distributors who have good local knowledge, but friction often arises later. The multinational must choose the right distributors, invest in them, and set up performance goals to which they can agree. Some companies choose to invest in infrastructure to ensure they benefit from the right channels. Many retailers are trying to make inroads into global markets.

(Kotler and Keller, 2009:649-659).



ACTIVITY 16.4

Discuss current distribution trends in world markets.

Response at the end of this Section

COUNTRY-OF-ORIGIN EFFECTS

In an increasingly connected, highly competitive global marketplace, government officials and marketers are concerned with how attitudes and beliefs about their country affect consumer and business decision-making.

Country-of-origin perceptions are the mental associations and beliefs triggered by a country. Government officials want to strengthen their country's image to help domestic marketers who export and to attract foreign firms and investors. Marketers want to use country-of-origin perceptions in the most advantageous way possible to sell their products and services.

Building Country Images

Governments now recognise that the image of their cities and countries affects more than tourism and has important value in commerce. Attracting foreign business can improve the local economy, provide jobs, and improve infrastructure. Countries all over the world are being marketed like any other brand. In some cases, negative perceptions must be overcome. Attitudes toward the country-of-origin can change over time.

Consumer Perceptions of Country-of-Origin

Global marketers know that buyers hold distinct attitudes and beliefs about brands or products from different countries. These country-of-origin perceptions can affect consumer decision-making directly or indirectly. The perceptions may be included as an attribute in decision-making or influence other attributes in the process. The mere fact that a brand is perceived as being successful on a global stage may lend credibility and respect.

Several studies have shown the following:

- People are often ethnocentric and favourably predisposed to their own country's products, unless they come from a less developed country
- The more favourable a country's image, the more prominently the "Made in" label should be displayed
- The impact of country of origin varies with the type of product
- Certain countries enjoy a reputation for certain goods
- Sometimes country-of-origin perception can encompass an entire country's products

The favourability of country-of-origin perceptions must be considered both from a domestic and foreign perspective. In the domestic market, country-of-origin may stir up consumers' patriotic notions or remind them of their past. As international trade grows, consumers may view certain brands as symbolically important of their own cultural heritage and identity. A company has several options when its products are competitively priced but their place of origin turns consumers off. The company can consider co-production with a foreign company that has a better name and the company can adopt a strategy to achieve world-class quality in the local industry.

Companies can target niches to establish a footing in new markets. As progress is made, companies can start to build local roots to increase relevance.

(Kotler and Keller, 2009: 659-661).

DECIDING ON THE MARKETING ORGANISATION

Companies manage their international marketing activities in three ways: through export departments, international divisions, or a global organisation.

Export Department

A firm normally gets into international marketing by simply shipping out its goods. As sales increase, the export department is expanded to include various marketing services. If the firm moves into joint ventures or direct investment, the export department will no longer be adequate.

International Division

Many companies become involved in several international markets and ventures. The international division is headed by a division president, who sets goals and budgets, and is responsible for the company's international growth.

The international division's staff consists of functional specialists who provide services to the various operating units. Operational units can be organised in several ways:

- Geographic organisations
- World product groups
- International subsidiaries

Global Organisation

Several firms have become truly global organisations. Their top corporate management and staff plans worldwide manufacturing, marketing policies, financial flows, and logistical systems. The global operating units report directly to the chief executive or executive committee. Executives are trained in worldwide operations. Management is recruited from many countries. These companies face several organisational complexities.

(Kotler and Keller, 2009: 661-662).

CHAPTER SUMMARY

Despite the many challenges in the international arena (shifting borders, unstable governments, foreign-exchange problems, corruption, and technological pirating), companies selling in global industries need to internationalise their operations. Companies cannot simply stay domestic to maintain their markets. In deciding to go abroad, a company needs to define its international marketing objectives and policies. The company must determine whether to market in a few countries or many countries. It must decide which countries to consider. In general, the candidate countries should be rated on three criteria: market attractiveness, risk, and competitive advantage. Developing countries offer a unique set of opportunities and risks. Once a company decides on a particular county, it must determine the best mode of entry. Its broad choices are indirect exporting, direct exporting, licensing, joint ventures, and direct investment. Each succeeding strategy involves more commitment, risk, control, and profit potential. In deciding on the marketing programme, a company must decide how much to adapt its marketing programme product, communications, distribution, and price to local conditions. At the product level, firms can pursue a strategy of straight expansion, product adaptation, or product invention. At the communication level, firms may choose communication adaptation or dual adaptation. At the price level, firms may encounter price escalation and grey markets. At the distribution level, firms need to take a whole channel view of the challenge of distributing products to the final users. In creating all elements of the marketing programme, firms must be aware of the cultural, social, political, technological, environmental, and legal limitations they face in other countries. Country-of-origin perceptions can affect consumers and businesses alike. Managing those perceptions in the most advantageous way possible is an important marketing priority. Depending on the level of international involvement, companies manage their international marketing activity in three ways: through export departments, international divisions, or a global organisation.

Response to Activity 16.1

Because of the complexity of international markets, there is a need to deal with different sets of customers, competition, intermediaries and governments. The extra dimension of dealing with different cultural and competitive situations adds to the difficulty of coping with the entry issue.

Response to Activity 16.2

In contrast to "physical" products, services are characterised by intangibility, perishability, heterogeneity and inseparability.

Implications: The above-mentioned differences imply problems in marketing services internationally.

The international marketer has to consider these difficulties:

- Achieving uniformity of the products in remote locations.
- Pricing is different, because fixed costs can be a large part of the total service costs.
- The perception of the services offered varies considerably between markets, which results in different prices.

Response to Activity 16.3

High inflation in a local country and high exchange risk (of the local currency) may result in a higher price in the local currency. Alternatively, the price should be quoted in a stronger currency (e.g. USD)

Response to Activity 16.4

Increasing vertical integration with a lower number of intermediaries. An increasing part of retailing activity also crosses national boundaries. A large number of retail chains expand internationally and create international retailing organisations operating in many countries. An increasing concentration in the retail sector also results in still more negotiating power to the large international retail chains compared with the manufacturers of consumer goods.

CHAPTER 17

HOLISTIC MARKETING

CHAPTER SEVENTEEN: HOLISTIC MARKETING

LEARNING OBJECTIVES

After reading this chapter, students should be able to:

- Identify the important trends in marketing practices
- Explain the keys to effective internal marketing
- Clarify how companies can be responsible social marketers
- Demonstrate how a company can improve its marketing implementation skills
- Discuss and apply the tools available to help companies monitor and improve their marketing activities

PRESCRIBED READING

Chapter 22- Kotler and Keller (2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall.

RECOMMENDED READING

Chapter 15- Mullins, JW Walker, OC, Boyd, HW and Larrèchè (2006). Marketing Management. (5th Edition). New York: McGraw-Hill.

OPENING NOTE

Healthy long-term growth for a brand requires that the marketing organisation be managed properly. Holistic marketers must embrace the complexity of marketing. They must engage in a host of carefully planned, interconnected marketing activities. Successful holistic marketing requires effective relationship marketing, integrated marketing, internal marketing, and social marketing.

TRENDS IN MARKETING PRACTICES

In response to the rapidly changing marketing environment, Kotler and Keller (2009:666) assert that companies have restructured their business and marketing practices in some of the following ways:

- Reengineering
- Outsourcing
- Benchmarking supplier partnering
- Customer partnering
- Merging
- Globalising
- Flattening
- Focusing
- Accelerating
- Empowering

The role of marketing in the organisation is changing. Traditionally, marketers have played the role of middlemen. In a networked enterprise every functional area can interact directly with customers. Marketing in a networked enterprise must integrate all the customer-facing processes so that the customer sees a single face and hears a single voice when they interact with the firm.

INTERNAL MARKETING

Internal marketing according to Kotler and Keller (2009:667) requires that everyone in the organisation buy into the concepts and goals of marketing and engage in choosing, providing, and communicating customer value. A company can have an excellent marketing department, yet fail at marketing. Much depends upon how the other company departments view customers. Only when all employees realise that their jobs are to create, serve, and satisfy customers does the company become an effective marketer. Many companies are now focusing on key processes rather than departments to serve the customer. To achieve customer-related outcomes, companies appoint process leaders who manage cross-disciplinary teams.

Organising the Marketing Department

Modern marketing departments may be organised in a number of different, sometimes overlapping ways: functionally, geographically, by product or brand, by market, in a matrix, and by corporate division.

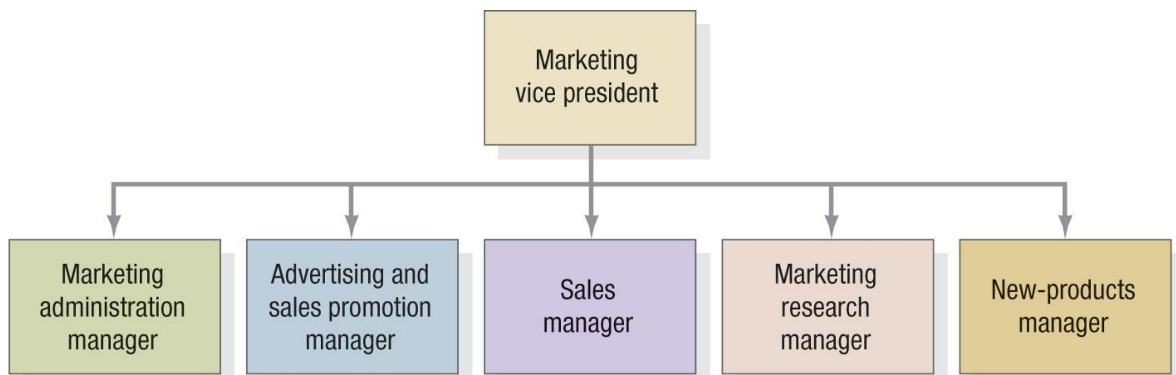
Functional Organisation

The most common form of marketing organisation consists of functional specialists reporting to a marketing vice president, who coordinates their activities. Additional specialists might include the:

- Customer service manager
- Marketing planning manager
- Market logistic manager
- Direct marketing manager
- Internet marketing manager

The main advantage of a functional marketing organisation is its administrative simplicity. A functional organisation often leads to inadequate planning for specific products and markets. Figure 17.1 depicts a typical functional organisation.

Figure 17.1 – Functional Organisation



Source: Kotler and Keller. (2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. p669.

Geographic Organisation

A company selling in a national market often organises its sales force along geographic lines. Several companies are now adding ***area-marketing specialists*** (regional or local marketing managers) to support the sales efforts in high-volume markets. Improved information and marketing research technologies have spurred regionalisation. Some companies have to develop different marketing programmes in different parts of the country out of necessity because their brand developments (and retailers' request it) varies so much.

Product-or-Brand-Management Organisation

Companies producing a variety of products and brands often establish a product (or brand) management organisation. The product management organisation does not replace the functional organisation but serves as another layer or management. A product manager supervises product category managers, who in turn supervise specific product and brand managers. A product-management organisation makes sense if the company's products are quite different, or if the sheer number of products is beyond the ability of a functional organisation to handle. Product and brand management is sometimes characterised as a ***hub-and-spoke system*** as depicted in Figure 17.2.

Figure 17.2 – The Product Manager's Interactions

Source: Kotler and Keller. (2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall. P670.

Some of the tasks that product or brand managers may perform include:

- Developing a long-range and competitive strategy for the product
- Preparing an annual marketing plan and sales forecast
- Working with advertising and merchandising agencies
- Increasing support of the product among the sales force and distributors
- Gathering continuous intelligence on the product's performance, customer and dealer attitudes, and new problems and opportunities
- Initiating product improvements to meet changing market needs

These tasks are common to both consumer and industrial product managers. ***Consumer-product managers*** typically manage fewer products and spend more time on advertising and sales promotion. ***Industrial product managers*** spend more time with customers, laboratory, and engineering personnel. The product-management organisation has several advantages:

- Product managers can concentrate on developing a cost-effective marketing mix for the product
- He/she or she can react more quickly to new products in the marketplace
- The company's smaller brands have a product advocate

The product management also has some disadvantages:

- Product managers and specifically brand managers are not given enough authority to carry out their responsibilities
- Product and brand managers become experts in their product area but rarely achieve functional expertise
- The product management system often turns out to be costly
- Brand managers normally manage a brand for only a short time
- The fragmentation of markets makes it harder to develop a national strategy from headquarters
- Product and brand managers cause the company to focus on building marketing share rather than building the customer relationship

There are three types of potential product-team structures:

- Vertical product teams
- Triangular product teams
- Horizontal product teams

The triangular and horizontal product team approaches are favoured by those who advocate brand asset management. They believe that each major brand should be run by a ***brand asset management team (BAMT)*** consisting of key representatives from major functions affecting brand's performance. A third alternative for product management organisation is to eliminate product manager positions for minor products and assign two or more products to each remaining manager. A fourth alternative is to introduce ***category management*** in which a company focuses on product categories to manage its brands. A rationale for category management is the increasing power of the trader who thinks in terms of category of products not individual product lines.

Market-Management Organisation

When customers fall into different user groups with distinct buying preferences and practices, a market-management organisation is desirable. A market manager supervises several market managers (also called market-development managers, market specialists, or industry specialists). Market managers and staff develop long-range and annual plans for their markets. Market managers are judged by their market's growth and profitability. Many companies are reorganising along market lines and becoming *market-centered organisations.* In a *customer-management organisation,* companies can organise themselves to understand and deal with individual customers.

Matrix-Management Organisation

Companies that produce many products flowing into many markets adopt a matrix organisation. Companies can go one step further and view the market managers as the main marketers, and their product managers as suppliers.

A matrix organisation would seem desirable in a multi-product, multi-market company.

This system is costly and often creates conflicts, for example:

- How should the sales force be organised?
- Who should set the prices for a particular product or market?

Matrix management gained popularity because companies provide the context in which a matrix can thrive - flat, lean team organisations focused around business processes that cut horizontally across functions.

Corporate-Divisional Organisation

As multi-product, multi-market companies grow, they often convert their larger product or market groups into separate divisions. The divisions set up their own departments and services. This raises the question of what marketing services and activities should be retained at company headquarters. Companies divided on this issue have reached different answers to this question. These answers include

- No corporate marketing
- Moderate corporate marketing
- Strong corporate marketing

Regardless of how formalised corporate marketing is, certain activities must occur within the organisation in a "top-down" fashion. Webster (2000:39-65) sees the role of marketing at the corporate level as:

- Promoting a culture of customer orientations and to be an advocate for the customer in the deliberations of top management strategy formulation
- Assessing market attractiveness by analysing customer needs, wants, and competitive offerings
- Developing the firm's overall value proposition, the vision and articulation of how it proposes to deliver superior value to customers

Relations with Other Departments

In principle, all business functions should interact harmoniously to pursue the firm's overall objectives. In practice, interdepartmental relations are often characterised by deep rivalries and distrust. In the typical organisation, each business function has a potential impact on customer satisfaction. Under the marketing concept, all departments need to "think customer" and work together to satisfy customer needs and expectations.

The marketing vice president, or CMO, has two tasks:

- To coordinate the company's internal marketing activities
- To coordinate marketing with finance, operations, and other company functions to serve the customer

Yet there is little agreement on how much influence and authority marketing should have over other departments. Typically, the marketing vice president must work through permission rather than authority. Companies need to develop a balanced orientation in which marketing and other functions jointly determine what is in the company's best interests. Perhaps, the best solution is for marketing to periodically propose a ***function-to-function*** meeting with departments where greater understanding and collaboration is warranted.

Building a Creative Marketing Organisation

Many companies are beginning to realise that they are not really market- and customer-driven, they are product-and-sales driven. To transform themselves into true market-driven companies will require developing a company-wide passion for customers and organising around customer segments instead of around products. They should develop a deep understanding of customers through qualitative and quantitative research. The task is not easy; it will require a change in job and department definition, responsibilities, incentives, and relationships. The organisation must also be creative. The only answer is for the firm to build a capability in strategic innovation and imagination. Companies must watch trends and be ready to capitalise on them. Market leaders tend to miss trends when they are:

- Risk averse
- Obsessed about protecting their existing markets and physical resources
- More interested in efficiency than innovation

(Kotler and Keller, 2009:666-674).

SOCIALLY RESPONSIBLE MARKETING

Effective internal marketing must be matched by a strong sense of social responsibility. Companies need to evaluate whether they are truly practicing ethical and socially responsible marketing. Several forces are driving companies to practice a higher level of corporate social responsibility:

- Rising customer expectations
- Changing employee expectations
- Government legislation and pressure
- Investor interest in social criteria
- Changing business procurement practices

Business success and continually satisfying the customer and other stakeholders are closely tied to adoption and implementation of high standards of business and marketing conduct. Business practices are often under attack because business situations routinely pose tough ethical dilemmas. Drawing a clear line between normal marketing practice and unethical behaviour is not easy.

Certain business practices are clearly unethical or illegal. These include issues relating to:

- Bribery or stealing trade secrets
- False and deceptive advertising
- Exclusive dealing and tying agreements
- Quality or safety defects
- False warranties
- Inaccurate labelling
- Price-fixing or undue discrimination
- Barriers to entry and predatory competition

Today companies that do not perform ethically or well are at a greater risk of being exposed, thanks to the Internet.

Corporate Social Responsibility

Raising the level of socially responsible marketing calls for a three-pronged attack that relies on proper legal, ethical, and social responsibility behaviour.

Legal Behaviour

Society must use the law to define those practices that are illegal, antisocial, or anticompetitive. Organisations must ensure that every employee knows and observes all relevant laws.

Ethical Behaviour

Companies must adopt and disseminate a written code of ethics, build a company tradition of ethical behaviour, and hold its people fully responsible for observing ethical and legal guidelines.

Social Responsibility Behaviour

Individual marketers must practice a "social conscience" in specific dealing with customers and stakeholders. Increasingly, people say that they want information about a company's record on social and environmental responsibility to help decide which companies to buy from, invest in, and work for. Deciding how to communicate corporate attitudes and behaviours towards social responsibility can be difficult.

Socially Responsible Business Models

The future holds a wealth of opportunities for companies. Many companies are giving social responsibility a more prominent role.

Cause-Related Marketing

Many firms are blending their corporate social responsibility initiatives with their marketing activities. ***Cause-related marketing*** is marketing that links the firm's contributions to a designated cause to customers' engaging directly or indirectly in revenue-producing transactions with the firm. Cause marketing has also been called a part of ***corporate societal marketing (CSM).*** Cause-related marketing comes in many forms.

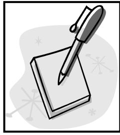
Cause Marketing Benefits and Costs

A successful cause-marketing programme can produce a number of benefits that include:

- Improving social welfare
- Creating differentiated brand positioning
- Building strong consumer bonds
- Enhancing the company's public image with government and other decision-makers
- Creating a reservoir of good will
- Boosting internal morale and galvanising employees
- Driving sales

By humanising the firm, consumers may develop a strong, unique bond with the firm that transcends normal marketplace transactions. Some of the specific means by which cause-marketing programmes can build brand equity with consumers include:

- Building brand awareness
- Enhancing brand image
- Establishing brand credibility
- Evoking brand feelings
- Creating a sense of brand community
- Eliciting brand engagement



ACTIVITY 17.1

What are the dangers in the promotional efforts behind cause-related marketing ?

Response at the end of this Section

Choosing a Cause

Some experts believe that the positive impact on a brand from cause-related marketing may be lessened by sporadic involvement with numerous causes. Many companies choose to focus on one or a few main causes to simplify execution and maximise impact. Limiting support to a single cause may limit the pool of consumers or other stakeholders who could transfer positive feelings from the cause to the firm. Most firms tend to choose causes that fit their corporate or brand image and matter to their employees and shareholders.

Branding the Cause Marketing Programme

There are three potential options for branding a cause-marketing programme:

- Self-branded: create own cause programme
- Co-branded: link to existing cause programme
- Jointly-branded: link to existing cause programme

Social Marketing

Some marketing is conducted to directly address a social problem or cause. Cause-related marketing is done by a company to support a cause. ***Social marketing*** is done by a nonprofit or government organisation to further a cause. Social marketing is a global phenomenon that goes back for years. Literally hundreds of nonprofit organisations are involved with social marketing. Choosing the right goal or objective for a social marketing programme is critical.

Social marketing campaigns may have objectives related to changing people's cognitions, values, actions, or behaviours. The social marketing planning process follows many of the same steps as for traditional products and services. Given the complexity and challenges of the issues involved with social marketing, it is important to take a long-run view. The actual success of the social marketing programme must be evaluated in terms of the programme objectives. Criteria might include the following:

- High incidence of adoption
- High speed of adoption
- High continuance of adoption
- Low cost per unit of adoption
- No major counterproductive consequences

Corporate culture defined as "the shared experiences, stories, beliefs, and norms that characterise an organisation."

(Kotler and Keller, 2009:674-687).

MARKETING IMPLEMENTATION

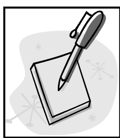
A marketing company is great not by "what it is," but by "what it does." ***Marketing implementation*** is the process that turns marketing plans into action assignments and ensures that such assignments are executed in a manner that accomplishes the plan's stated objectives. A brilliant strategic marketing plan counts for little if it is not implemented properly. Strategy addresses *what* and *why* of marketing activities. Implementation addresses the *who, where, when,* and *how*. Thomas Bonoma (1985) identified four sets of skills for implementing marketing programmes:

- Diagnostic skills
- Identification of company level
- Implementation skills
- Evaluation skills

Companies today are striving to make their marketing operations more efficient and their return on marketing investment more measurable. Companies use information technology to improve the management of their marketing resources. Certain repetitive processes can be automated. This drive is going under such names as:

- Marketing resource management (MRM)
- Enterprise marketing management (EMM)
- Marketing automation systems (MAS)
- Marketing resource management (MRM)

(Kotler and Keller, 2006:688).



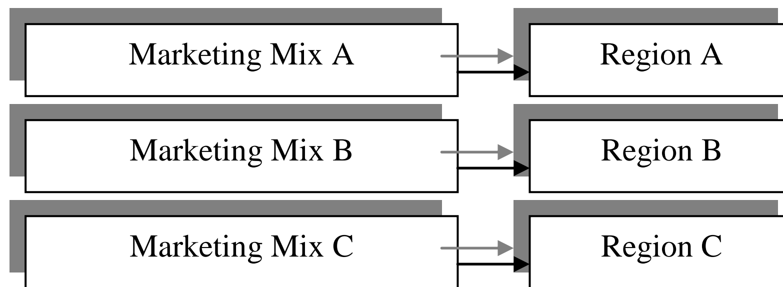
ACTIVITY 17.2

Is Marketing Management an Art or a Science?

Response at the end of this Section

DIFFERENTIATED MARKETING

With differentiated marketing, an organisation will segment its overseas markets, and offer a marketing mix to meet the needs of each of its markets. The great benefit of standardisation is that costs are lowered, profitability is increased and the task of supplying different markets becomes substantially easier. The diagram below illustrates the process of adapting the marketing mix to meet the needs of different geographical markets:



However, it could also be argued that the success of many products in international markets has come about because marketers have successfully adapted their marketing mix to meet local needs. To a large extent the standardisation/adaptation dilemma depends upon an organisation's view of its overseas markets and the degree to which it is prepared to commit itself to meeting the needs of overseas customers. There are three main approaches that can be applied:

1. Polycentrism - with this marketing approach, a business will establish subsidiaries, each with their own marketing objectives and policies, which are decentralised from the parent company. Adaptation takes place in every market using different mixes to satisfy customer requirements.

2. Ethnocentrism - overseas operations are considered to be of little importance. Plans for overseas markets are developed at home. There is little research, the marketing mix is standardised and there is no real attention to different customer needs and requirements in each market.

3. Geocentrism - standardisation takes place wherever possible and adaptation takes place where necessary. This is a pragmatic approach.

A confectionery and soft drinks manufacturer like Cadbury Schweppes typically produces a range of standard items that are sold throughout the globe using similar marketing mix. However, differences may occur in such aspects as distribution channels and pricing as well as advertising in languages that are relevant to particular cultures.

In addition, such a company would produce some products which cater for particular tastes, and which are relevant to particular cultures. New products might then be tested in a regional area, before

consideration of which other areas of the globe to roll out that product to. Two strategies that can be adopted are:

- **Standardisation** - refers to manufacturing, marketing or employing other processes in a standard way.
- **Differentiation** - is the process of making products or aspects of the marketing mix different so as to appeal to different markets

(http://www.times100.com).

EVALUATION AND CONTROL

In spite of the need to monitor and control marketing activities, many companies have inadequate control procedures.

Annual-Plan Control

Annual-plan control aims to ensure that the company achieves the sales, profits, and other goals established in its annual plan. The heart of annual-plan control is management by objectives. Four steps are involved:

- Management sets monthly or quarterly goals
- Management monitors its performance in the marketplace
- Management determines the causes of serious performance deviations
- Management takes corrective action to close the gaps between goals and performance

Efficiency Control

Some companies have established a *marketing controller* position to improve marketing efficiency. Marketing controllers work out of the controller's office but specialise in the marketing side of the business.

Sales-Force Efficiency

Sales managers need to monitor the following key indicators of efficiency in their territories:

- Average number of calls per salesperson per day
- Average sales call time per contact
- Average revenue per sales call
- Average cost per sales call
- Entertainment cost per sales call
- Percentage of orders per 100 sales calls
- Number of new customers per period
- Number of lost customers per period
- Sales-force cost as a percentage of total sales

When a company starts investigating sales-force efficiency, it often finds areas for improvement.

Advertising Efficiency

Many managers believe it is almost impossible to measure what they are getting for their advertising rands; but they should try to keep track of at least the following statistics:

- Advertising cost per thousand target buyers reached by media vehicle
- Percentage of audience who noted, saw, or associated and read most of each print advertisement
- Consumer opinions on the advertisement's content and effectiveness
- Before and after measures of attitude toward the product
- Number of inquiries stimulated by the advertisement
- Cost per inquiry

Management can take a number of steps to improve advertising efficiency, including:

- Better job in positioning the product
- Defining objectives
- Pre-testing messages
- Using computer technology to guide the selection of media
- Looking for better media buys
- Post-testing

Sales-Promotion Efficiency

Sales promotion includes dozens of devices for stimulating buyer interest and product trial.

To improve sales-promotion efficiency, management should record the costs and sales impact of each promotion and watch the following statistics:

- Percentage of sales sold on deal
- Display costs per sales rand
- Percentage of coupons redeemed
- Number of inquiries resulting from a demonstration

Distribution Efficiency

Management needs to search for distribution economies on inventory control, warehouse locations, and transportation modes. It should track such measures as logistics costs as a percentage of sales, percentage of orders filled correctly, percentage of on-time deliveries and the number of billing errors. One problem is that distribution efficiency declines when the company experiences strong sales increase.

Strategic Control

From time to time, companies need to undertake a critical review of overall marketing goals and effectiveness. Each company should periodically reassess its strategic approach to the marketplace with marketing effectiveness reviews and marketing audits.

The Marketing Effectiveness Review

A company's or divisions marketing effectiveness is reflected in the degree to which it exhibits the following five major attributes of a marketing orientation:

- Customer philosophy
- Integrated marketing organisation
- Adequate marketing information
- Strategic orientation
- Operational efficiency

The Marketing Audit

The average U.S. corporation loses half of its customers in five years, half of its employees in four years, and half of its investors in less than one year. Clearly, this points to some weaknesses. Companies that discover weaknesses should undertake a thorough study known as a marketing audit.

A ***marketing audit*** is a comprehensive, systematic, independent, and periodic examination of a company's or business unit's marketing environment, objectives, strategies, and activities with a view to determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance.

The marketing audit has to have four of the following characteristics.

It must be:

- Comprehensive
- Systematic
- Independent
- Periodic

A marketing audit starts out with a meeting between the company officer(s) and the marketing auditor(s) to work out an agreement on the audits to determine:

- Objectives
- Coverage
- Depth
- Data sources
- Report format
- Time frame

READING ACTIVITY

Study pages 698-699 Kotler and Keller (2009). Marketing Management. (13th Edition). Upper Saddle River, New Jersey: Prentice Hall for the components of a Marketing Audit.

The cardinal rule of the marketing audit is not to rely solely on company managers for data and opinions. Customers, dealers, and other outside groups must also be interviewed.

The Marketing Excellence Review

Companies can use another instrument to rate their performance in relation to the best practices of high-performing business. Management can check its perception of where its business stands in relation to these others.

(Kotler and Keller, 2009:689-697).

THE FUTURE OF MARKETING

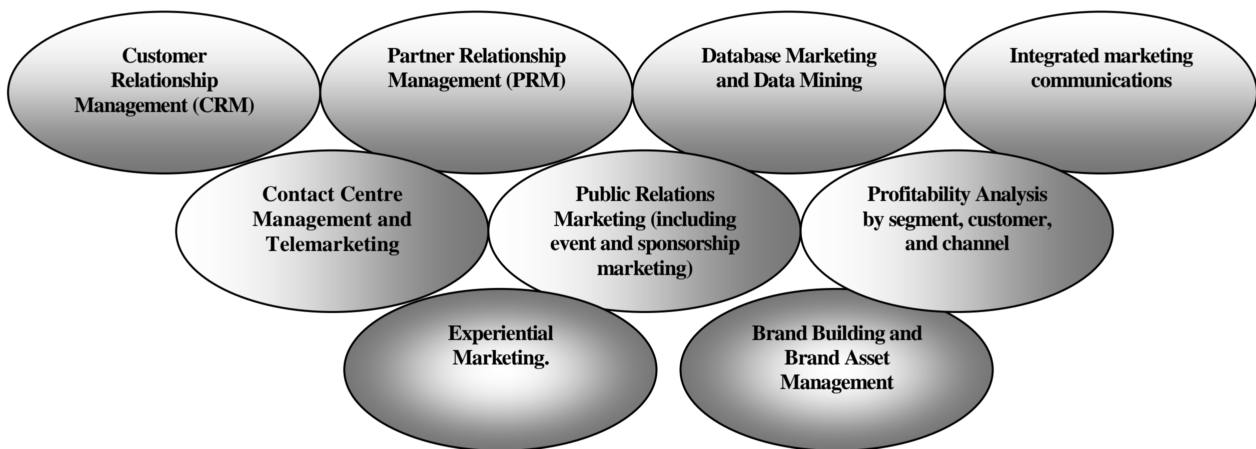
Top management has recognised that past marketing has been highly wasteful and is demanding more accountability from marketing. Going forward, there are a number of imperatives to achieve marketing excellence. These include:

- Marketing must be “holistic” and less departmental
- Marketers must achieve larger influence in the company if they are to be the main architect of business strategy
- Marketers must continuously create new ideas if the company is to prosper in a hyper-competitive economy
- Marketers must strive for customer insight and treat customers differently but appropriately
- Marketers must build their brands through performance, more than through promotion
- Marketers must go electronic and win through building superior information and communication systems

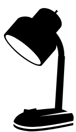
In the coming years we will see the **demise** of:

- the marketing department and the **rise** of holistic marketing
- free-spending marketing and the **rise** of ROI marketing
- marketing intuition and the **rise** of marketing science
- manual marketing and the **rise** of automated marketing
- mass marketing and the **rise** of precision marketing

To accomplish these changes, a new set of skills and competencies is needed. Proficiency will be demanded in areas such as:



MARKETING SPOTLIGHT—MICROSOFT



- What have been the key success factors for Microsoft?
- Where is Microsoft vulnerable?
- What should Microsoft watch out for?
- What recommendation would you make to their senior marketing executives at Microsoft?
- What should they be sure to do with their marketing?

Response at the end of this Section

CHAPTER SUMMARY

The modern marketing department has evolved through the years from a simple sales department to an organisational structure where marketing personnel work mainly on cross-disciplinary teams. Modern marketing departments can be organised in a number of ways. Some companies are organised by functional specialisation, although others focus on geography and regionalisation. Still others emphasise product and brand management or market-segment management. Some companies establish a matrix organisation consisting of both product and market managers. Finally, some companies have strong corporate marketing, others have limited corporate marketing, and still others place marketing only in the divisions. Effective modern marketing organisations are marked by a strong cooperation and customer focus among the company’s departments: marketing, RandD, engineering, purchasing, manufacturing, operations, finance, accounting, and credit. Companies must practice social responsibility through their legal, ethical, and social words and actions. Cause marketing can be a means for companies to productively link social responsibility to consumer marketing programmes. Social marketing is done by a non-profit or government organisation to directly address a social problem or cause. A brilliant strategic marketing plan counts for little if it is not implemented properly. Implementing marketing plans calls for skills in recognising and diagnosing a problem, assessing the company level where the problem exists, implementation skills, and skills in evaluating the results. The marketing department has to monitor and control marketing activities continuously. Efficiency control focuses on finding ways to increase the efficiency of the sales force, advertising, sales promotion, and distribution. Strategic control entails a periodic reassessment of the company and its strategic approach to the marketplace, using the tools of the marketing effectiveness, excellence reviews, and the marketing audit.

Response to Marketing Spotlight

What have been the key success factors for Microsoft?

- Product innovation
- Brand-extension strategy
- Heavy advertising
- Competitiveness toughness
- Product expansion
- Product integration

Where is Microsoft vulnerable?

- Overexposure of their trademarked name
- Being the market leader or market innovator invites competition to challenge their dominance
- Use of internal associates to create new products- these people are not the target market for their products and as a result may not fully understand the market

What should Microsoft watch out for?

- Consumer shifts in usage of their products
- New and/or cutting edge technology developing around them
- Quality and functionality of their products versus key competitors

What recommendation would you make to their senior marketing executives at Microsoft?

- They should not rest on past successes but continue their strategic direction of investing in new products and in the process of creating new products
- They should also look at the potential of products in the far future

What should the company be sure to do with their marketing?

They should continue to capitalise on their name and develop marketing programmes that cement the name Microsoft in the minds of consumers. They should also target innovators and heavy users in product launches for diffusion and adoption across to the whole market.

Response to Activity 17.1

The danger is that the promotional efforts behind a cause-related marketing programme could backfire if cynical consumers question the link between the product and the cause and see the firm as being self-serving and exploitative. A number of decisions must be made in designing and implementing a cause-marketing programme, such as how many, and which cause(s) to choose, and how to brand the cause programme.

Response to Activity 17.2

Marketing observers maintain that good marketing is something that is more than anything an art and does not lend itself to rigorous analysis and deliberation. Others strongly disagree and contend that marketing management is a highly disciplined enterprise that shares much in common with other business disciplines.

WEB BASED CASE STUDIES
Visit: http://www.times100.com

The case studies show all the business studies theory you need to know in practice.

The following cases are particularly useful:

Company	**Spotlight**
Nestlè	New Product Development at Nestle
McDonalds	The Marketing process
Vodafone	Cause marketing
Siemens	Meeting global and local needs
Beiersdorf	Developing product markets
D and S International	Competitive Advantage
Ford	Sponsorship and the marketing mix
Intel	Market Leader strategies
Kraft	The value of sales
Motorola	Marketing Mix
Nivea	Segmentation
Northern Rock	Growth Strategy
Philips	Branding
Portakabin	Customer Service
Also visit www.prenhall.com/kotler for the companion web site	

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