Business Management
Study Manuals

Advanced Diploma in
Business Management

STRATEGIC MARKETING MANAGEMENT

The Association of Business Executives

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INTRODUCTION

In this first study unit we will consider the nature of the strategic planning process in general, starting from the corporate level and cascading down through the functional levels. This will form the basis of subsequent discussion of the processes in relation to marketing in the following study units.

We start by examining the nature, purpose and importance of the planning process. In particular, we shall concentrate on the contents of plans – including the criteria for objectives and the nature of strategies and controls, together with the reasons why planning sometimes fails – and the various types of plans which are to be found in any type of business planning. We will also examine some of the contemporary issues that impinge on business planning.

We shall also consider the beginning of the strategic planning process, incorporating the mission statement, corporate level objectives and strategies, and see how these objectives and strategies cascade down through the organisation to the functional, or SBU, levels. We shall examine how the lines of communication throughout the organisation ensure that, as information is passed down the chain, objectives and strategies can be converted to suit each relevant section but they will still be governed, and guided, by the corporate level decisions.

At the end of this unit, and all subsequent units, there are a series of revision questions that you should answer to test your knowledge and understanding. Please compare your answers with those provided at the end of this study guide. There is also a past examination question which will show you the type of question you might expect in the examination.

A. THE PLANNING PROCESS

Planning is simply the process of deciding in the present what to do in the future. It involves laying down courses of action for a specified time period which will utilise resources in the most effective manner and which will work towards the achievement of a specified goal.

We can consider the process as being split into five stages:

- Where are we now?
- Where do we want to be?
- How can we get there?
- Which way is best?
- How can we ensure arrival?

These five stages sum up the entire planning process that a manager should go through. To demonstrate the logic of the planning process and just how easy it can be, consider the imaginary scenario below.

(a) Where are we now?

Imagine you are a student living in London and you have four months' break from University. You don't want to stay in London and want to go somewhere else for your holiday.

(b) Where do we want to be?

Where? You've always wanted to go to New York, so New York it is.

(c) How can we get there?

How many different ways can you get there? By air or sea.

(d) Which way is best?

Which would be the best option for you in your circumstances?

Air is quicker but more expensive. You decide on sea and think about the different methods of going by sea – Queen Mary 2, a passenger liner from another company, a berth on a cargo liner.

- Do you have the resources to cope with this? Your cash is limited and you are sure that you cannot afford to travel on the Queen Mary 2 so you check the prices for other options but find that they are still too expensive for you.
- At this stage you have to reconsider your target. Is New York realistic? You consider Paris, Brussels, Berlin – all of which would be within your price range but still you want to go to New York as that has been a long-term ambition or goal.
- So you have to look again at the alternatives for travel. You know air is quicker than sea. You know air is out of your price range, but then so is sea travel by the options you've looked at.

What other options are there?

- A friend suggests you get a job on a ship that is going to New York. You make enquiries and find that it is possible, but you will have to sign on for both outward and inward journeys so you would not be able to stay in New York. The situation seems impossible. The next day you are reading a newspaper and see an advert recruiting airline couriers.
- You apply and are offered a job carrying documents around the world from one airport to another. The job entails picking up documents in one place and delivering them to another. You can stay as long as you like at each delivery point until you are ready to carry on to another place. Unfortunately, you can only go where you are sent and have no choice in your destination. You are told that eventually you are bound to be sent to New York.
- You decide to take a risk and accept the job setting a maximum period of three months to achieve your goal of New York. This gives you a month to get yourself back to London in time for University.

(e) How can we ensure arrival?

At the end of a month you still haven't got to New York, but you have been to several other big cities in the world and have enjoyed the experience. You are keeping an eye on the time going by.

After two months you are finally given an assignment which will take you to New York. This is a bonus for you as you are reaching your target ahead of the time you had allowed but you still can't believe you are finally going there.

(f) How do we know we have arrived?

The day you are standing on the balcony at the top of the Empire State Building looking down on New York, you know that you have arrived – your objective has been achieved!

(Note that this stage is not normally shown separately in the process – it is assumed to be part of the "how do we ensure arrival?" stage.)

This is a nice little story of individual aims being reached but it actually demonstrates the entire planning process:

Where are we now?	London	Current situation
Where do we want to be?	New York	Objective
How can we get there?	Air or sea	Strategies available
Which way is best?	Air	Strategy assessment
Can we do it?	No	Resource assessment
Can we go by sea?	No	Outcome of research
Do we still want to go?	Yes	Objective still valid
Are there other methods?	Yes	Outcome of research
Is the method acceptable?	Possibly	Risk assessed/accepted
Are we on target for time?	Yes	Monitoring progress
Have we arrived?	Yes	Objective achieved

We have expanded the list a little to show more of the processes involved but you can see that the made up story reflects the five questions which cover the stages in the process of planning.

Now consider a slightly different scenario to the outcome of our New York story.

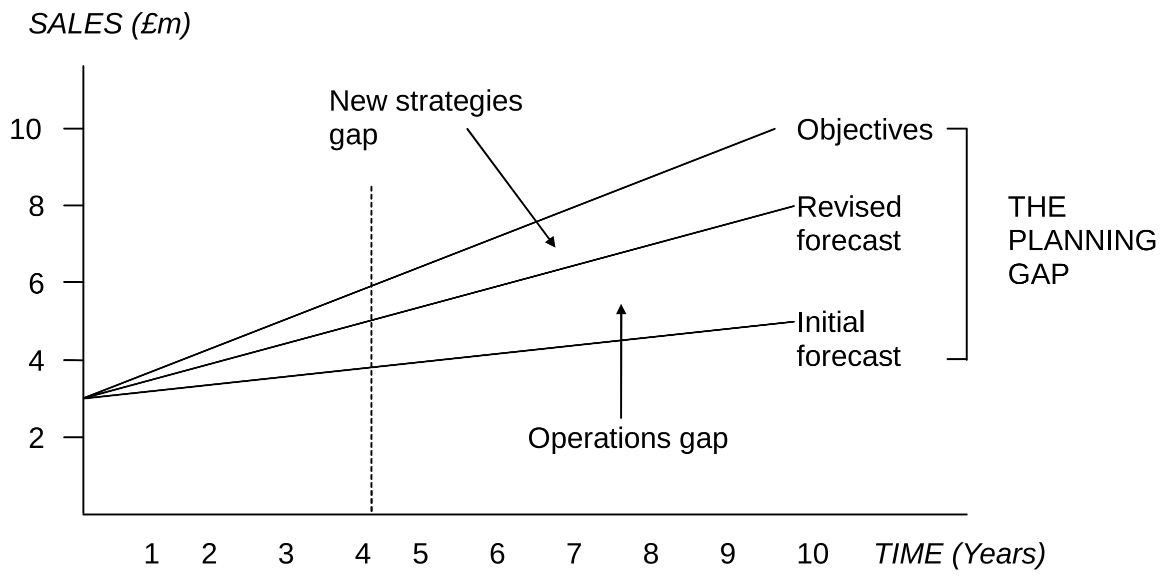
Suppose that you would have liked to reach New York, but hadn't done anything about it? What is likely to have happened?

It is possible that you would have been in London for the whole of the four months. There would have been a big difference between what you would have liked to achieve before you went back to University, and what you actually achieved. This difference would have been quite easy for you to work out if you had thought about it, and it might have made you do something to change things. We refer to this difference as the ***planning gap*** and the activities we undertake to identify the gap is known as ***gap analysis***.

The Planning Gap

You will often find this term in text books and it describes, in organisational terms, the difference between the ***desired future*** and the ***likely future***. Figure 1.1 demonstrates the concept.

Figure 1.1: The Planning Gap



If an organisation continues on its current path the likely outcomes can be forecast, based on what has happened in the past and what is happening in the present. The objectives can then be plotted onto the diagram to show what is being aimed for at a certain time (represented by the vertical line on the diagram).

The planning gap is where the aimed for outcome differs from the likely outcome.

The planners must find a way of "closing the gap" and this is where strategy choice is important. Strategies chosen must be aimed at narrowing, if not closing completely, the gap between what is being aimed for and what is likely to be achieved.

The Importance of Planning

Planning, as a human activity, has always been in existence. From early days, hunters planned how to catch food for their families and so on. We all try to plan out our personal lives according to what we want, or need, to do. This personal planning can be at quite a simple level and, on occasions, can be quite complex – think of the planning for a family wedding! However, we are now going to concentrate on the planning which is done in organisations.

In the same way as personal planning, organisational plans can be either complex or simple – it really depends on what is being aimed for and how much of the overall organisation is affected by the plan.

What we do know is that organisational planning in today's fast moving business world is very sophisticated – even if it is very logical.

Consider the changes which have taken place in the business world which have brought us to this situation:

- There is a dynamic, complex and fast changing environment
- The market is highly competitive and global
- Brands have become highly significant
- Innovation is becoming increasingly important
- There is a strong move towards acquisitions, strategic alliances, partnerships and joint-ventures
- The growth of economic trading blocks
- The need for better knowledge and learning
- The demand for marketers to be accountable and the increased drive for shareholder value
- The need to work closer with other function.

Arguably the most significant of these changes are:

- Increased competition and the growth of technology.

In the cold, real world of business, marketers would have to admit that it is the competition which keeps them on their toes. Everyone knows that marketing is about finding out what the customer wants and then providing it, but it is the competition that stops a company from being complacent.

It would be wonderful if we could just take our time to supply what the customer wanted without any interference or hindrance from any other party, but it just doesn't happen that way. There will always be someone who gets in the way.

It is because of this that planning has become so sophisticated and is seen as the life-blood of the organisation. ***NO PLANNING – NO FUTURE***!

The game is certainly getting harder to win!

Examples of the ***benefits*** to be gained from planning include:

- ***Risk reduction***

  The better the plan is, the more secure the future is likely to be. A good plan takes into account a wide variety of factors which could influence the future for the organisation, e.g. possible new regulations introduced by a government.

- ***Reduction of uncertainty***

  Personnel need to be aware of what is expected of them and when they have to do it.

- ***Setting targets and standards***

  If a plan is well thought out, the targets and objectives agreed will be realistic and achievable. Unrealistic targets act as demotivators and are likely to lead to the failure of a plan.

- ***Guidance***

  Having a plan to follow gives clear instructions to the personnel involved.

- ***Gains commitment***

  People who accept a plan as being valid will work better towards its success. Very often a good plan will help to overcome resistance to change – providing the benefits of the plan can be demonstrated to those who have to implement it.

- ***Improves decision making***

  If a plan is laid down, managers can check progress and make reasoned decisions on activities, etc. that need to be carried out. The security of working to a plan helps decision-makers be more confident and assertive.

B. DEVELOPING PLANS

So far we have looked at planning and not really considered what an actual plan is in its own right.

A plan is the outcome of the planning process. It can be a ***formal plan*** which is very detailed, or an ***outline plan*** which just gives the skeleton of what is proposed.

In organisational terms a plan is usually written down with figures and appendices attached to it to justify proposals, etc. The plan will be circulated to everyone who is involved so that they can see their own responsibilities and the time scales involved. Indeed, if the planning process has been carried out correctly, most of the people involved will have had some input into the formation of the plan and the final document should come as no surprise to them.

At any level in the organisation, every plan should have:

- Objectives
- Strategies
- Tactics/programmes
- Controls.

However, as you can see from the summary of the stages on the invented story about you and New York, the stages are often more involved and become expanded to fit the given circumstances, so for a large organisation the plans may be quite complex.

We shall look at each of these elements in turn, but first we should briefly consider the overarching issue of policy.

Policy

Policy is expressed in statements made by the company about how it wants to operate. These policy statements reflect choices the organisation has made and they provide an umbrella under which the company makes all other decisions. They ensure consistency of decision making across the organisation and, thus, we talk of decisions being made "in line with policy".

Policy relates directly to how the business is conducted. This may be quite general in respect of the business as a whole – as reflected in mission statements and the concept of vision, both of which we consider below – or may relate to quite tactical issues. As such, they are closely related to the culture of the organisation.

Examples of policy statements include:

- ***General statements of business operations:***

  It is company policy to donate 10% of all net profits to local charity.

  It is policy not to promote our products to x, y, z segments of the population (for example, drink and cigarettes to young people).

- ***Detailed operational practices:***

  Personnel procedures – equal opportunities policy.

  Customer care procedures – policy of refunds with no questions asked.

  Security procedures – always to prosecute shoplifters.

Objectives – What is Being Aimed For

Objectives need to be quite clear. They should set out ***exactly*** what is being aimed for and, wherever possible, they should be quantified. Remember, a plan is a way of co-ordinating both energy and effort towards achieving a common goal. If that goal is not specific, it is very easy for people to end up pulling in different directions, wasting both energy and resources.

Objectives should be "SMART". If we look at an example of an objective and then consider each of the letters we can see that this mnemonic covers all the requirements of an objective:

"To increase market share by 8% within the next two years".

- **Specific – S**

  The objective states quite clearly what the intention is – to increase by 8%. This means that everyone can see what the difference is between the current position and how much they have to gain within the next two years (the planning gap). The stated objective allows targets to be set and operating plans to be scheduled in the most effective way.

  If the objective is not clear, it will not be understood by the people who have to implement the plan. If it is not specific it can cause confusion on just what is being aimed for. The objective overall must spell out ***exactly*** what is being aimed for and when it is to be achieved.

- **Measurable – M**

  An objective must be quantified so that it can be measured against an expected standard. The sample objective we are using gives us two measurement points – 8% and two years. The benefits of this are obvious. Planners can set targets over timed periods; they can monitor progress to see if everything is going according to the plan and, if not, they can take corrective action.

If no quantifiers are given in the objectives, there is a danger that people will never set out to achieve them. They may drift along in the normal way without giving any extra effort to growth or whatever it is that the objective is trying to achieve.

- **Achievable – A**

  If an objective is not achievable, it will act as a total demotivator and people will not try. For example, an organisation is currently at fourth position in the marketplace, they have no investment capital available, and they are fully utilising their current production capacity. It would therefore be pointless to have an objective which said that they wanted to become number one in the next year. They would not have the resources to do it and the personnel would simply give up saying that it was hopeless!

  Being at position number four also implies that they are subject to strong competition and the competition is unlikely to sit back and let them take the lead.

  On the other hand, if the company had discovered something which would take the market by storm and they knew they would catch the competition out, then the objective **could** be achievable and this might inspire greater enthusiasm on the part of the personnel in the organisation.

- **Realistic – R**

  This fits in with achievable – to lay down an unrealistic objective is courting disaster. For example, imagine a small business in Germany with only one outlet, one product and limited production capability, stating an objective of "*opening up outlets in Rome, Delhi and Cape Town within the next six months and serving them from the base in Germany*".

  As objectives go, this is not a very good example but you can imagine that such an objective would be totally unrealistic ***unless*** they were able to do other things, such as franchising the product and manufacturing processes.

  Personnel working to achieve an objective need to be able to recognise that it is realistic and this takes into account all the resource aspects of time, money, materials, etc.

- **Timed – T**

  The example we are using is timed – two years. This means that a definite date has been set for achievement. If there was no time limit it could take twenty years to increase the market share by 8% and that would mean that there was no pressure on people to achieve.

  Setting the time limit also helps in the setting of periodic targets and gives us measurement points which can be used for progress checks. Even if no other quantifiers are used (e.g. increase by 8%) there should always be a time quantifier in an objective or it is immediately invalidated.

You can see that the objective itself is actually the base for the plan, and that it helps to set out activities, targets and measurement, etc. This means that the objective is actually the back-bone of the planning process.

Before we leave this discussion of objectives, we should note the distinction between quantitative and qualitative objectives. This has important consequences for the way in which achievement may be measured, as well as providing a means of expression for the goals of many service organisations which find it difficult to identify clear objectives.

- **Quantitative**

  Quantitative objectives are those in which outcomes are expressed in terms of numbers – relating to money, percentages, periods of time, output figures, etc. Examples are:

  > *"To achieve 5% year-on-year growth in profit after tax for the next five years."*
  >
  > *"To effectively reduce operating costs by a total of 20% over the next five years and, in the same time period, to achieve growth in profit after tax by 8% each year."*
  >
  > *"To achieve 15% return on investment in the next tax year."*

  Sometimes the actual target figures will be given in the statement:

  > *"To achieve £5,000,000 increase in profit in 2002, which represents a growth of 15% on 2000 profit levels."*

- **Qualitative**

  Qualitative objectives relate to service levels to be achieved, image, position, ethics, etc.

  The following is an excerpt from a statement of objectives published in the annual statement of a police force in northern England:

  > *"Within five years or as soon as is practicable, to have a police force which:*
  >
  > - *Is more open, relaxed and honest with ourselves and the public;*
  > - *Is more aware of our environment, sensitive to change and positioning ourselves to respond to change;*
  > - *Is more closely in touch with our customers, puts them first and delivers what they want quickly, effectively and courteously;*
  > - *Is the envy of all other forces."*

You can see from all the examples we have given that a statement of objectives can be simple or quite involved; there can be one aim or several. It will depend on the circumstances and the nature of the organisation.

Strategies – How to Achieve the Objective

The functions of a plan are to minimise conflict and to get the maximum from resources, by ensuring the coordination not just of purpose but of approach – i.e. strategy.

The strategy is simply the statement of method(s) that will be used to achieve the objective. These can be complex or simple, depending on the circumstances and the level or complexity of the plan itself.

It is rare that there is only one way to achieve something which means that multiple strategies may be considered and should be compared for effectiveness. Taking into account all the possible outcomes and implications of adopting a strategy, the best method needs to be selected.

For example, the objective of increasing profit by 5% over the next year could be achieved in a number of ways – including reducing costs and holding sales, or increasing sales and holding costs.

Management's job is to examine the situation and to identify and consider ***all*** the alternative options. Each one has to be considered in order to identify the best option available, taking all circumstances into account, to achieve the objective – i.e. the course of action, or strategy, which best fits the resources and position of the company and is most likely to help it achieve the agreed objectives.

This selection from the various alternatives is very important, because if management does not decide upon and communicate the preferred strategy, different parts of the organisation will be trying to achieve the objective in very different ways. This will cause conflict and wasted effort. With no indication of strategy from senior management, finance could be trying to increase profit by reducing costs and cutting back on budgets, etc., whilst marketing is trying to achieve the same objective by increasing sales through higher promotional spending, more sales staff and overall increases in budget.

Strategy selection must be capable of being justified – which means that you should be able to show that it will achieve the objective. Planners should also be able to say why they have rejected other strategies. This is particularly important in obtaining support for plans where other strategies have been promoted. Showing other options have been considered when drawing up plans demonstrates inclusiveness.

Tactics/Programmes – The Operational Activities Involved

This is the detail, often described as action plans – the who is going to do what, by when, in order to put our strategy into operation.

Both words have been quite deliberately used here for a good reason. You may well have read marketing text books which simply refer to "tactics" but current literature is more likely to refer to "programmes". They are really one and the same thing.

The tactics/programmes are the details of the plan. They spell out:

- **Responsibilities**

  Who has to do something – for example, personnel department to recruit new people, marketing department to design advertising, purchasing department to obtain materials, etc.

- **Time**

  When something has to be done – for example, Quarter 1/Year 1, or first week. The time is important and it ***must*** fit in with the overall time of the objectives. Every plan should have a timetable so that people can see how it is progressing.

- **Money**

  The allocation of the allowed budget – for example, 10% to personnel, 15% to marketing, 25% to production, etc. Depending on the level, the plan may be very specific on what has to be done with the money.

Controls – Measurements

Here, we consider "controls" as a separate section in the contents of plans but, in reality, they should actually be considered as part of the Programmes. This is because they are a natural outcome of the programme setting – once you know what the time, money or any other aspects are for a plan, you can automatically set the measurement criteria.

For some reason, control is often thought of as being the most difficult part of planning to come to terms with – perhaps because of the word itself. It sounds very harsh, and perhaps the word "measurements" would seem friendlier. This is all control means – measuring against expected standards.

A control is therefore a standard, a target or an expectation. Our sample objective has two controls (8% and two years) which allow us to measure outcome. Control can be based on anything that is appropriate to the circumstances of the plan, e.g. return on investment; number of orders per salesman; number of items manufactured, etc.

Controls are simply there to make sure that everything goes according to the plan. Of course, it is no good just setting in controls and hoping that everything goes well. To be of any use, a control needs to be ***monitored*** for effectiveness. Therefore, when setting controls you should always think of the monitoring aspects. How easy will it be to assess periodically, how often does it need to be checked, who will be responsible for checking, etc.? Monitoring and control are indivisible.

The benefit of a control is that if, during the monitoring activities, something is seen to be going wrong, corrective action can be taken. This may involve a change in objectives, strategies, programmes or even the control itself if it is proving to be inadequate.

From Planning to Plans

It is important to distinguish between the activities of ***planning*** – the things which are done to produce the plan – and the ***plan*** itself, which is the outcome of the planning activity.

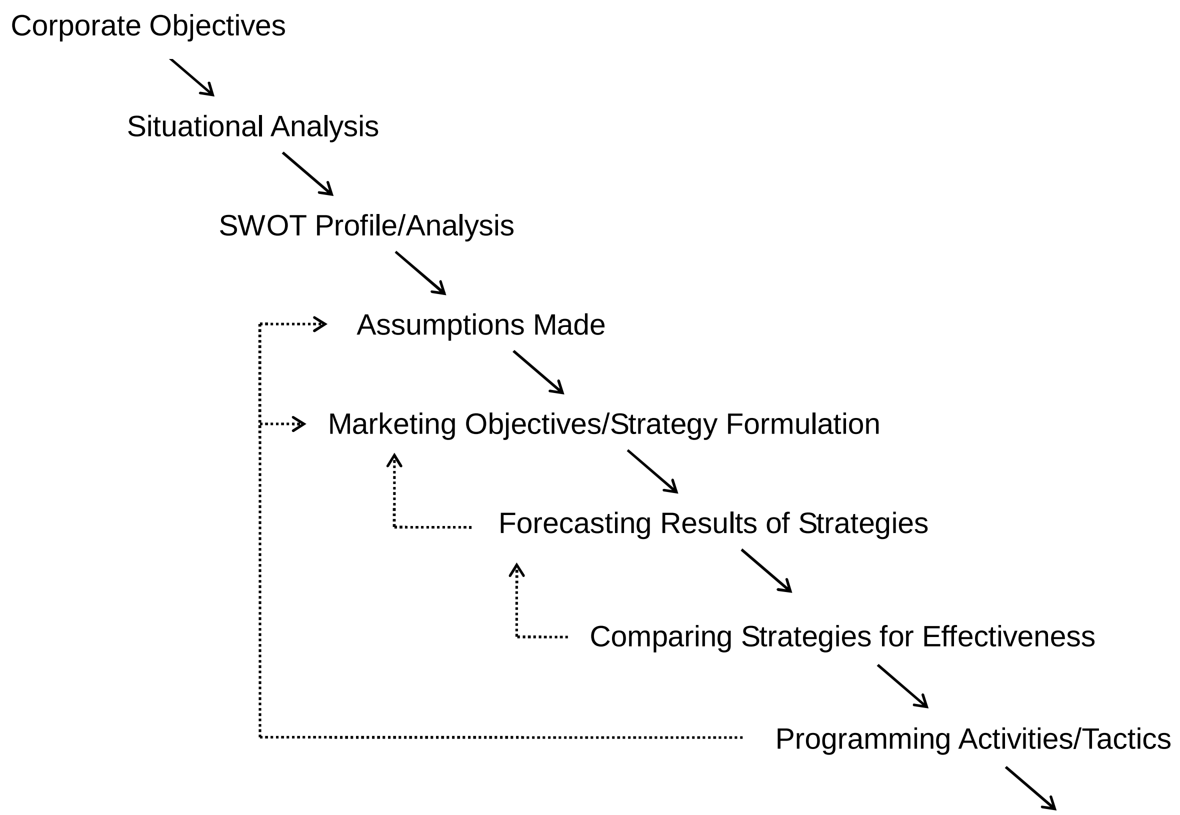
The relationship between the two is shown in the following table.

Planning Element/Activity	**Outcome (Plan)**
Where are we now? An assessment or audit of the current position and opportunities and threats.	Background summary of key issues drawn from strengths and weaknesses of the current position.
Where are we going? Analysis of opportunities and threats and assessment of future prospects.	Clear and realistic quantified objectives set over specified time period and reflecting environmental changes and capabilities of business.
How do we get there? Identification of viable alternative courses of action, establishment of criteria for selection of a preferred course of action and selection.	Statement of the approach to be adopted in pursuit of the stated objective. Justification of approach, including assessment of alternatives.
Adding detail to the plan.	Developing detailed tactical action plans, including allocation of resources and budgets over time, to implement the chosen strategy.
Are we on the right track?	Establishment of controls. Review and modification of the plan as it is implemented and progress against objectives is assessed.

The inclusion of monitoring and control as part of the planning process makes it a dynamic, cyclical activity which can, and does, involve any, many, or all aspects being changed or activities redefined. Figure 1.2 demonstrates this cyclical movement.

As you look at the diagram, try to relate it to the fictional story about you and New York – see how the backward loops fit the scenario. Although the story was a simple example, the same thing happens in marketing planning every day all around the world.

Figure 1.2: The Marketing Planning Process



The dotted lines show some of the backward loops which can be undertaken as a result of feedback obtained from research and investigations.

Criteria for Effectiveness

To be effective a plan ***must***:

- Be concise and yet full enough to be clearly understood
- Have a clear purpose
- Consider more than one course of action
- Include justification of its proposals
- Indicate expected results
- Allocate resources and responsibilities
- Be achievable
- Be timed.

In other words, it must conform to the requirements of the elements discussed above. The objectives must be "SMART" and all the elements of the plan must be present. Note that:

- Without an ***objective***, we have nothing to aim for – we can have no strategy
- Without a ***strategy*** we cannot achieve the objective
- Without ***programmes*** we cannot put the strategy into effect which means we cannot achieve the objective

- Without ***controls*** we cannot see how we are doing, and will never know if our programmes and strategy are keeping us on course to achieve the objective.

With the best will in the world and, despite enthusiastic planners, things can go wrong and planning activities can fail. Some of the main reasons for this are:

- ***Wrong person, or people, making the decisions***

  This is often found in organisations where senior management makes decisions without any involvement from other people.

- ***Planners have a narrow view and cannot extend their thinking onto a broader scale***

  This may be found when the company is thinking of extending into international markets.

- ***Resistance to change within the organisation***

  Resistance to change may be caused by fear of losing position or status, etc. and can be overcome by making people aware of the benefits of the plan.

- ***Confusion over planning terms and techniques***

  If personnel are not trained in planning and educated as to what the various terms mean it can create havoc – for example, the confusion between "strategy" and "strategic".

- ***Over-planning***

  Some people fall in love with planning and do too much of it. They go into too much detail too far ahead and simply get swamped with petty details.

- ***Planning is done as an annual "ritual" and is regarded as a chore***

  If the true benefits of planning are not made clear to people, they simply go through the motions each planning period and the plans produced will be mundane and never innovative or creative.

Types of Plans

Keep in mind the fact that ***every*** plan should have objectives, strategies and tactics/programmes. From there, accept the fact that ***every*** aspect of business needs planning and you can see that there will be all sorts of plans – large and small. The types of plans you are most likely to come across will be among the following.

(a) Corporate plan

This is a wide-reaching plan which is developed at the highest management level to cover every aspect of an organisation. When you consider the size of some of the companies in today's environment, you can begin to see just how complex such plans can be.

The plan may have to incorporate activities for multiple countries and for thousands of people. Because of this, corporate plans can never be too detailed. Imagine writing a plan for IBM that listed the responsibilities of every single person employed by the company throughout the world. It would be impossible and could take years, by which time a lot of the people would have left and new people would be in place. If IBM had to wait for such a plan nothing would ever get done. Instead, there is a ***hierarchy of plans*** which starts at the top and filters its way down through the levels until it covers every section.

The corporate plan is the beginning of the hierarchy.

By its very nature a corporate plan must be:

- Relatively ***loosely defined*** to allow operational adaptations for day-to-day activities.
- ***Longer term*** than operational plans, as it is more concerned with the future than with the immediate present.
- More ***flexible*** than plans at the lower levels.

Having said that, the corporate plan ***must*** state the corporate objectives if it is to be understood – the mnemonic SMART also applies here!

(b) Strategic plan

This may well be the same as the corporate plan in some organisations. It really depends on just how big the company is and how many levels of senior decision-makers there are.

A company with its headquarters in America but relatively large subsidiary companies spread around the world may have two distinct levels:

- Corporate – USA
- Strategic – England, Australia, India, Africa, Brazil.

Because of the size and importance of the subsidiaries, the strategic level in each country could be making high-level decisions in their own right which cover their own individual responsibilities. These plans ***must*** follow the direction given in the corporate plan.

Conversely, there are organisations that do not have multiple levels. The hierarchy goes direct from senior decision-makers to operational managers. In these companies the top level may simply be referred to as the ***strategic level***.

"Corporate" and "strategic" are terms which are given to the higher levels of the organisation where longer-term objectives are defined and the overall strategy is agreed.

"Strategic" and "corporate" can therefore mean the same thing, which suggests that these types of plans will be similar in that they are longer term, flexible and broad ranging in their coverage. They define the ***overview*** and lay down the overall objectives and strategy for the organisation as a whole.

(c) Functional plan

Each division of the company (such as marketing, purchasing, finance, etc., depending on the structure) must have its own set of plans to cover the necessary activities.

The plans will be more detailed than the higher level plans but, again depending on the size of the organisation, may still be relatively flexible and long term.

Functional or department plans relate to ***specific*** sections of the organisation, but they ***must*** reflect the higher level direction and always fit with plans for other functional areas or departments.

(d) Contingency plan

These are the plans which managers will have to turn to if anything goes wrong and the main plan is not working. It could be a simple matter of obtaining supplies from another distributor, or of finding another advertising agency or perhaps a major decision to drop a new product if it proves ineffective in the marketplace.

They are really plans which cover the "*What if?*" situations and many planners do not acknowledge that they use such plans. They prefer to present total confidence in the plan they are following and would not like to think that anyone thought there was even the slightest possibility of failure.

There are, of course, an equal number of planners who ***do*** acknowledge that contingency plans exist and they prefer to think of them as a form of insurance. You must have heard the expression: "*If Plan A fails we will revert to Plan B*". Well, Plan B is a contingency plan!

(e) Short, medium and long term plans

The essence here is the time scale covered by the plans.

- A short-term plan is very detailed simply because it **is** short term. It will be precise in activities and responsibilities, as well as in the time scale involved. This type of plan is often produced to cover a situation which has arisen unexpectedly – for example, a sudden world shortage of raw materials, some competitive activity, or the outbreak of hostilities in one of the markets you deal in.
- Medium-term plans are still relatively detailed but not quite so much as a short-term plan. This time scale is the one with which most people are familiar. It will set medium-term objectives in relation to the longer-term objectives given at higher level, and it allows operations to be set in motion and monitored for effectiveness.
- Following what has been said about short and medium-term plans it should be fairly obvious that a long-term plan is going to be quite broad in its approach, not so detailed and relatively flexible. Long-term plans cannot be too detailed because of the time scales imposed.

Now, you are probably wondering what time scales are covered by short, medium and long-term plans. Well, how long is a piece of string? It all depends on the industry and product which is being sold:

- In the computer industry one year is a long time
- In the steel industry one year is no time at all
- Japanese car companies plan 30 years ahead
- Many small businesses plan for a year at a time – some say that they do not plan at!
- Hairdressers plan for one month at a time.

Thus, there is simply no way of giving a completely accurate time scale for plans as each company makes its own plans to fit the prevailing circumstances. For convenience sake, it is suggested that you think in terms of:

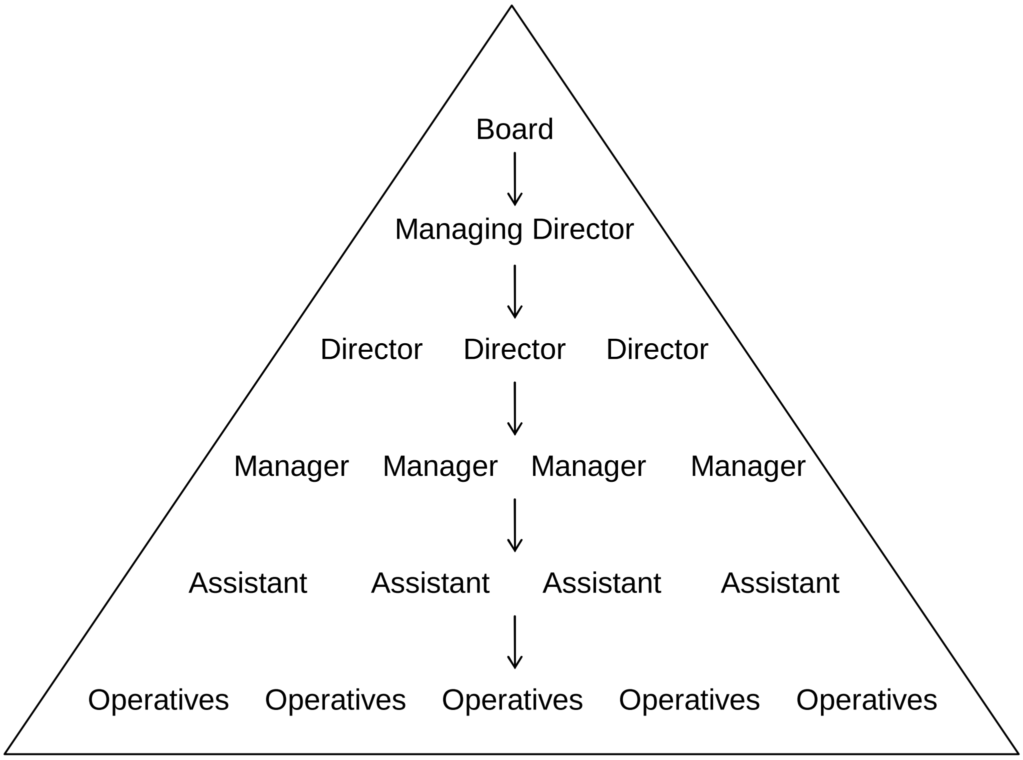
- Short term – six months to a year (or even less)
- Medium term – one to three, or five, years
- Long term – five years and upwards.

Try and get hold of a copy of the business or marketing plan for your company or college? Have a good look at it. Does it follow this format?

Planning Structures

You will be aware from your previous studies that various organisation structures may exist. In most organisations, these structures are predominantly ***vertical***, in that the hierarchy of command is seen to be linear – from top to bottom – as shown in Figure 1.3.

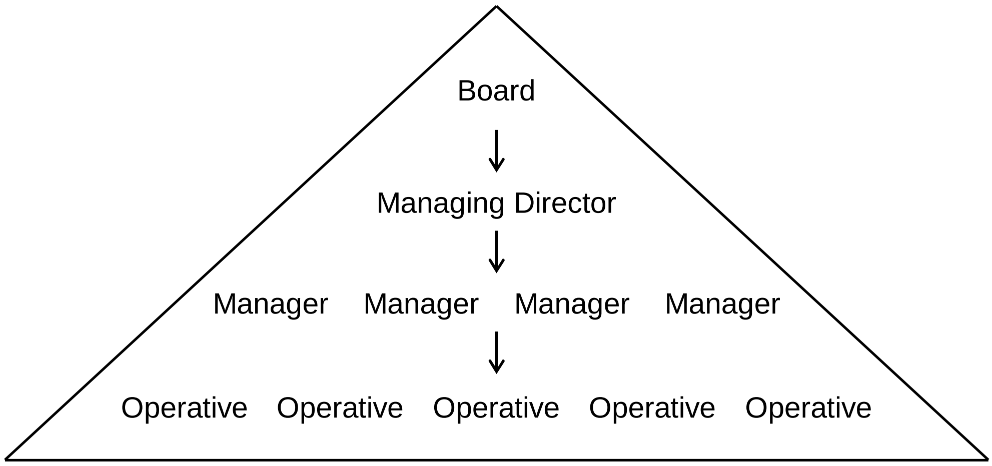
Figure 1.3: Vertical system



Sometimes this type of structure is known as a "father, son and grandson" structure which indicates a straight line relationship from the beginning to the end of the line.

Horizontal systems also exist, where the depth of the structure has been narrowed and some lines of management have been removed. This is shown in Figure 1.4.

Figure 1.4: Horizontal system



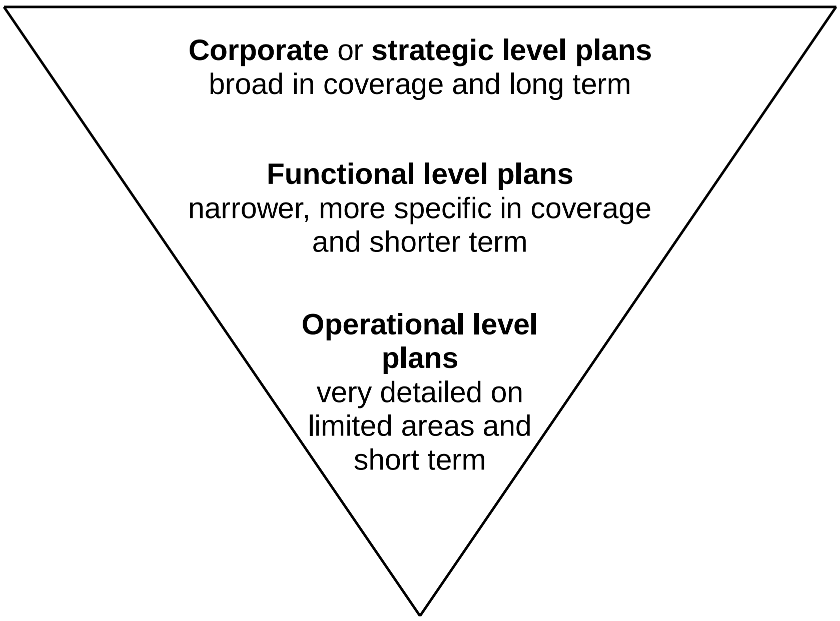
The superimposed triangles give you an impression of the "depth" of the hierarchy involved. The horizontal or shallow structures allow for better communications with the senior levels which is why, as well as the savings in labour costs involved, the flatter structure is becoming increasingly popular.

The importance of this in relation to planning lies in its impact on the overall decision making within the organisation. The planning process starts at the top of the organisation and different plans relate to different levels, as shown in Figure 1.5. Thus, the ***number of people*** involved in the organisation ***increases*** as you go ***down*** the structure, as well as their role.

Figure 1.5: Hierarchical roles in the organisation

The ***coverage and breadth of the plans*** is the opposite of the above – this ***decreases*** as you go ***down*** the structure.

Figure 1.6: Planning and organisational hierarchy



Alternative Approaches to Strategic Decision Making

There are a number of approaches to strategic decision-making, and we shall highlight two alternatives here.

- The first is the linear/formal approach as considered above. This strategy results from a controlled conscious process of formal planning that incorporates a sequence of distinctive steps in the decision-making process. Responsibility for the whole process usually rests with the top management but responsibility for implementation rests with the operational managers. This strategy is essentially "top down" and is usually highly detailed and explicit in nature. It usually contains detailed operational plans specifying objectives, action plans, budgets and control measures. Traditionally large companies have tended to adopt this approach.
- The second approach comes from the emergent school of strategy development. Here it is believed that strategies are formed and not necessarily formulated. In other words, strategies are built from a number of little actions and decisions made by different managers in an organisation. Taken together these small changes produce a major shift in direction. Thus these strategies emerge and tend to be "bottom up".

Traditionally, small firms have tended to adopt an emergent approach to strategy development. However, today in the current dynamic business environment, many larger firms are adopting a more emergent approach.

What approach does your business or college adopt to strategy formulation?

Contemporary Planning Issues

When considering the planning process and developing plans you need to consider two important contemporary issues. These are the shortening of the planning cycle and planning within SMEs (Small and Medium Sized Enterprises).

(a) The shortening of the planning cycle

There are many factors outside the control of a business that may have implications for the business plan. Just think what effect the 9/11 explosion in New York or the tsunami in Asia had on travel companies trading in those locations. Suddenly their business plans became obsolete and they had to urgently carry out strategic reviews. In the current dynamic market where change happens fast no business plans can be set in concrete, they need to be regularly reviewed, updated and amended in the light of the changing circumstances. Given this dynamic environment many organisations now adopt much shorter planning cycles and undertake frequent strategic reviews.

(b) Planning in SMEs

Many SMEs are characterised by limited resources (time, finance and professional expertise). This means they do not have the luxury that many larger organisations have of teams of experts and professionals to help analyse information and make decisions. In this situation many SMEs take a more reactive and emergent approach. Some commentators argue that this is a much healthier approach than the more rational / linear approach adopted by many larger organisations in decision making and gives SMEs an inbuilt flexibility to quickly respond to challenges wherever they may occur.

C. STRATEGIC PLANNING

The strategic planning process is the planning which covers the **entire** organisation and begins with the very highest level of decision making.

There are several aspects to the process:

- Developing the company's mission statement
- Identifying the company's Strategic Business Units
- Establishing corporate objectives and strategies
- Individual Strategic Business Unit planning.

Developing the Company's Mission Statement

The mission statement of an organisation gives its reason for being in existence and tells any stakeholder (customer, employee, shareholder, etc.) just what the company is doing and why. It is a way of saying "what business we are in" or "why we exist".

In "Strategic Marketing Management", Gilligan *et al* state that the mission statement should be:

> *"..... capable of performing a powerful integrating function, since it is in many ways a statement of corporate values and is the framework within which individual business units prepare their business plans, something which has led the mission statement to be referred to as an 'invisible hand' which guides geographically scattered employees to work independently and yet collectively towards the company's goals ....."*

In "Marketing Management", Kotler states that:

> "... *organisations develop mission statements in order to share them with their managers, employees and, in many cases, customers and other publics*....".

So we can see from these two statements just how important a mission statement must be if it is being used to transmit a message to all the company's stakeholders. Like a policy statement, it provides executives with parameters within which they can operate.

(a) Contents of a mission statement

Although different marketing authors use different terminology when they address the issue of the contents of a mission statement, they are all basically saying the same thing – that ideally, mission statements should contain details of the following:

- The company's aims or intentions
- Some history of the company
- The market or customer that is being served
- The product or service which is being offered
- The technology that is being used.

A good mission statement reflects the benefits to customers and should encompass any key competitive advantage.

This sounds complex and, indeed, it is a fact that writing a mission statement can be an extremely difficult thing to do. Perhaps for this reason mission statements are only ever rewritten if a major change takes place – for example, a different market sector is being approached, there is a change of corporate policy, or a take-over or merger takes place, etc.

However, mission statements can be changed and should on occasion be challenged. They should be written in such a way as to provide the business with both the scope to be flexible and yet enough focus to help concentrate energies. Note, though, that too broad a statement and the business tends to lose focus, whereas too narrow a statement and it misses opportunities and fails to identify threats.

Consider the following examples of mission statements.

(i) ***Hewlett Packard***

Hewlett Packard company designs, manufactures and services electronic products and systems for measurement and computation. HP's business purpose is to provide the capabilities and support needed to help customers world-wide improve their personal and business effectiveness.

(ii) ***Lever Industrial***

"... Our overall objective is to be the leading and most successful supplier of hygiene systems in all key sections of the UK and Eire industrial markets. To achieve this objective we believe the following guiding principles are fundamental ..."

The company then goes on to make statements relating to how it considers, and will deal with, its customers, management, trading partners, environment and profit for shareholders.

(iii) ***Burton's Menswear***

To be the UK's largest and most profitable mainstream fashion menswear retailer, satisfying the clothing and fashion requirements of 24-40 year old men and their sons and preferred on the basis of:

- *Greater breadth of range*
- *Appropriate fashionability and quality at value for money prices*
- *Knowledge, service and advice*
- *Accessibility to its customers.*

(iv) ***A County Treasurer's Department***

To enhance the effectiveness and value of service to the community in the county through the provision of quality financial and IT services.

(v) ***Bayer Diagnostics***

To be the best at creating added value for our customers, our employees and our company.

You can see from the above that mission statements will vary from one organisation to another but they are all similar in that they are talking about ***purpose*** rather than ***profit***. Mission statements do not give specific targets for growth or return on capital: they simply announce the proposed position or overall aim – the reason for existence!

Some mission statements are very long (maybe several pages) and are published with the annual accounts each year. This type of mission statement is usually so remote and difficult that the employees and other stakeholders do not really pay too much attention to it. This defeats the objective of having a mission statement.

To overcome this situation many companies are giving full mission statements in their annual accounts but are using ***strap-line missions*** for the employees and for publicity material.

The following are examples:

- ***IBM*** (relating to an individual division)

  ... to be the best...

- ***Motorola***

  ... total customer satisfaction ....

- ***A Further Education College***

  ... access to quality ......

These strap line missions help to focus attention on what it is that the company is hoping to achieve and can act as a motivational force for employees.

The practice appears to work as, in general, people who work for companies using strap line mission statements ***always*** know what the mission statement is. (Many companies now issue laminated cards which show the mission statements and employees are expected to carry the cards with them at all times.)

The writing of a mission statement will be influenced by:

- The corporate vision and its senior executives
- The management style in force and its operating practices
- The product on offer and the market the company is in
- The positioning of the company and the competition it faces
- The intentions the organisation has for the future.

However, there are no hard and fast rules as to ***how*** a mission statement should be written. It is an individual choice for the executives involved.

What is the mission statement of the company you work for or for your college?

(b) Benefits of a mission statement

When a mission statement has been written, or rewritten, it is important that it is communicated to all stakeholders as soon as possible. This will mean that everyone can read, understand and follow it – allowing the mission statement to become the unifying force it should really be.

Mission statements can:

- Create a focus for employees
- Give a sense of pride in working for the company
- Reassure on future intentions and stability
- Create confidence in shareholders and customers
- Send signals of strength to the competition.

(c) Visions

Visions have been increasingly discussed and developed by management and many organisations now issue both mission statements and visions. Whilst the mission determines the dimensions of the business and the market it is working in, the vision is about the longer-term ambition of the operation within that.

For example, a city football club may have:

- Mission – We are in the business of providing residents with a focus for city pride and entertainment in the form of football matches.

- Vision – We want to win the league by the year 2010.

Identifying the Company's Strategic Business Units

An SBU is a separate operating unit within an organisation which is self-contained and can relate to a single product, a product range, a department or even a subsidiary company within a large multiple organisation.

To be an effective SBU, the unit must meet the following criteria. It should have:

- A unique purpose in the organisation
- Its own "manager" (can be at any level) to make decisions
- Its own plans which fit into the overall corporate plan
- Its own customer base
- Recognised competition.

The SBU system is a refinement on the "profit centre" basis that operates in many organisations. However, the SBU will have a lot more powers than a profit centre, simply because it has its own manager as a decision-maker. This manager is recognised and accepted as having true decision-making power, whereas managers of profit centres have not always had decision-making powers.

The growth of the SBU system reflects the trend in the modern business world for greater responsibility and accountability to be delegated down the chain of command to managers who would never have been involved in decision making in the past. This has helped in the development of the managers and has considerably improved motivation levels in that people now feel more involved and in control of what they are doing.

Many people believe that it is only by giving control to the people who actually do the job that the job will be done properly. This is not to say, of course, that the managers have total freedom to act as they wish – they are still very much accountable to the higher levels of management.

When the corporate level of an organisation is attempting to identify the various SBUs they are really looking to see which units ***can***, or ***need*** to operate separately and whether or not they offer a unique product, service or profit. A lot of the decisions in this aspect will be based on control factors – can we keep a check on what is going on?

Organisations can be structured in a number of ways – on a functional, regional, customer, etc. basis. Any appropriate way of breaking up the personnel and responsibilities in the organisation is acceptable, and any division can be an SBU. For example, if the structure is based on function and includes marketing, purchasing, finance, personnel, etc., then each of the functions can be considered as an individual operating unit (SBU) and, consequently, each will be taken into account within the corporate plan.

Establishing Corporate Objectives and Strategies

Corporate objectives are the over-riding aims of the entire organisation and therefore have an effect on everyone who is part of, or influenced by, the organisation. Strategies are the means by which those aims may be achieved.

(a) Objectives

The corporate objectives indicate exactly what it is that the corporate level wish to achieve in the longer term and they are the organisation's way of saying "*where we want to be*" at some given time in the future.

To get somewhere you have to know where you are coming from, and the same principle applies to an organisation. Before corporate objectives (*where do we want to* *be*?) can be set, the organisation needs to investigate the current situation (*Where are we now*?).

This involves taking into account a number of factors:

(i) ***Internal environment***

- Employees
- Current performance levels
- Finance
- Production capabilities
- Shareholders
- Technology used
- Trade unions, etc.

(ii) ***External environment***

- Competitors
- Customers
- Financial institutions
- Governments
- Local authorities
- Suppliers, etc.

Any, or all, of the above can be influenced by, or be an influence upon, the corporate objectives.

Therefore, before corporate objectives can be formulated, the organisation needs to investigate exactly what the position is at the present time (*Where are we now*?).

Often the objectives will be related to obtaining the maximum effectiveness at the minimum cost, but they can also relate to other aspects such as growth, image, positioning in the environment, etc.

The main criteria for corporate objectives are that they must be:

- Longer term
- Relatively flexible
- Broad in scope
- Accord with the "SMART" requirements
- Cover the ***entire*** organisation.

The benefits of corporate objectives are that they can provide:

- A focus for the activities of the personnel
- Motivational elements
- A level of consistency throughout the organisation
- A means of measuring performance
- A degree of control on the financial costs incurred.

(b) Strategies

Accepting that corporate objectives cover the entire organisation means that we must recognise that corporate strategies ***also*** cover the entire organisation.

If we take this train of thought a little further we can see that this means that the corporate strategies will be related to the structure of the organisation and to the sections or divisions which were formed.

Each section or division (i.e. SBU) will, in its own right, be part of the overall plan and therefore needs to have instructions passed to it for expected activities.

In effect, what happens is:

- The corporate level defines its objectives
- Strategies aimed at achieving these objectives are chosen
- The strategies are communicated down to the relevant SBUs
- Each SBU accepts the defined corporate strategy as the SBU objective
- Each SBU then begins its own planning cycle by forming strategies which are aimed at achieving the imposed objective
- Depending on the size and importance of the SBU, these strategies may be passed further down the line to sub-divisions which, in turn, accept them as objectives.

The whole process may be represented diagrammatically as follows.

Figure 1.7: From corporate objectives to SBU strategies

CORPORATE OBJECTIVES

which require

↓

CORPORATE STRATEGIES

which are translated into

↓

SBU OBJECTIVES

which require

↓

SBU STRATEGIES

etc., etc.

To illustrate the development of objectives and strategies, let us look at a multinational company which is structured on a regional basis and has divisions covering the USA, Europe and Australasia.

- **Corporate objective**

  This might be defined as *to increase total profitability by 30% in the next ten years*.

  (Note that this is not a perfect example of a corporate objective – it is just being used to show the process.)

- **Corporate strategies**

  Taking into account the current economic environment and potential for growth, etc., these might then be defined as:

  (i) To increase profitability by 5% in Europe in the next ten years

  (ii) To increase profitability by 10% in the USA in the next ten years

  (iii) To increase profitability by 15% in Australasia in the next ten years.

  These strategies would be communicated to the regional divisions.

- **Divisional objective**

  Taking Europe as an example, this would now be stated as *to increase profitability by 5% in the next ten years*.

- **Divisional strategies**

  The senior level of management in the European division must now select strategies which will achieve this objective.

  If the division is sub-divided further into countries, the divisional objective may be broken down into a series of strategies in a similar way to the corporate strategies – for example, 1% UK, 2% Germany, 1% France, etc.

  However, if the European division operates on a functional basis, strategies for the next ten years, ***for each SBU***, could be as follows:

  (i) Personnel – *Reduce workforce by 20% in total*

  (ii) Production – *Increase output by 5% each year with no increase in costs*

  (iii) Purchasing – *Reduce purchasing costs by 2% each year*

  (iv) Sales / Marketing – *Increase market share by 3% year on year growth*.

- **SBU objectives and strategies**

  These strategies are communicated to the relevant SBU which, in turn, accepts the strategy as being its objective. Each of the SBUs (such as personnel) then begins its own planning cycle to achieve the imposed objective. For example:

  > **Objective** for Personnel – Reduce workforce by 20% over the next ten years.
  >
  > Broad **strategies** to be considered could be:
  >
  > (i) Natural wastage/non replacement
  >
  > (ii) Voluntary redundancies
  >
  > (iii) Compulsory redundancies.

  The strategies would then be considered for effectiveness and implications. The best option would be chosen and timed ***programmes*** would be established for the period involved, with regular reviews taking place to ensure that all targets were being met.

Because each division of the organisation has taken its lead from the corporate objective, everything that takes place in the organisation should be working towards that objective, ***providing*** that the corporate objectives and strategies:

(a) take into consideration all the influencing factors within and external to the organisation;

(b) are communicated throughout the organisation correctly;

(c) follow the mnemonic SMART.

Each section will then play its own part in achieving the outlined goals.

Individual Strategic Business Unit Planning

Planning at SBU level can be much more detailed than at the corporate level. It can involve the following:

- Possibly defining a mission statement for the SBU
- Analysing the internal and external environments
- Defining objectives
- Selecting and developing strategies
- Preparing schedules and programmes
- Implementing programmes
- Feedback and control.

You will recall that SBUs are individual operating units within an organisation and that they can be selected on the basis of region (USA, Europe), product (paint, textiles), or function (Marketing, Purchasing, Finance, etc.). For the purposes of this course we are taking the marketing function as being an SBU and will look at planning for marketing in much greater detail over the coming study units.

Review Questions

To check your progress with this unit, ensure that you can answer the following questions.

1. What are the five key questions which define the steps in the planning process?
2. What is the planning gap?
3. List 6 benefits of planning?
4. What does "SMART" stand for?
5. Define strategy?
6. What is the difference between plans and planning?
7. Explain the rational linear and emergent approaches to strategy decision making
8. What are the benefits of a mission statement?

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> "The strategic planning process is central to the success of the developing organisation". Discuss.

ANSWERS TO REVIEW QUESTIONS

1. Where are we now?

   Where do we want to be?

   How do we get there?

   Which way is best

   How can we assure arrival?

2. The difference between the desired future and the likely future.

3. Risk reduction

   Reduction in uncertainty

   Setting targets and standards

   Guidance

   Gains commitment

   Improves decision making.

4. Specific

   Measurable

   Achievable

   Realistic

   Timed.

5. Strategy is simply how the objectives will be achieved.

6. Planning – the things which are done to produce the plan

   Plans are the plan itself – the outcomes from the planning.

7. Linear/ rational – the highly formalised top down approach

   Emergent – a strategy that emerges through creative and interactive processes within the organisation. It is a much more "bottom up" process.

8. Create focus for employees

   Give a sense of pride in working for the company

   Reassure on future intentions and stability

   Create confidence in shareholders and customers

   Send signals of strength to the competitors.

Study Unit 2

The Marketing Function, Objectives and Strategy

Contents ***Page***

INTRODUCTION

In the first unit, we followed the strategic planning process down to the functional levels of the organisation. Each function, of which marketing is but one, has its own important role to play in the affairs of the organisation.

However, this course is about strategic **marketing management** so we will not be pursuing any other functional activities, such as personnel or finance, other than in how they interrelate with the marketing activities. Therefore, we start here by looking at the various aspects of marketing, the marketing concept and the importance of the marketing function. We then concentrate on marketing objectives – their nature and purpose, the benefits that can be gained from them and potential problems which can be faced during the formulation stage, and the factors which will influence their formulation.

We conclude by introducing the concept of marketing strategy. Here, there is an important distinction to be made between marketing strategies as a series of activities and a marketing strategy which describes an approach to business. We consider the fundamental aspects of the former in this unit (and will expand on the elements in detail in later units) and leave discussion of what constitutes a marketing strategy to the next unit.

Again at the end of this unit there are a series of revision questions. Please answer the questions to test your knowledge and understanding and compare your answers with those listed at the end of this study guide. There is also a past examination question.

A. MARKETING AND MARKETS

Marketing has been around for thousands of years and has evolved from simple bartering to the highly complex systems which are in use today. There are, though, widely differing views of the practice.

- Its critics tend to think of marketing as being responsible for many of the evils in the world – mainly because of criticisms relating to the effects of advertising.
- Its devotees see marketing as a "magic wand" which may be used to resolve all the problems which companies face.

Neither of these viewpoints is correct, but just what is marketing and what does it involve?

Defining Marketing

Marketing is now recognised as a discipline using a logical approach to understand business and involving the studying, and understanding, of relationships and exchanges between buyers and sellers.

Various definitions of "marketing" have been proposed. Consider the following.

> "*Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably*." (Chartered Institute of Marketing, UK)

> "*Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others*." (Philip Kotler)

> "*The key element of all marketing is that, unlike almost all other business activities, it is outward-looking; it is firmly centred on the customer*." (Lewis and Erickson)

> "*Marketing is both a philosophy of business and a business function...a state of mind concerning the optimum approach to business, and the activities whereby such ideas are translated into practice*." (Michael Baker)

Marketing has grown in importance as a concept, and also as a live function within organisations, as its value in the competitive marketplace has been proved. For example, in 1976, Philip Kotler defined marketing as "*human activity directed at satisfying needs and wants through exchange processes*", which contrasts with the later definition quoted above. Without competition there is no need for marketing, since without choice there is no need to differentiate, no requirement to trouble overmuch about customer reaction.

It is clear that marketing has changed substantially from the pre-internet, pre-globalisation age, so much so that the Chartered Institute of Marketing believes that the current CIM definition of marketing developed in 1976 (quoted above) is outdated and needs to be replaced. A new lengthier version has new been created in an attempt to reflect the reality of marketing today. It has launched a discussion paper proposing the following new definition:

> *"Marketing is the strategic business function that creates value by stimulating, facilitating and fulfilling customer demand. It does this by building brands, nurturing innovation, developing relationships, creating good customer service and communicating benefits. By operating customer-centrically, marketing brings positive return on investment, satisfies shareholders and stakeholders from business and the community, and contributes to positive behaviour change and a sustainable business future."*

The CIM plans to debate this definition during 2007/8 and launch a final version sometime in 2008. Although there are certainly many critics of this definition it is at least a bold attempt to create a definition that better reflects marketing in the early part of the 21st century.

Value Based Marketing (VBM)

This suggested new definition of marketing leads us to the concept of Value Based Marketing. Today there is much more focus on shareholder value in many organisations than was the case in the past. Marketers today must deliver customer value that in turn builds shareholder/owner value. Proponents of value based marketing argue that to compete effectively a company needs to do more than build a brand or build relationships, it has to build value. Companies need to deliver a value proposition to their customers.

As Doyle (2000) says, it is "by delivering superior value to customers that management can in turn deliver superior value to shareholders".

The Concept of a Market

In marketing terms, a customer's needs, wants or requirements tend to mean a **product**. The product may be tangible or intangible – it is still something that the customer wants in order to deal with a real or imagined requirement that they have or, to put it another way, a customer has a problem to solve.

People can satisfy their requirements, or problems, in one of four ways:

- Self-solution (coming up with the answer to the problem themselves)
- Force (threatening/stealing)
- Begging (pleading/seeking sympathy)
- Exchange (offering something of value to the owner).

The last method, exchange, is based on a mutually beneficial outcome to both parties. This value exchange summarises marketing and applies in every type of product exchange, from the simple purchase of a bar of soap by a housewife, to the purchase of attack aircraft by a government. In every case both parties give, or exchange, something of value to the other.

For this to be possible, two parties must:

- Have something of value to exchange
- Be capable of communicating
- Be free to accept or reject the exchange situation.

The existence of these criteria does not necessarily mean that an exchange ***will*** take place – only that it is possible.

Successful exchanges will only occur when there is some individual, or organisation, with enough interest (and available resources) who is prepared to enter into an agreement with the owner, or producer, of some particular item(s).

If there is one person interested enough in any product, and they have the means of obtaining that product, there can be said to be a ***market*** for that item.

The ***size of the market*** will be determined by the number of people who both want a product and are prepared, and able, to exchange the required value in order to obtain it. A market can thus be said to exist wherever there is a potential to effect a value exchange.

Markets can be described in various ways:

- By reference to the general type of goods or services exchanged – for example, health or leisure
- By reference to the general type of goods or services exchanged – for example, compressors or fast foods
- By reference to the types of consumer who want the products – for example, teenage
- By reference to the geographical context within which the exchange takes place – for example, European.

However, in marketing terms, there are only two types of markets:

- Consumer and
- Industrial.

Although it is difficult to be specific for all cases, marketing activity in the consumer and industrial areas may, at times, call for different approaches to be used as is shown in Figure 2.1.

Figure 2.1: Potential differences – industrial vs consumer markets

Industrial	**Consumer**
Promotion specific or more scientific	Mass marketing
Usually longer product life cycle	Shorter product life cycle
Higher price levels	Lower price levels
Technical salespeople, often professionally qualified	Mass sales – little individual selling, mostly point of sale concept
After sales – spares and warranty are features in the sales offering	After sales – warranties are more "general"
Advertising – Technical press, highly specific	Advertising – TV/press – more general
Low volume market	High volume market

Widening of the Concept of Marketing

In many definitions of marketing there is a preponderance of concern with "customer" and "profit". This is because marketing has developed from a sales orientation, and the leading exponents of modern marketing were the multinational FMCG (fast-moving consumer goods) companies such as Proctor & Gamble and General Foods.

As you can see from the definitions given above, the concept has widened to include all forms of organisation that wish to enter into a form of exchange. Thus product or service, profit or non-profit, commercial or charity, all can use the marketing function to mutually benefit their clients (customers) and themselves. For example, a charity has to market itself into two broad marketplaces – it has to secure the funds needed for useful survival, and it has to attract recipients worthy of its help. The two needs are not mutually exclusive, in fact many of the messages addressed to potential donors will be read by recipients, and vice versa.

The concept of organisations having an outward-looking, customer-centred view underpins the ability of marketing to function as a bridge between the market and the organisation.

Careful marketing planning is essential and this must be based upon corporate strategies that are concerned with the interaction with the marketplaces.

(a) Societal / Green marketing orientation

This adds to the marketing concept; the impact of the organisation's activities on society. Today there is concern that organisations are seen to be "good citizens". Corporate social responsibility, societal and ethical marketing have now moved up the agenda substantially. Consumer-driven society requires a responsible approach to be taken by organisations.

(b) Relationship marketing

This is the process of establishing long-term stable relationships with stakeholders. It is creating and building mutually beneficial relationships by bringing together the necessary stakeholders and resources to deliver the best possible perceived value proposition for the customer. A relationship should intensify as the number of successful transactions increases; it is the aim of relationship marketing to ensure that it does.

(c) Internal marketing

This refers to the application of marketing internally within the organisation, with programmes of communication and two way dialogue targeted at internal audiences, to develop a unified sense of purpose throughout the organisation. Unless staff are aware of developments and have "bought into them" (i.e. accepted them enthusiastically) they will be unable or unlikely to implement the necessary actions to ensure that marketing and corporate objectives are met. Equally, it is important to solicit feedback internally since much valuable information can be accessed ***and*** internal staff made to feel properly valued.

(d) Direct marketing

Direct marketing involves selling to customers primarily through mass communications media. It includes advertisements in newspapers and magazines, and radio and TV, telephone selling, the Internet, mail and catalogues. If the buyer places an order (by phone, letter, the Internet or TV), the seller sends the goods by mail, carrier or maybe by Internet download.

(e) Electronic marketing

This can be defined as the strategic process of creating, distributing, promoting and pricing products for targeted customers in the virtual environment of the Internet. E-marketing is emerging as a very powerful means of communication and marketers are increasingly adopting it as part of their promotional activity. Marketers welcome e-marketing because of the ability to target individuals rather than using mass media approaches. Technology in this area is developing rapidly as more and more users get connected, as bandwidth increases and technologies become more integrated, whether they are TV, computer or mobile based. All this provides exciting opportunities and challenges for marketers.

(f) "Customers"

"Customers" is often used as a blanket description of the buyer/user of the offering. As a general description "customer" is valid, but in many cases a term such as "client" is more appropriate.

Marketing is concerned, functionally, to distinguish between a ***customer*** (who ***buys***) and a ***consumer*** (who ***uses***). In many cases the customer is influenced by the consumer, in some cases the consumer decides and the customer (perhaps a professional buyer) acts merely as a purchase agent. Consider, for example, the common type of request "When you're in the chemist please get me a bottle of 50 soluble aspirin." Whoever is going to the chemist has no discretion about either the product (it must be aspirin and it must be soluble) or the quantity (it must be 50). The customer can, however, choose brand – to that extent he or she has discretion.

Exactly the same principle applies, however complex a potential transaction. A major function of marketing is to identify target markets, and, within them, to identify specific customers and consumers.

B. BASIC CONCEPTS OF MARKETING

The Marketing Orientation

The way in which an organisation approaches its business and markets may vary according to the views, beliefs or ethics of the executive body involved.

There are basically four different types of orientation or concepts:

- ***Production*** – assumes that customers are interested in the availability of products and low prices. Manufacturers concentrate on mass production, believing that little or no marketing is necessary. The company makes what it is good at.
- ***Product*** – manufacturers believe that the customers can recognise, and will favour, a good product when it is offered. They concentrate on offering their own idea of a "good product" and then are mystified when the customers do not take to it immediately.
- ***Selling* –** believes that customers will only buy enough if they are "coaxed". This involves heavy activity on the personal selling front and can mean massive promotional campaigns to move stock. Companies which adopt the selling concept are aiming to sell what they make, rather than make what they can sell.
- ***Marketing* –** believes that the customer is the key to successful business. It can be defined as the presence of a culture within an organisation, which is focused towards the understanding of customers and competitors and so can create superior value for consumers.

For an organisation to be following the marketing concept it must show three characteristics:

(a) Customer orientation

The organisation must define customer needs from the point of view of the customer and not its own. It will need to seek information actively from the marketplace in order to assess whether the offerings are meeting customer requirements and, if not, why not.

(b) Organisational integration

All functions, sections or departments of the organisation must work together to meet the overall objectives of the organisation – which ***must*** be to satisfy customer requirements. When individual sections of a company do not fit in with the total effort there may be friction or problems which can result in lost opportunities or dissatisfied customers.

(c) Mutually profitable exchange

The organisation is entitled to a reasonable profit for a reasonable product.
The customer is entitled to a reasonable product for a reasonable price. In other words – both should be satisfied. This satisfaction may well be the result of negotiation where the customer has accepted an alternative product or where the organisation has had to accept a lower profit – but they must be satisfied with the exchange. If it is not a ***mutually*** accepted exchange, it is ***not*** marketing.

Decision-Making Units and the Decision-Making Process

Marketers are concerned to identify the decision-making unit (DMU) and the decision-making process (DMP) that underlie each decision within each target market.

- A DMU describes the different functions which are usually involved in making purchase decisions. In formal organisations, these functions are often carried out by different people in different parts of the organisation.

  The functions are often given different descriptions by different academics, but perhaps the easiest to remember is that proposed by Maxwell – Starter, Purchaser, Adviser(s), Decider and End-user. It is helpless without Finance to complete the transaction.
  (As a mnemonic remember a SPADE stuck into a heap of Fertiliser.)

  All purchase decisions are underpinned by the elements of a DMU, so we can illustrate the concept by reference to the impulse decision to buy a bar of chocolate. The buyer will have, at least mentally, passed through all six elements – something will have triggered the need, advice will have been taken (from experience if not externally), the needs of the end-user will have been considered, a decision to buy taken, a purchase process commenced, finance considered and a purchase completed.) The element of feedback (evaluation) is critical since attitudes formed by the product in use will affect future buying decisions (as "advice").

- The DMP is far more complex than the DMU because it models the interactions over time that take place before the decision is made and the purchase negotiated.
  For a capital-intensive project a DMP can last several years and involve levels of management spread across the globe.

The need for both the DMU and DMP to be identified and understood is to allow functional marketing to target each element with the most beneficial tools at the most appropriate time(s). Considerable marketing research resources are devoted to these on-going tasks.

The Concept of Benefit

Customers do not buy products, they buy the benefit – i.e. what the product (or service) will do for them. Consider whether you actually want a computer or the ability to process documents, calculate with spreadsheets, communicate globally, play games. The decision to buy firstly a computer, then a type of computer and finally a specific model is based upon personal judgment as to which best meets the needs that you personally have identified.
(For an organisational decision the needs may be collectively decided, but the eventual purchase will be made by a designated individual.)

So, organisations need to produce not products *per se*, but "bundles of benefits" that are then "packaged" to meet the identified needs of individual customers. Given that benefit packaging is the focus of activity, it becomes apparent that marketing is applicable to any activity that is persuasive in nature. Some of the best work has been on behalf of concepts – the Greenpeace and famine relief campaigns are typical.

The Marketing Mix

Companies who follow the marketing concept will use the **marketing mix** to conduct their dealings with customers.

The "mix", as it is affectionately known, is really a combination of factors which can be amended or adapted to suit the requirements of individual, or groups of, customers. It is the "tool-box" of the marketer.

The term "marketing mix" covers the seven ***controllable*** variables of:

- **Product** – A set of characteristics which satisfy the requirements of consumers and provide the benefits claimed
- **Price** – Set in accordance with market levels and reflecting the characteristics and quality of the product
- **Place** – Available in multiple outlets and by order from suppliers, providing full coverage of the market area
- **Promotion** – Information provided about the product (characteristics and benefits) including advertisements and point of sale material
- **People –** Technical advice given by manufacturers and outlet staff which is knowledgeable and helpful
- **Processes** – Buying and support processes which are easy to accomplish.
- **Physical evidence** – This element of the marketing mix was originally introduced for services, but it is equally relevant to the marketing of physical products. If you think of this as anything which improves the perception of the buyer you will not go far wrong so it could include the appearance of the outlet (especially if it was owned by the manufacturer) or the quality of the leaflets provided.

The Marketing Environment

This term covers the "uncontrollable variables" which are generally beyond the control of the organisation and, as such, must be given due consideration, such as:

- Economic development
- Technological development
- Social/cultural aspects
- Political/legal restraints
- Business practices/institutions
- Competitors, etc.

The marketing concept, marketing mix and marketing environment apply irrespective of whether an organisation is operating solely in its home markets or in international markets. Although we are not dealing specifically with international markets, you must always be aware of them and of additional factors to be considered when dealing internationally, e.g. distance, payment, language, control, religion etc., all of which can present additional problems.

The Marketing Function

The marketing function as being only one of several – each with its own importance. Although this is true, it is necessary to appreciate the role which marketing plays in the integration of activities throughout an organisation.

We know that any organisation has multiple problem areas and, as such, it must operate professionally and be structured so that value exchanges taking place both in and out of the company are ultimately of benefit, rather than detriment, to the organisation as a whole.

The marketing personnel, because of their understanding of customer needs, as well as their awareness of events in both external and internal environments, are best placed to act as agents for liaison and change. They should act as facilitators for organisational integration. It is the marketing function which, above all others, assists in the achievement of corporate objectives.

In the main, however, marketing's power is seated in the organisation's adoption of the marketing concept, and therefore the acceptance that the lead must come from the market. As we've said, marketing is the bridge over which such information flows, and knowledge is power.

(a) The organisation and marketing ideology

Mintzberg describes organisational ideology as having three stages of development:

- ***Rooting***: A single prime mover identifies a mission – some product or service need – and gathers a group around him or her to accomplish it. Even when an organisation is founded by another agency there will usually be a prime mover at its focus. The individuals do not come together at random (or if they do, some then move on fairly smartly). Those who remain do so because they coalesce around shared values associated with the organisation.
- ***Development***: As time passes a set of beliefs form about the nature of the organisation and those who work within it. Decisions are taken which initiate actions that serve as commitments and establish precedents. Behaviours reinforce themselves over time, and actions become infused with value. A unique sense of history is developed.
- ***Reinforcement***: The organisation is a living system and individuals join a collective rather than a random set of individuals. Organisational culture will heavily affect individual beliefs and behaviour. ***Identification*** with and ***loyalty*** to an organisation can be very strong.

An organisation with a marketing ideology will hold certain key values:

- The purpose of production is to serve the consumers (profits come from consumer satisfaction)
- Success comes from close identification with buyers, users and distributors
- Innovation and new ideas are encouraged and rewarded
- An aggressive, competitive will to succeed is essential.

It follows that an organisation wishing to change from, say, a production or bureaucratic ideology will have a long-term programme of behavioural change to undertake.

(b) Strategic role

Referring to the marketing function as being "one of many functions" may, at times, detract from the strategic importance of the activity itself and its relationship or "fit" with corporate planning. ***Strategic*** marketing implies that marketing planning is carried out at a high level and is a major influence on corporate planning itself.

This upward shift of emphasis has really developed because of changes which have taken place in the competitive environment. It is no longer possible simply to say "*We'll do it*". Competitive forces are severe and markets are being fragmented daily due to ever more sophisticated requirements on the part of customers. Because of the changes, planning needs to be undertaken with great care and every aspect of the environment should be taken into account.

Whereas marketing often used to be regarded as simply "an activity to help selling", it has now been elevated to a position of greater prominence. However, it must be pointed out that still too few organisations are represented at Board level by qualified marketers.

Where there is high-level recognition there tends to be much better planning with the add-on effect of marketing itself becoming increasingly sophisticated. Those organisations who do not give due credence to marketing as a strategic activity are likely to fall behind in the race for market share and shareholder value as they fail to see the long-term picture both in terms of objective setting and achievement. "Short-termism", as the lack of a strategic perspective is known, is one of the main reasons why companies fail to survive. To accept marketing planning as being of strategic importance is one way to overcome this.

C. MARKETING OBJECTIVES

We have seen, in the previous unit, that there is a hierarchy of objectives in an organisation, with corporate objectives defining the directions and goals for the organisation as a whole. Corporate objectives may take many forms, but irrespective of their nature, it is the case that, from them, appropriate corporate strategies are identified and selected as the means of their achievement. These corporate strategies are then passed down the hierarchy of command and communicated to the functional levels.

Accepting the fact that the corporate level has decreed what must be done, it is then up to the functional levels to translate the corporate strategies into workable functional objectives.

For obvious reasons, we are **only** dealing with the marketing function from this point on in the course, but please remember that the marketing function is part of the organisational network and, as such, is irreversibly linked with **all** other functions.

Nature and Purpose of Marketing Objectives

The main purpose of marketing objectives is ***to achieve the corporate objective(s)***.

Over and above that prime function, marketing objectives should give ***direction*** to the personnel immediately involved, and send signals to the rest of the organisation as to what is being aimed for. If people have no sense of direction or do not understand the targets which have been set, they will never co-operate to the best of their ability.

Following on from that, if a marketing objective is not clearly defined it will be impossible to formulate effective strategies and the whole planning process will be invalidated almost immediately.

Note that marketing objectives, in exactly the same way as corporate objectives, can be expressed in either ***qualitative*** or ***quantitative*** terms – for example:

> *"To increase market share by 5% each year for the next five years."*
>
> *"To be recognised as the leading supplier of pre-packed meals to the airline industry by the end of 2001."*
>
> *"To achieve recognition as the leading company for customer service and technical support by the end of 2003."*

Gilligan (1992) presents two published viewpoints of researchers who have identified possible marketing objectives:

- McKay (1972) – who suggested that there were only ***three*** possible marketing objectives:
  - (i) To enlarge the market
  - (ii) To increase market share
  - (iii) To improve profitability.
- Gultinan and Paul (1988) – who argued that ***six*** objectives should be given consideration:
  - (i) Market share growth
  - (ii) Market share maintenance
  - (iii) Cash flow maximisation
  - (iv) Sustaining profitability
  - (v) Harvesting
  - (vi) Establishing an initial market position.

Gilligan then goes further to suggest that the supportive thinking for both of these viewpoints can be said to reflect the thinking of Ansoff on marketing objectives. Ansoff (1968) argued that marketing objectives can only ever be about:

- ***products*** and ***markets***

and that products and markets are either:

- ***existing*** or ***new***.

This means that, according to Ansoff, marketing objectives should always be expressed in terms of existing or new products or markets – or a combination of all four factors. This is usually expressed diagrammatically as follows.

Figure 2.2: The Ansoff Matrix

		Products	
		Present	*New*
Markets	*Present*	Market penetration LOW RISK	Product development MEDIUM RISK
	New	Market development MEDIUM RISK	Diversification HIGH RISK

Ansoff's concept is not difficult to accept. Add to this the fact that we already know that objectives need to be SMART (Specific, Measurable, Achievable, Realistic and Timed) and you should not find it difficult to define marketing objectives. However, the various factors which bear on these objectives tend to complicate the process.

Influencing Factors on Marketing Objectives

The influences on marketing objectives can be related to:

(a) The **external** environment:

- A rapidly changing environment
- Government legislation
- Competitive activity or actions
- Changes taking place in technology
- Different patterns of population or buying behaviour
- Recessionary economics, etc.

(b) The **internal** environment:

- Unrealistic corporate objectives
- Poor planning skills
- Narrow viewpoint of the planners
- Lack of resources
- Fear of failure to achieve limiting creativity
- Leadership & Internal culture
- Lack of knowledge of the market environment, etc.

What often happens is that marketing objectives are only loosely defined until such time as all of the available strategies have been considered. Then, once a realistic strategy has been selected, the marketing objectives are "firmed up" or even redefined.

This process is quite acceptable as long as the final marketing objectives still fit with the corporate objective and will still work towards achieving the corporate goals.

Benefits of Marketing Objectives

Providing marketing objectives are defined clearly and communicated correctly, they can bring many advantages:

- **They give a clear direction to the personnel involved**

  Everyone involved knows exactly what is expected of them and how they are supposed to be working. People who do not have a clear idea of what it is they are working towards become disillusioned and demotivated.

- **They can create unity**

  A common goal unites people in all circumstances, particularly when the goal is seen as being worthwhile. If the objectives are seen to have been set with a good purpose, everyone will work together to achieve them.

- **They allow for measurement of achievement**

  Because the objectives specify targets and time scales, monitoring can be carried out to check progress. This allows for either the achievement of success, which creates a "feel good" factor, or for adaptation and fine-tuning of activities to get progress back on target. The setting of standards can become a powerful motivator for personnel as they will strive to do better.

- **They can reduce risk**

  If all personnel know what it is they are working towards, there will be less risk of "mavericks" doing what they think is best, rather than what has been laid down by the objectives.

- **They can improve decision making**

  Managers at lower levels will be able to make day-to-day decisions based on their knowledge of the objectives and the progress made in achieving them. This ability to make decisions away from the higher level can save a lot of time which might otherwise be wasted in trying to communicate with higher-level people. It also enhances the capabilities of lower-level managers.

Problems in Formulating Marketing Objectives

Despite the fact that so many advantages can be gained, it is a sad fact that many organisations find it almost impossible to define good marketing objectives. There can be several reasons for this:

- **Fear of failure**

  If previous objectives were not achieved, planners may be reluctant to define new objectives and will not strive to achieve.

- **Apathy**

  If the personnel in the company are demotivated for some reason, they will not be interested in any new objectives as they will see them as "*just another ploy to get us to work harder*".

- **Success**

  When a company is doing well, a new objective is often seen as being unnecessary. This is the "*if it works why try to fix it*?" syndrome. Unfortunately complacency of this kind can often lead to a company losing its market share to a competitor.

- **Organisational culture**

  A lack of marketing orientation in an organisation can prevent objectives from being formulated. Lack of marketing often means lack of "vision" and short-termism. Instead of a strategic stance being adopted, only short time scales are set or activities are managed on a basis of "*as we need to do it*". The result is that the future is not taken into full consideration, which may end in disaster.

- **Lack of knowledge**

  Perhaps the biggest problem in formulating marketing objectives is the fact that knowledge is necessary.

  Thus, to formulate an objective which says "*where we want to be*", planners need to know the answer to "*where are we now*". Knowing "*where we are*" implies investigation and a full search for knowledge. Do you remember the fictional example used earlier about going to New York? Well, if you hadn't known that you were in London, or how much time and money you had, how could you have realistically planned to get to New York? The answer has to be that you would not have been able to. You would have had to investigate all of the factors influencing your plan before you could even begin.

Developing Marketing Objectives from the Corporate Platform

In the first study unit we looked at the hierarchy of objectives and strategies which link together the plans for the business as a whole. When looking at what the ***company as a whole*** is trying to achieve, or how they are trying to achieve it, we are referring to corporate objectives and corporate strategy. At a ***functional level*** – i.e. marketing, finance or operations – we would refer to marketing objectives or financial strategy, etc. In each case, the word "strategy" would be used to indicate broadly how each functional area intended achieving its specific objectives.

Each level in the organisation determines its objectives in the light of the objectives and of the strategy set at the level above.

- ***Corporate objectives and strategy*** will indicate the marketing objectives which need to be set and achieved.
- ***Marketing objectives and strategy*** will likewise give a lead as to the objectives which should be set by the sales department and individual product managers.

It is not possible to develop a meaningful marketing plan without agreed corporate objectives and strategy. The steps we have outlined in the previous study unit are therefore an essential starting point from which to work. A marketing strategy is judged in terms of its contribution to the achievement of the corporate targets and there must be clear, quantified corporate objectives and strategies for achieving them.

To be of value, objectives have to be relevant to the staff responsible for achieving them. Thus, in terms of the marketing strategies and activities, profit-based corporate objectives need to be broken down into such outcomes as revenue, market share, occupancy, or customer numbers to be of meaning to the marketing team. This is the responsibility of the marketing director or manager.

Clear objectives must be set before a strategy for their achievement can be agreed.

Consider the following examples:

- Where possible, revenue objectives should be turned into precise and relevant activity outcomes.

  A hotel charging £100 per room night and wishing to increase revenue by £100,000 needs to sell:

  $$\frac{100{,}000}{100} = 1{,}000 \text{ room nights.}$$

  This is a much more specific as a marketing objective. However, if the average length of stay is 2 nights, then we can make it even more precise:

  $$\frac{1{,}000}{2} = 500 \text{ bookings.}$$

  Likewise, if the hotel mainly takes conference parties with an average group size of 25, then it needs:

  $$\frac{500}{25} = 20 \text{ additional conference bookings.}$$

  The specific marketing objective of 1,000 room nights can thus be easily converted into a sales target of 20 extra conference bookings.

  This is not only more meaningful to the sales team but makes it easier to track and control performance levels.

- Any change in strategy – the marketing mix, customer mix or product mix – is likely to change the profit margin. This impact must be taken into account when determining marketing objectives.

  A company has a turnover of £10 million and a 20% profit margin – i.e. generating a £2 million gross profit. One of the corporate objectives is to increase profit to £3 million.

  One approach would be to simply identify how much more turnover is required to achieve the target and adopt strategies to achieve this. Thus, it would seem that a 50% increase in turnover would satisfy the objective and so a suitable marketing objective could be to achieve £15 million sales revenue by year X. However, this simple approach ignores the impact of strategy on outcome.

  Market penetration – increasing sales from existing markets – may require raising the marketing spend, using more expensive distribution methods, or additional promotion. An increase in marketing costs of 1% of revenue would lower the margin to 19% and £15,789,473 sales would be needed to generate £3 million profit.

- There is a "cascade" of objectives from which the translation of corporate objectives into specific activity targets can be clearly seen.

Corporate objective and strategy:	To achieve £1 million profits from entry to the Italian market by the year 2002.
Marketing objective:	*Revenue-based (based on a 10% gross profit margin):*
	To achieve £10 million sales from the Italian market by 2002.
	Market share-based (if the Italian market is worth £200 million by 2002):
	To win 5% of the Italian market by 2002.
Sales objective:	*If the average price of our product is £10:*
	To achieve sales of 1 million units in Italy by 2002
	If the average customer buys 5 items per year:
	$\frac{1{,}000{,}000}{5} = 200{,}000$ regular customers by 2002.

  From this objective cascade we can get a real sense of the scale of the challenge we are facing and the expectations of each level of the operation. Management will now have a much clearer view of the amount of sales effort which would be needed to achieve this objective, operations will know the capacity required to meet anticipated orders, and promotional objectives in terms of awareness and enquiries can be set in the context of what we are aiming to achieve.

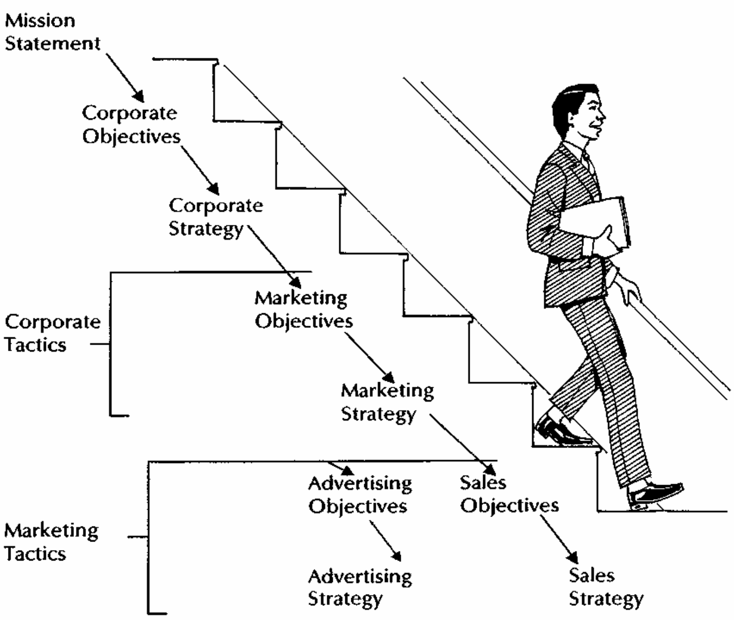
The planning process is like a giant jigsaw. The whole picture is determined at corporate level and then each area of the business is responsible for its own part. If all departments achieve their objectives, this should build up to ensure that the organisation achieves its overall objectives.

Planning takes place throughout the organisation. The process is the same, only the emphasis changes as you move from corporate to marketing plans. The following tables summarise these different emphases.

The Corporate Business Plan	
Focus:	The organisation as a whole.
Objectives:	Expressed in financial terms – e.g. return on investment, profit on revenue. In not-for-profit sectors the business objective will be expressed in terms of benefits to stakeholders.
Strategy:	Provides direction to the functional areas – e.g. marketing, finance, production, personnel, operations. It will encompass which products, which markets and the broad competitive strategy adopted.
Tactics:	The details of implementing the strategy are tactics to the managing director, but are in fact the operational plans of the functional areas – e.g. the marketing strategy for entering the Italian market is a corporate tactic.

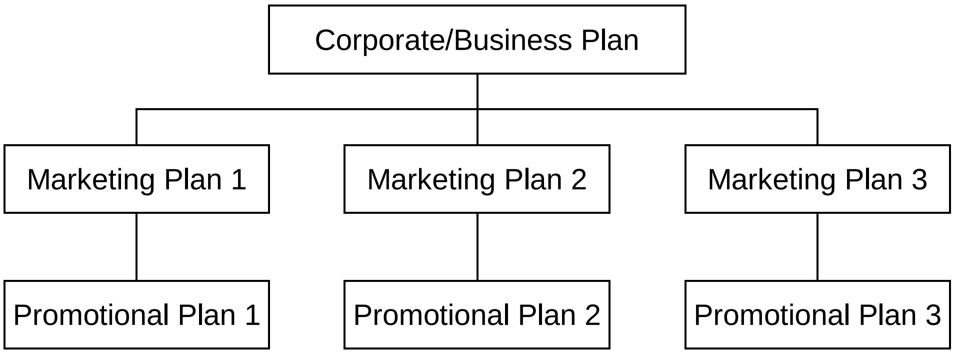
The Marketing Plan	
Focus:	The marketing activity.
Objectives:	Shaped by the corporate objectives and strategy and expressed in volume or market share, revenue or occupancy.
Strategy:	Identifies the segments to be targeted and indicates the positioning of the offering to achieve the objectives.
Tactics:	Details of the plan's implementation – e.g. the tactical planning of the marketing mix.

Looked at from top to bottom it is easy to see how the planning levels build up, with one being dependent on the other.



The hierarchy of planning and objectives can be clearly identified in the cascade of finished plans.

Figure 2.3: Hierarchy of plans



Note that every strategy at corporate level will require a separate marketing plan.
Most businesses will adopt a combination of strategies drawn from market penetration, product or market development and diversification. For each of these selected, a separate marketing and then tactical plans will be needed.

The cascade demonstrates the relationships between plans once the planning process is completed.

In the sequence of the planning process the interaction between the planners at each stage is much more iterative; bottom-up as well as top-down.

D. MARKETING STRATEGY

Marketing, and other functional-level, objectives spring directly, and naturally, from the corporate level strategies which, in turn, are aimed at meeting the corporate objectives. Naturally enough, therefore, we would anticipate marketing strategy to be aimed at meeting the marketing objectives.

However, we need to make a distinction between the concepts of "marketing strategy" and "**a** marketing strategy".

- "Marketing strategy" describes the means of achieving an objective; or
- "A marketing strategy" describes an approach, stance or long-term plans. (It is from this use of the word that we get "strategic planning", meaning a higher level of planning.)

Over the years marketing authors have tried to clarify this issue in different ways.

Wilson, Gilligan and Pearson in *Strategic Marketing Management*, readily admit that there is no standard definition of "strategy", but highlight three "levels" of strategy:

- ***Corporate strategy*** – dealing with the allocation of resources throughout the entire organisation, covering all of the various businesses or divisions.
- ***Business strategy*** – which exists at the individual business or division level and is concerned with the question of competitive positioning.
- ***Functional-level strategy*** – which is limited to the actions of specific functions within specific businesses.

The same authors produced the model shown in Figure 2.4, which demonstrates the ***strategic planning process***.

Figure 2.4: Strategic Planning for Marketing (Adapted from Gilligan & Fifield, 1997)

Initial environmental and business analysis

↘

Develop the mission statement

↘ *CORPORATE*

Detailed marketing audit

↘

Corporate objectives and strategy formulation

↘

Marketing objectives and strategy formulation

↘ *BUSINESS*

Estimate expected results

↘

Identify alternative plans and mixes

↘

Implementation *FUNCTIONAL*

↘

Review

This is all very well for a large organisation. We can see a progression from the top level to the lower levels and, from our previous studies, you will know that as the plans move down the organisation they become ever more focused and detailed.

But what about smaller organisations? Well, perhaps here it would be helpful to define small to medium sized enterprises. Although formal definitions of SMEs do vary from country to country, generally SMEs range from sole traders (one man businesses) through to organisations employing up to 249 staff. They may range from say a low turnover local shopkeeper to an international computer manufacture turning over many millions of dollars. You should therefore be aware of the wide variation of SMEs and that their needs will also vary enormously.

So does this process still works for SMEs. Yes it does. What the authors have done is to give a picture which will encompass ***any*** organisation. It may be that some of the levels will "combine" – for example, small to medium-sized companies may only have one small tier of top management above the operational levels. The higher level will still decide on the allocation of resources overall, but may produce fairly detailed plans for operational levels. Or, in some cases, the detailed planning will be left to the operational level.

You should also note, from Figure 2.4, that there is no distinct section for "segmentation". Presumably this is because the authors consider that segmentation is part of the marketing audit process. It is also worth noting that the authors place the "detailed marketing audit" before setting "corporate objectives and strategy formulation". Many companies do not undertake marketing audits until ***after*** they have formulated their objectives. They then carry out investigations to see if the objectives are achievable. If they are not achievable they will "revisit" the objectives and fine tune them to fit better with the increased knowledge gained in the audit.

Remember, there is no ***right*** way – the organisation itself will find the ***best*** way of producing plans that are aimed at achieving corporate objectives.

Try to think of it in this way:

- ***Strategic (corporate) planning*** outlines the activities which the functions, or SBUs, must undertake to achieve the stated corporate objectives.
- ***Strategic marketing (i.e. functional) planning*** outlines the longer-term policies, positioning, stance and activities which the units, or divisions, of the marketing function must adopt to achieve the corporate objectives.
- ***Operational marketing planning*** outlines the programmes and activities which the individual units, or divisions, of the marketing function must undertake to achieve the corporate objectives.

Although the difference between "marketing strategy" and "**a** marketing strategy" is relatively easy to accept for huge, and often complex, organisations, you should now realise that even in a small organisation there can still be "a marketing strategy" addressing the longer-term view ***and*** "marketing strategies" which are operational approaches aimed at achieving objectives.

If you can accept the "level" that the two types of "strategy" relate to in the organisational planning hierarchy, you should have few problems.

The Nature and Purpose of Marketing Strategy

As we have noted, the term "strategy" is used to cover the "how" you will achieve your objectives, in this case the marketing objectives. So, for example, the marketing objective for a book publisher may be to generate £335,000 book sales in Europe, and marketing strategy will determine how this is to be achieved.

This always incorporates the following three dimensions:

- ***Segmentation*** – Is the marketing effort to be concentrated on one or two selected European countries? If so, which ones?
- ***Targeting*** – Is distribution to be direct from the UK (mail order) or through European intermediaries? If we need agents or a joint venture, how do we select our partners?
- ***Positioning*** – Is the product to be positioned as British or European, and as an aid to the students or the tutors?

However, marketing strategy identifies not only where the customers will come from but also how to differentiate the offering to gain competitive advantage – in essence, the ***unique selling proposition*** (USP).

In general, then, marketing strategy should be a short and concise statement. It will not take up a great deal of the marketing plan, the bulk of which will be the tactical elements.
(We shall be examining the production of the whole plan later in this module.)

Perhaps the most important purpose of marketing strategy is to give **purpose** to the rest of the marketing activities. This means that the overall strategy should give clear guidelines on practices and sub-strategies which are developed as a result of it.

Types of Marketing Strategy

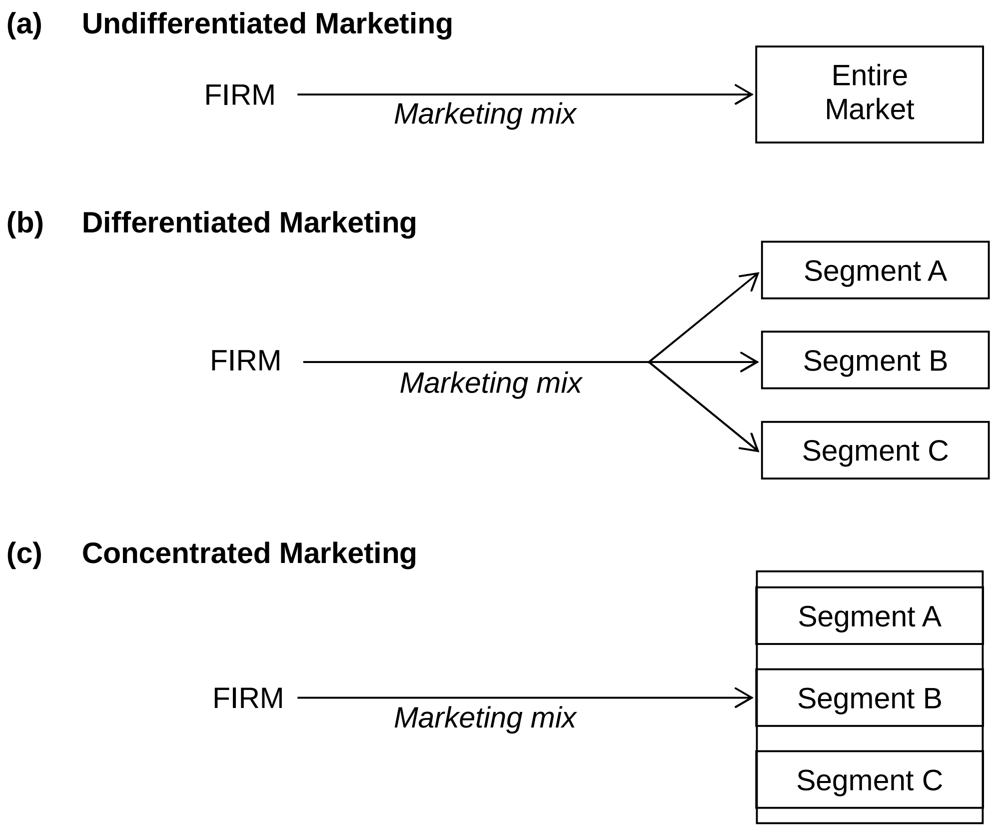
One of the most fundamental issues which a company must decide on is the ***type*** of marketing strategy that it will adopt.

There are three basic marketing strategies which any company can follow:

- Undifferentiated marketing
- Differentiated marketing
- Concentrated marketing

The models in Figure 2.5 show the differences between these three types.

Figure 2.5: Marketing Strategies



- **Undifferentiated Marketing**

  Here there is a standard, unchanged product and a standard, unchanged marketing effort. The product will be aimed at a large sector of the market. This strategy can reduce costs – for example, in marketing or production – but will encounter wastage in promotional activity and possibly in distribution. Not too many companies are in the fortunate position of producing a product which is suitable for everyone in the world (although there are quite a few, without mentioning Coca Cola).

- **Differentiated Marketing**

  Here the company segments its markets and offers modified products to different segments. The marketing mix elements will also be modified to suit the requirements of the chosen segments. Using a differentiated strategy will mean higher costs, but ultimately the profit levels could be higher as the offering has been targeted to the segments. This should mean that there will be less wastage of effort.

- **Concentrated Marketing**

  Here the total marketing effort is aimed at one market segment. This strategy is really aimed at the exploitation of a limited market area and tends to be used by those companies who have highly specialised products. It is also known as "niche marketing".

Concentration on key markets can be very beneficial to an organisation – for example, control is easier, especially in times of difficulty. Market knowledge will be improved with little, or no, wastage of resources on unprofitable segments and non-price factors, such as delivery or customising, etc., are much easier to exploit.

It is common for organisations with a diverse product range to use a ***combination of all three strategies*** for different parts of their product mix. There are no rules. Decisions will depend on the prevailing conditions within the markets being approached and other influencing factors outlined below.

Some marketing authors will tell you that segmentation is a result of the decisions made on the type of marketing approach which is to be used. Others will tell you that segmentation is the cause of this type of decision having to be made. The reason for the differences in opinion is likely to lie in "when" each of the two activities is undertaken. Some believe segmentation comes first, whilst some believe "approach" comes first.

However, it makes little difference. Segmentation and the type of marketing approach are irretrievably linked. It is the old puzzle of: *"Which comes first – the chicken or the egg?"* We cannot differentiate between which causes which. If we do not know our segments, we cannot know how to market to them. If we do not know which type of marketing we, and our offering, are most suited to, what is the point of segmenting the audience? They are ***both*** essential in the marketing effort.

We shall return to the issues of segmentation, targeting and positioning later in the course in some detail.

Influences on Strategy Formulation

The influences on strategy formulation are many and varied. They can come from both external and internal sources.

(a) External

- The nature of the competition and the products which are on offer in the marketplace
- Political, economic, social and technological pressures
- The needs and requirements of the buyers
- Changes which are, or are likely to be, taking place in the environment.

(b) Internal

- The corporate objectives
- The size and power of the company
- The availability of resources
- Current and past practices
- Expectations of stakeholders
- The position of the firm in the marketplace
- The nature of the firm's business approach
- The managerial stance and attitude.

To put it another way, **any** aspect of the internal and external environments can have an influence on strategy formulation.

Revision Questions

To check your progress with this unit, ensure that you can answer the following questions.

1. What is value-based marketing?
2. What is marketing orientation?
3. What are the 7Ps of the marketing mix?
4. Describe the Ansoff matrix.
5. What are the main benefits of producing marketing objectives?
6. What are the stages in the strategic planning process?

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> "Select any staged model of the strategic marketing planning process with which you are familiar. Outline and critically describe this model, and in particular, detail the benefits of such a model in a dynamic marketing environment."

ANSWERS TO REVIEW QUESTIONS

1. It is offering a total value proposition to customers that, in turn, delivers superior value to shareholders.

2. The presence of a culture within an organisation, which is focused towards the understanding of customers and competitors and so can create superior value for consumers.

3. Product, price, place promotion, physical evidence, people and processes.

4. Refers to New products, new markets, existing products, existing markets.

5. Gives a clear direction, can create unity, allows for measurement, can reduce risk, can improve decision making.

6. The stages are:
   - Initial environmental and business analysis
   - Develop the mission statement
   - Detailed marketing audit
   - Corporate objectives and strategy formulation
   - Marketing objectives and strategy formulation
   - Estimate expected results
   - Identify alternative plans and mixes
   - Implementation
   - Review.

Study Unit 3

Marketing and Strategic Choice

Contents ***Page***

(Continued over)

INTRODUCTION

In the last unit, we identified the role of a marketing strategy in providing an overarching long-term approach to the development and implementation of marketing plans. This concept of the marketing strategy is the means of achieving the corporate objectives, laying down longer-term goals and targets for the marketing personnel to follow. It also gives measurements which can be used as controls.

In essence, a marketing strategy gives messages to the stakeholders of the organisation – stating:

- *"This is where we are going"*, and
- *"When we will get there"*, and
- *"This is our stance".*

The fact that the strategy is longer term gives both internal and external involved parties an indication of confidence and belief in the future.

In this study unit we shall examine approaches to marketing strategy through the consideration of a number of models which address the above issues. These models represent a range of strategic choices from which organisations may select the most appropriate approach in the circumstances. We shall then go on to look at the way which these choices may be compared for effectiveness and then selected for implementation.

You will be aware that marketing planners have to deal with an enormous amount of information. They need to represent this information in a way which is easy to understand – models help them to do this. A model is a simplified representation of reality which summarises a given set of circumstances. It therefore provides a means of assessing the viability of different courses of action in the light of these circumstances.

The models which we shall consider here may be broken down into two general types.

- Those which identify corporate strategies for the organisation as a whole or for specific projects – and these include organisational stance and positioning, Ansoff's four strategic options, Porter's generic strategy model, and the Profit Impact on Market Strategy (PIMS).
- Those which analyse the product offering and provide a means of identifying strategy across a range of projects. These are the ***portfolio models*** which include the Boston Consultancy Group Matrix (BCG), the Market Attractiveness – Business Position Model and the Shell Directional Policy Matrix.

Don't forget to attempt the review questions at the end of this study unit to test your knowledge and understanding, and also have a look at the past examination question. By now you should be getting on top of this subject, so have a go at it!

A. ORGANISATIONAL STANCE AND POSITIONING

This model assumes that organisations may adopt one of three positions in their market – leaders, followers and nichers – and that strategy is determined by this position. Two types of strategic response are postulated – attack and defence – depending on the circumstances.

Types of Organisational Stance

(a) Leaders

These are innovative companies who are regularly first into the marketplace with new products. They tend to be powerful companies who will have major market shares and the benefit of high resources. They gain advantage from being first to the market, but they invest heavily in development and face the risks attached to being innovative. They must adopt strategies which will:

- Protect their current market share by using the mix, or
- Encourage current customers to use more, or
- Attract and retain new users and/or customers, or
- Redesign the product/service for new and existing users, or
- Introduce new products to new markets.

Companies can carry out these strategies by adopting a stance of:

- **Innovation** – always being in front of the competition
- **Fortification** – activities aimed at keeping the competition down
- **Confrontation** – aggressive promotion, price wars
- **Harassment** – pressure on distributors, criticising competition.

(b) Followers

These are the companies who do not invest heavily in research and development (R & D) but "copy" what the leaders do. This type of company will never get the initial major market share, but they do not have to invest money in development or in making the target market "aware", as the leaders will have already done this. They may also capitalise on errors which the leaders make, e.g. if a leader's new product has a slight technical problem, followers may be able to solve that problem before launching their own version of the product.

If this is done, the early adopter and early majority categories of buyers may well turn to the "following product" and the leaders will lose market share. Followers can make many different amendments to a leader's product (price, quality, distribution, etc.) and amendment is cheaper than development so costs will be lower.

Followers are often referred to as "me-too" marketers in that they do not come up with original ideas or practices. They are simply happy to hang on to the tails of the leaders and take any benefits they can.

Challengers, or followers, may at times seek to overtake the leaders and will often adopt methods which involve price-cutting incentives to distributors, giving improved service levels, sharing costs with distribution channel members, etc.

(c) Nichers

These types of organisation are those that are, to one extent or another, providing a "specialised" product offering. They will have some kind of USP (unique service proposition) which they can offer to their customers.

Niche marketers are often left alone by the market leaders as they (nichers) are either chasing a small market segment, or are providing something which is non-viable for the larger firm, e.g. individual service levels may be extremely high. Nichers can gain from being seen as "specialist" and can, consequently, often charge much higher prices for their product offerings. Niche markets can be very profitable, despite relatively low market share.

We could not possibly expect an organisation to adopt a stance and retain that stance forever. As we know, the environment changes, as do the circumstances of any organisation. These changes could mean that an organisation will need to attack a leader, or defend against a follower. The reasons for this may be a search for growth or profits, for survival, or simply because the management culture has changed and the new management considers it safe to change direction.

Attack Strategies

There are a number of different strategies aimed at increasing sales in the face of competition.

(a) Direct challenge – differential advantage

This is a high-risk strategy but one with potentially high pay-off. Such a policy requires sufficient working capital and management determination to last out a long campaign, for a major market leader is in a very strong position and buying market share calls for marketing's equivalent of extensive trench warfare.

It is unlikely to work unless clear differential advantages are offered, and welcomed, by consumers. The attack mounted by Fosters lager on the British market was a distinct success, although many would argue that in the glass there is little to tell between Fosters and similar-priced lagers. A decade before, Heineken succeeded in entering the market as a substantial player. It is interesting to note that both successes came from brilliant promotional campaigns supported by adequate products.

(b) Direct attack – distinctive competence

Removing the distinctive competence from the market leader by innovation is extremely effective providing that the advantages are valued by the target market and communicated effectively. A classic example is Xerox, who took the copying market away from 3M by introducing a better process.

(c) Direct attack – market share

Gobbling up the smaller firms in the market can build market share very quickly – providing that it is possible to retain it when (or if) branding is consolidated.

Normally there will be loss of trade as old brands change to the new, but the promotional stimulus may well shake a few percentage points from the market leader in exchange for what is lost.

(d) Flank attack

This involves the location of a position which is not open and which it is possible to occupy **and hold**. When segmentation analysis reveals a niche that is not being served, it is first necessary to ask why. If the answer is not "*because it is untenable*" then it becomes available as an attack base from which to build market presence and share. Cadburys, for instance, failed with a direct attack, Aztec against Mars, but succeeded with Wispa when they outflanked Aero.

(e) Encirclement

An encirclement attack endeavours to overwhelm a competitor by simultaneous attack on every front: an expensive strategy, but one extremely difficult (and expensive) to resist. Casio's approach to the calculator market was a typical example of encirclement. They overwhelmed the opposition by a constant stream of ever-better, ever-cheaper products until they achieved dominance.

(f) Bypass

The most indirect assault involves broadening a resource base over a period whilst avoiding confrontation until strategically prepared. In 1971 Colgate was underdog to Proctor and Gamble; by 1976 it was well placed in 75% of its markets, and out of contact with P & G in the remainder.

(g) Guerrilla

A relatively small competitor cannot attack aggressively on a broad front but can choose where and when to hit in the knowledge that the big competitor is likely to be slow in response. Profits are therefore taken before response comes – by which time the smaller firm is striking elsewhere. This is unlikely to defeat the market leader but it can take a substantial amount of profits from the market. The Hoppa buses introduced in cities became a serious nuisance to the established major companies operating traditional buses on fixed routes.

Defence Strategies

Again, there are a number of strategies available to organisations which are faced with increased competition and wish to protect their market position.

(a) Position defence

Based upon a clear positioning that is established over years of effort (as the Mars Bar has been), a position defence consists of flexible consolidation. A static position is untenable; product innovation in the widest sense to include promotional innovation is needed to keep the product alive, healthy and active in the minds of its customers and consumers. An entrenched leader that is innovative will usually have massive cost advantages and be able to withstand sustained attack to such an extent that, as when approaching a porcupine, you do it, if at all, with care.

(b) Pre-emptive defence

An attack upon a potential challenger can distract through their need to defend. The attack need not be head-to-head – a fighting brand in another market can be made active and set to assault a position of vital importance to the rival. Nestlé are past masters at this type of market strategy – from comparatively few production lines they now produce many branded versions of the same canned milk, and not all are intended to be market leaders.

(c) Counter-offensive

This is an aggressive response to an attack in order to prevent loss of market share. Responses involve using mix elements. When Cadbury's attacked Mars they were immediately faced with an overwhelming counter-offensive. They withdrew from the confrontation.

(d) Mobile defence

This is good marketing policy even without the threat of an attacker on the horizon because it involves constant moving, through innovation, market broadening and diversification into new territory. It requires a willingness to "*go where no-one has gone before*" but the prospects of excellent returns and safety from attackers are very tempting. Richard Branson and his Virgin empire exemplify the entrepreneurial approach to growth through mobility.

(e) Flanking defence

The American car giants exemplify failure in attempts to erect effective flank defences. Alert to the threat from Japan, which was focused on small cars, they attempted to protect their overall position with hastily designed American compacts. These were no competition for the carefully thought through, well designed and very efficient Japanese competition, and the flanking defence turned out to have been a major distraction which occupied time and resources that weakened their overall position.

(f) Contraction defence

Pulling back to a position of strength to be better able to mount a counter-attack is sometimes a good policy. But, just as a defensive force pushed into the keep of its castle in medieval times was usually held there under siege, so a modern company is unwise to get into a position where it has to contract. The British motorcycle industry contracted before each successive wave of Japanese imports until there was no effective British motorcycle left.

Marketing in International Markets

Many organisations will operate over national boundaries and their marketing activities may need to be significantly different from their domestic marketing activities. They will need to have strong awareness of the foreign environment, have sufficient resources and adjust their strategies to meet the needs and desires of different markets.

Organisations can be involved in international marketing at various levels. These can be summarised as:

(a) Domestic marketing

This is being involved in the home market only.

(b) Export marketing

This is an attempt to create sales without significant changes in the company's products and overall operations. It usually involves finding foreign markets for existing products.

(c) International marketing

This involves greater commitment to international markets. International marketing activities are seen as part of overall planning. Direct investment in non-domestic markets is likely and products may also be sourced away from the home market.

(d) Multinational marketing

Further steps are taken to adapt to local tastes. Modifications may be made to aspects of the marketing mix to make them more appealing to local markets.

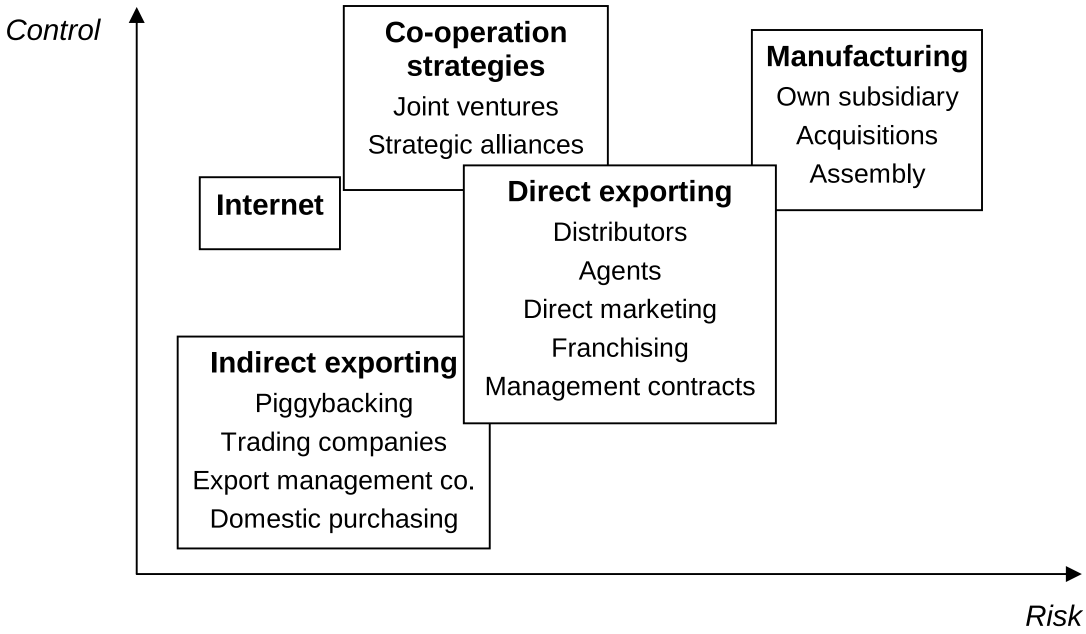
(e) Global marketing

This involves total commitment to international marketing. It involves applying the organisation's assets, experience and products to develop and maintain marketing strategies on a global scale. Although a single global marketing strategy is required and organisations like to standardise wherever possible, some adaptation to local needs is almost always required.

Market entry alternatives

There are a number of alternatives that an organisation may consider when seeking international involvement. The level of involvement will usually be determined by issues, such as, business objectives, the availability of financial resources for investment in operations and marketing, the control required and the perceived risk. Figure 3.1 summarises the various options that can be considered.

Figure 3.1: International Market Entry Options – Control v. Risk



Small firm involvement in international markets

Small firms have traditionally provided niche products and services to satisfy their loyal, local customer base. Here they have gained advantage over their competitors and often benefited from significant barriers to entry for foreign competitors. Today, with substantial global market opportunities, more open boundaries, increasingly competitive domestic markets, improvements in management education, better international marketing skills, improved knowledge and understanding and rapid technological advances, many small firms are seeking new overseas markets.

They are achieving this through:

(a) Exporting – selling domestically developed and produced goods and services abroad.

(b) International niche markets – marketing a differentiated product or service overseas using the full range of market entry and marketing mix options.

(c) Direct marketing – Especially through the Internet, which allows firms to market products and services globally from a domestic location (remember organisations can also source products internationally).

(d) Through the International supply chain of a MNE – For example, piggybacking an MNE's international development programme.

B. ANSOFF'S FOUR STRATEGIC OPTIONS

This is perhaps the most quoted model of all in marketing theory and practice.

Ansoff claimed that in marketing we can only ever be talking about products and markets, and that these can only be old, or existing, and new, or potential. Thus marketers have:

- ***existing products*** which they can sell to ***existing markets***
- ***existing products*** which they can sell to ***new markets***
- ***new products*** which they can sell to ***existing markets***
- ***new products*** which they can sell to ***new markets***.

Using these combinations gives a choice, according to Ansoff, of ***four*** possible basic strategies:

Figure 3.2: The Ansoff Matrix

		Products	
		Existing	*New*
Markets	*Existing*	PENETRATION Low risk	PRODUCT DEVELOPMENT Medium risk
	New	MARKET DEVELOPMENT Medium risk	DIVERSIFICATION High risk

Market Penetration

This strategy – same product/same market – will be appropriate when a market is growing and not yet saturated.

Penetration can be achieved by:

- Attracting non-users of a product
- Increasing the usage, or purchasing rate, of existing customers.

The strategy will often be implemented by increasing activity on one or more of the mix elements – for example, using more intensive distribution, aggressive promotion, pricing, etc.

Market Development

This strategy – same product/new market – is often found when a regional business wishes to expand or if new markets are emerging because of changes in consumer habits. It can also occur when a new use has been discovered for an existing product.

Implementation of this strategy involves appealing to market sectors (or geographical regions) not currently catered for and many mean a repositioning of products as well as, very often, new distribution methods or channels.

Product Development

With this strategy – new product/existing market – an organisation develops new products to appeal to its existing markets. It may simply be a product "refinement" – for example, change of packaging or taste, etc.

Product development is most prevalent when branding exists. Promotional aspects will emphasise the added qualities of the "new" product and link it specifically to the security of, and confidence in, the brand. This strategy builds on customer loyalty and the benefits to be gained by purchase. Other mix elements, such as distribution, may remain unchanged.

Diversification

This strategy – new products/new market – is sometimes introduced so that a company does not become too dependent on its existing SBUs. It can be a form of "insurance" against potential disasters that could occur in the event of drastic environmental changes. It can also simply be a means of growth and expansion of power, etc.

"New" might be a totally innovative product, which has never been seen in the marketplace, or it can be a product which is already available in the market but is new to the firm. In either case, Diversification means catering for market sectors which are also new to the firm. If a new product is developed for the existing market it is Product Development and not Diversification.

Firms can diversify by producing their own new products or by taking over some other product. In the latter case there are two main types of diversification – integration (which may be vertical or horizontal) or conglomeration.

- **Vertical integration**

  This involves the acquisition of some other enterprise in the chain of distribution between the manufacturer and the customer. It can be either "forward", i.e. towards the customer, or "backward" towards the source of raw material.

  For example, a company dealing in writing stationery may vertically integrate forward by taking over a retail outlet to sell its products, or backward by taking over a paper mill. Although there will obviously be control benefits to be gained in either of these examples, the company will be dealing with a product, or products, and markets which are new to them.

- **Horizontal integration**

  This is the acquisition of another organisation which has a feature that is desired – i.e. the acquired organisation may be using similar materials or components for which they have a monopoly of supply. This is particularly relevant when materials, etc. are in short supply. The company that is acquired may use similar production methods and have greater capacity; or its distribution channels may be highly effective and would prove advantageous; or it may have some other quality which could be seen as a benefit – for example, Johnson Brothers (china manufacturers) taking over the Wedgwood china company and capitalising on the Wedgwood brand and reputation.

- **Conglomeration**

  This strategy moves the firm away from its existing product-market situation into an entirely new area in order to satisfy a primary objective. Quite often this is done as a short-term activity that will allow an organisation to recover from a temporary setback in market conditions. For example, a company that produces ladies' lingerie, and is faced with cash problems in the short term, may reap instant profits if it invests in "spot-buying" and "selling-on" of oil on the open market. This type of activity can also be part of a longer-term strategy to spread risks.

Applying the Ansoff Model

We can assess the value of the Ansoff model by considering its application by Coca-Cola, who have used all four strategies. (The following analysis is adapted from **Evans and Berman** (Marketing, 1990)).

(a) Market penetration

- More adults used in commercials – "*You can't beat the feeling*" theme
- Price discount and promotions (fun caps) to existing customers
- Increasing sales through fast-food outlets
- Strengthened distribution network.

(b) Market development

- Greater emphasis on China, Eastern Europe, South America, Middle East, Africa
- Appeal to men with Diet Coke
- Changing image of soda from children to "family".

(c) Product development

- New brands/flavours
- New containers.

(d) Diversification

- Manufacturer of water treatment and conditioning equipment
- Acquiring Columbia Pictures, Embassy Communications
- Licensing company name for clothing range.

Conclusion

Ansoff's model is one which is so widely used that you cannot afford not to know it really well. There is no doubt that the model is extremely useful in deciding which strategy to adopt in a given set of circumstances; however, you should recognise that it is not perfect as it does not cover everything.

- It takes no account of any environmental factors.
- It does not give any room for judgment on profitability.
- It can inhibit the creativity of planners.

Despite the shortcomings it is very useful. It can also be used to assess risk; the further away from its present position a company moves the more the risk increases.

For example a company selling the current product to the current market is in the safest position. All factors are known – buyers, distribution, competition, etc. Once the company begins to ***change*** some aspect, risks occur. With "new" products to existing markets there is always a danger that the customers will not adopt the new product and, possibly, that the new product will have an adverse effect on the existing range. Likewise, unknown market sectors, or regions, can be risky (hence the need for market research) and, of course, the unknown variables involved in diversification make it the most risky strategy of all. Marketers need to consider all influencing factors when selecting which strategy, or strategies, to adopt.

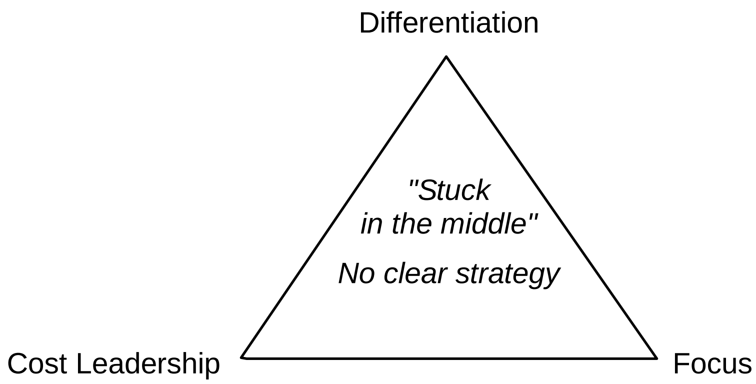
C. PORTER'S GENERIC STRATEGY MODEL

Michael Porter is a very widely quoted writer on marketing and this model claims that there are only three main strategies which a business can follow:

- Overall cost leadership
- Differentiation strategy
- Focus strategy.

A business which followed none of these strategies would become "stuck in the middle".

Figure 3.3: Porter's Generic Strategy Model



Cost Leadership

Following this strategy means that the company aims to produce in large quantities, at the lowest cost possible and sell at lower prices. By doing this they can capitalise on economies of scale and defeat any competitor who has not got equal production capacity, or who can keep prices to a minimum. This strategy will also attract price-sensitive buyers away from the competition – for example, moulded plastic garden chairs which are not seen as being "different" are often bought on the basis of the lowest price.

Differentiation

This strategy involves offering some ***unique selling proposition*** (USP) that the competition do not have. Prices may not be too important to buyers of products sold under this strategy and it often follows that customers become brand or product loyal – for example, a whisky drinker may prefer to buy Macallan whisky despite the fact that it costs more than Bell's, or an own-label make from a supermarket. Another example could be that of a fashion company producing a diverse range of clothes to suit different requirements for different target sectors (military uniforms/workwear/leisure).

Focus

The company aims at very select market sectors and will be charging higher prices or offer special USPs. The company can concentrate on its key products for specific targets, acquire a reputation for being "specialist", or can simply attack sectors of the market which are being ignored by the competition. They are, to some effect, niche marketers – for example, Rolex watches, Rolls Royce cars or bespoke tailoring.

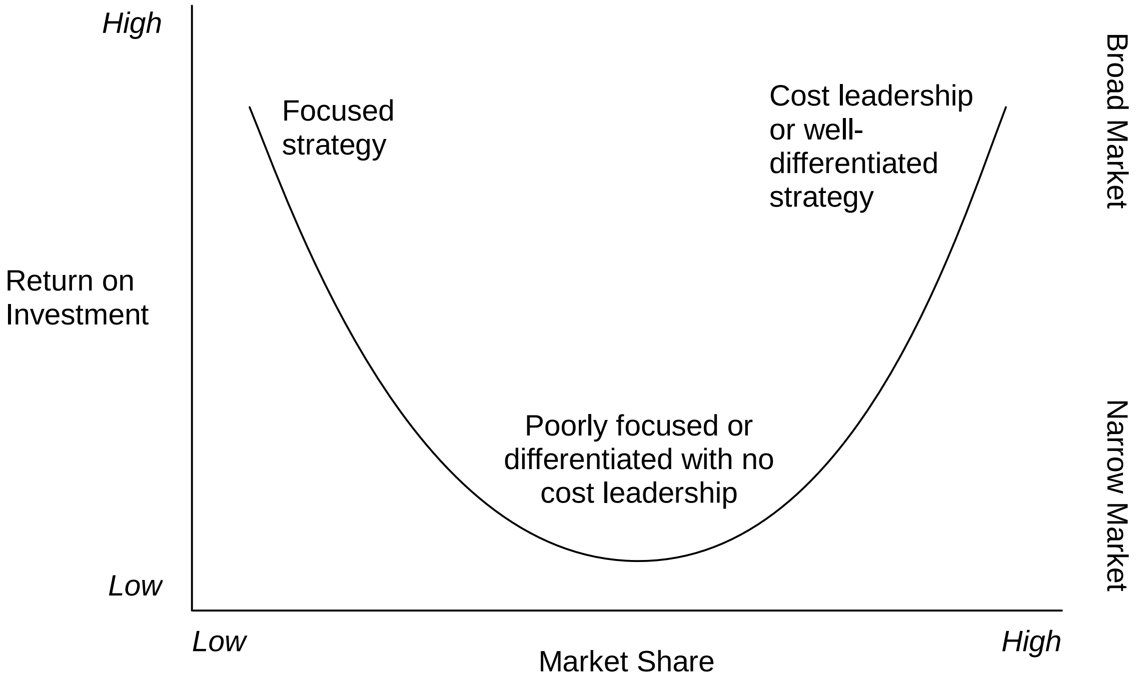
Porter's Profitability Curve

Porter suggested that the relationship between market share and profitability could be demonstrated as a U shape and that businesses following Cost Leadership or Well-Differentiated strategies can successfully achieve large shares of broad markets, but that a business with a small share of a broad market can still be profitable if they are following a focus strategy.

The premise is based on competitive scope and competitive advantage, overwritten onto broad or narrow markets. Planners will be analysing the competitive scope (capabilities) and the competitive advantage of the particular SBU for which they are planning.

- **Competitive scope** indicates whether or not an SBU can be aimed at a broad or narrow target market.
- **Competitive advantage** refers to the factors which are different to those of the competition such as costs or a unique selling point (USP).

Figure 3.4: Porter's Profitability Curve



Competitive Advantage

As stated above, competitive advantage refers to a strength which an organisation has, which is superior to that held by the competition. These advantages are addressed elsewhere in the course, but they warrant a brief mention here as they are particularly relevant in respect of Porter's generic strategy choice model.

Competitive advantages can be in terms of:

- Superior product or service
- Experience in production
- Patents
- Staff motivation
- Extensive networks/relationships, etc.

Providing the advantage is sustainable (and meaningful to the customer) it can be on any aspect of a company's offering – but it ***must*** be superior in some way to that of the competition.

Conclusion

Porter's strategy model allows a company to decide which overall "type" of marketing they want to adopt. If the firm is powerful and rich in resources they may well choose to follow a Cost Leadership strategy. However, smaller firms may be forced to adopt either a Focus or Differentiated strategy because their product offering has a very specific market. For example, the car market overall is very broad but Morgan cars are aimed at a select market sector and command high prices which give good profits (Focus).

The strategies suggested by Porter can also be used, to some extent, in conjunction with the Ansoff strategies. A company which is following an overall business approach of Cost Leadership may still carry out Market Development if they wish to extend their operating area. A company which has adopted a Focus strategy may still be involved in product development, etc.

Unlike the Ansoff model, the Porter model at least takes into account market share and profitability in relation to the nature of the market a company is operating in.

D. PROFIT IMPACT ON MARKET STRATEGY (PIMS)

Although PIMS is referred to as a "model" it is actually a "programme" which was originally a research project between the Marketing Science Institute and Harvard Business School, in the USA, to determine how profit impacted on marketing strategy and vice versa. The programme, which is still continuing, has four main areas of strategic planning under investigation which can be of use to businesses when they are selecting strategies:

- Forecasting profits
- Allocating resources
- Measuring performance
- Appraising new business propositions

The main findings of the PIMS programme have been that profitability is influenced by

(a) Competitive position (market share and product quality)

(b) Production structure

(c) The attractiveness of the target market.

The commercial side of the programme is administered by US Strategic Planning Institute but is also available in other countries. There is a database of approximately 3,000 business "units" from several hundred firms, including successful and loss-making ventures. Company and market backgrounds are recorded as well as the strategies which were adopted – together with the results achieved.

The main purpose of this model, or programme, is to enable companies to look at the outcomes of strategies pursued by others when they are faced with similar situations/conditions. Information is available, at a cost, in reports in one of four formats:

- ***PAR*** – average ROI and cash flow based on market technology, cost structure and competition
- ***Look-alikes*** – strategies (and outcomes) used by similar companies
- ***Strategy analysis*** – shows the likely effects of strategy changes on ROI/cash flow both short and long term.
- ***Optimum strategy*** – suggests strategies which will maximise results.

This model offers good "security" for planners but it also has its pitfalls. Critics claim that errors have been made in the measurements taken and that in some cases the findings have been misinterpreted. Relating profitability to market share is also an area which could be disputed according to Porter's propositions given above.

E. BOSTON CONSULTANCY GROUP MATRIX (BCG)

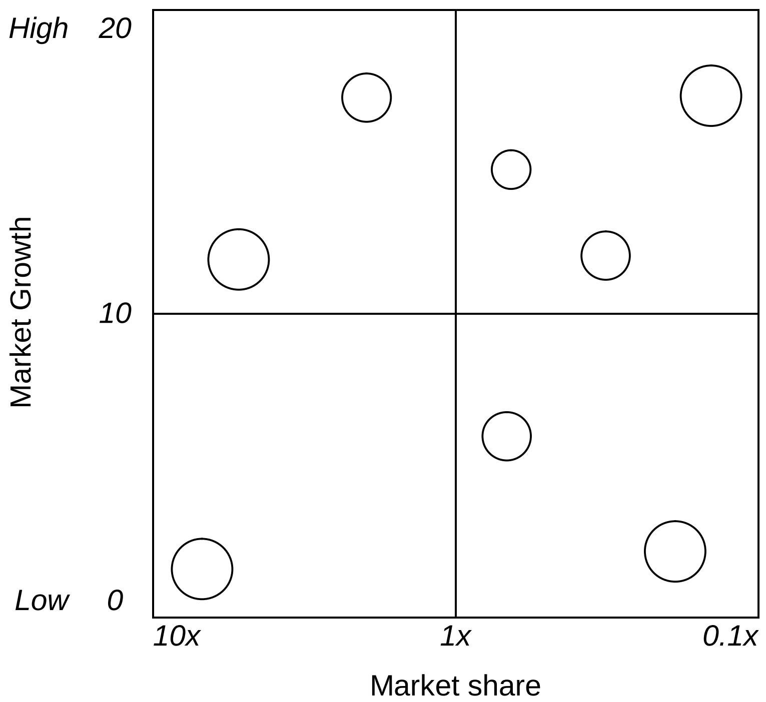
The BCG matrix is as well known as Ansoff and is one with which you should be fully familiar.

Using the variables of ***market share*** and ***market growth rate***, planners can plot their products/SBUs onto a grid which will then suggest certain strategies that can be used. Because analysis is undertaken on an individual basis (SBU/product) it means that firms can mix and match their efforts in order to achieve optimum results at any given time.

The basic grid is shown in Figure 3.5. The two variables of market share and market growth rate give a matrix of four possibilities. Individual SBUs/products are shown as circles within this with the following attributes:

- Their position on the grid represents the position of the SBU/product in **one company** in accordance to the growth rate of the market(s) and the share held.
- Their size of the circle is proportionate to the percentage **of total income** produced by that product/SBU for the actual organisation.
- The location of the circle indicates market growth rate and relative share in relation to the ***leading*** competitor in the field. In Figure 3.4, market share of 0.1 means that the product has only 10% of the volume of its leading competitor. Market share of 10 means that the product is leader and has ten times the sales volume of its nearest competitor. It is important to remember that the mid-point of the axis diagram represents the point where a product/SBU has ***equal*** share to the leading competitor. Changes in proportionate share, or market growth rates, will move the position of the circle(s) on the grid.

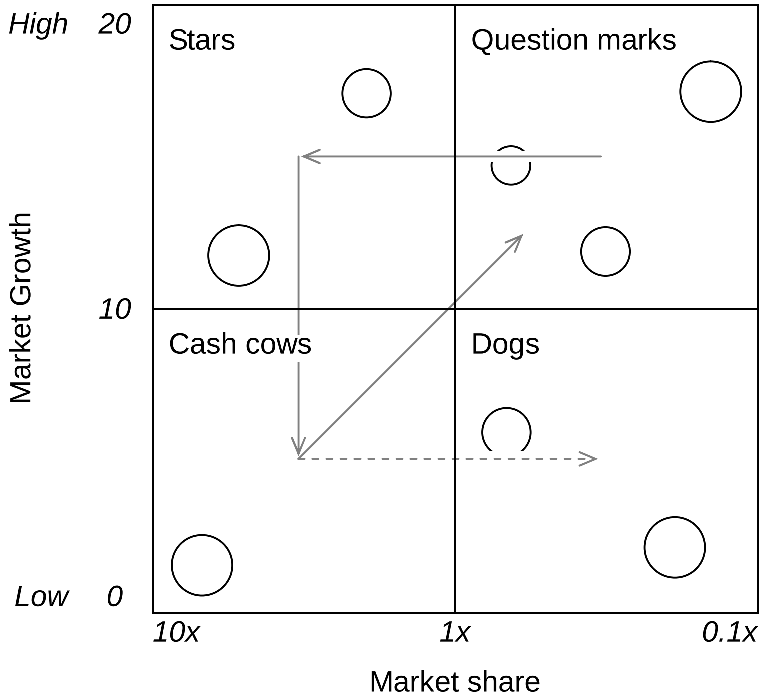
Figure 3.5: Framework of the Boston Consultancy Group Matrix



BCG Classification of Products

Using the BCG means that planners can classify their products/SBUs into four categories according to their position on the matrix. This classification can also help in understanding the "nature" of the products/SBUs – i.e. whether they are "cash providers" or "cash users".

Figure 3.6: Product Classification in the Boston Consultancy Group Matrix



The four classifications are defined as follows.

- **Question Mark (**sometimes referred to as **Problem Children** or **Wildcats)**

  Question Marks are products which have low market share and are in high growth markets. The product/SBU has not yet reached a dominant position in the market. Although it may be generating funds, it still requires a lot of investment for development and the company must decide if they want to keep investing. For example, in Figure 3.5 the company has three Question Marks. Planners may decide that it would be better to concentrate all efforts on one of them, in order to make it successful, and keep the others just ticking along until they have secured the position of the most favourable. The product which is producing a greater proportion of revenue for the company (the one with the largest circle) may be chosen for additional effort as it obviously has good earning potential. A greater market share should be gained as soon as possible. Decisions of this type would be based on a variety of factors relating to the product(s) and the competitive environment.

- **Star**

  If Question Marks succeed they become Stars – leaders in high growth markets. Stars are the "providers of tomorrow" and a company with no Stars should worry. The company depicted in Figure 3.5 has two Star products – one which has the leading share in its market and one which has only slightly more share than its leading competitor. Efforts should be made to increase the share of the second product in order to secure its future profitability, particularly as the market has a very high growth rate – this could be where future earnings lie.

This, of course, means investment, which can be a cash drain on the organisation. Even Stars with high market share may involve investment in promotion or distribution, etc. if the competition is attacking.

Stars can therefore both produce revenue ***and*** use resources – which can mean "breaking even". Investment decisions must be based on the future potential of the product and its market. Companies want to retain the share that Stars hold, but they also want the market to stabilise as stable markets are much easier to cope with than high growth markets which can mean difficulties in production and distribution.

In Figure 3.5 the Star with the leading share is moving down the spectrum which indicates that growth in that market is slowing or stabilising and, providing no share is lost, the Star should become a Cash Cow.

- **Cash Cow**

  When market growth reaches a stable level (10% is used in our diagrams as an example but this will vary according to the particular market) Stars become Cash Cows providing they hold a leading share of the market. If they lose any market share to the competition they will "slip" into either being a marginal Question Mark or, at very worst, a Dog. Cash Cows produce good revenue, do not require high investment and often mean that economies of scale can be gained.

  The money earned from Cash Cows should be used to invest in other products/SBUs which are placed in the other classifications on the BCG matrix.

  Figure 6.5 shows that the company has only one Cash Cow so is vulnerable. A loss in market share could mean trouble, even more so if there is no Star to come in and take the place of the Cash Cow. In this situation a company would have to pump in finance to support its Cash Cow, thereby deflecting support from the other categories. If the company continued to support other categories and neglected its Cash Cow, the Cash Cow could eventually become a dog.

  In our example, it would be very dangerous if the Cash Cow slipped to being a Dog, as the Star which could come into the Cash Cow category is not making as much money for the company as the current Cash Cow. Given these circumstances it is likely that the company would invest in its current Cash Cow to retain market share.

  Sometimes Cash Cows which are losing their share can be turned into Question Marks, which is preferable to becoming Dogs, but this situation will only really occur if something happens to revitalise the market – perhaps a new use for a particular product may be found and the market will begin to grow again.

- **Dog**

  Dogs have weak market share in low growth or stable markets. These products can often take up more time than they are worth. They usually produce low profits and very often incur losses. They will always consume cash, even if it is just in the time taken to manage them.

  Given the fact that Dogs consume cash many are often dropped by companies, but it is not always wise to do that immediately as they may still be making money.

  In Figure 3.5 you can see that the proportion of the company's revenue for one of its Dog products is actually higher than the proportion of revenue gained by one of its Star products. If the company were to drop the Dog, they would have less cash coming in, which could have serious repercussions.

  The competition must also be considered, as well as the effects on customers. Dropping a product from a range can upset buyers who will then look for alternative sources for that product. The alternative sources may also be able to offer other products which the buyers want and they may place their future orders with the new suppliers – resulting in the loss of even more sales overall. Decisions on product deletion must therefore not be taken lightly or without full investigation.

Dogs that are retained tend to be kept because they are recognised as being a product with "other" benefits. For example, the customer will have to come back to the company to buy consumable supplies which are actually highly profitable for the company, or perhaps the product has such a high image and reputation in the market that the company prefers to maintain it.

There is also danger in keeping on a Dog if it is proving to be useless as this just wastes resources that could be better employed elsewhere. Decisions to retain Dogs past their useful life are usually based on someone's great belief in, or favour for, that product – they become "Pets". For example, the owner of a company may wish to maintain a product which was the foundation of the company's current product range despite the fact that the market has changed and technology has bypassed the original product. Sentimentality, and the power of the owner, will ensure that the product is retained and money will be wasted.

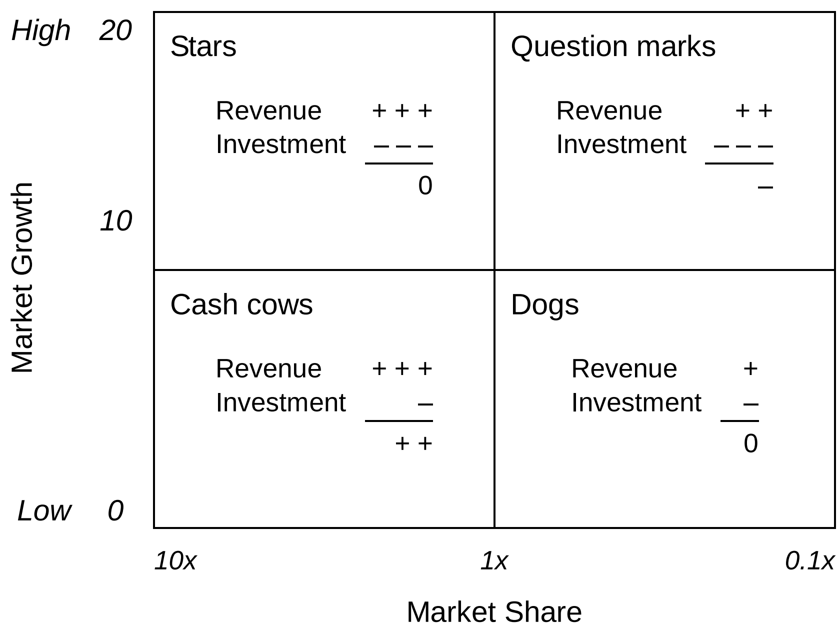
We should also not overlook the case of products which have just been launched and the market has not really taken off. Such products could be classified as Dogs but, given more investment, the market might be stimulated into a faster growth rate and the Dog could actually gain more share. Sometimes the faith of one manager in a product can turn a company's portfolio around completely.

As we noted earlier – product deletion decisions can be risky. They should always be calculated for effects.

BCG Matrix: Cash Position for Products

We have seen that the various types of products or SBUs each have different characteristics as far as revenue generated and money for investment are concerned. Figure 3.7 indicates the likely cash position for products, etc. placed on a BCG matrix, but planners should not be too dogmatic about this as there will always be exceptions to the rule.

Figure 3.7: Cash position on the Boston Consultancy Group Matrix



Portfolio Strategies

After positioning all products (SBUs) on the BCG matrix, the company must decide if it has a balanced portfolio. (Too many of any one type means it is unbalanced.) It then must allocate objectives, strategies, etc. to each of the SBUs. Strategies suggested by the BCG matrix can be one of four:

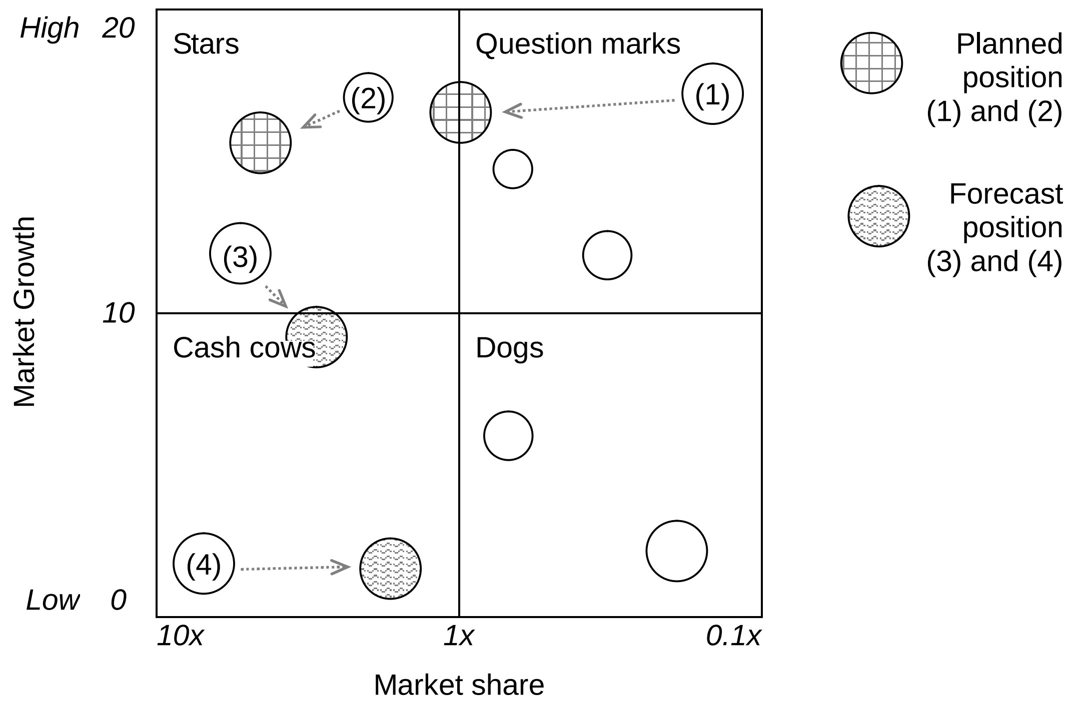
- **Build** – (for Question Marks) to increase share, even if it means giving up short-term profit.
- **Hold** – (for strong Cash Cows) to preserve share.
- **Harvest** – (for weak Cash Cows where the future is dim or for Question Marks and Dogs) to increase short-term cash flow regardless of long-term effects.
- **Divest** – (Dogs and Question Marks draining resources) to sell off, liquidate or delete an SBU or a product.

Changes in Product/SBU Position

The BCG matrix shown in Figure 3.8 indicates the life of an SBU which moves from Question Marks to Stars to Cash Cows to Dogs. The solid arrow shows the ideal route for any product, or SBU, as far as a company is concerned, with the dotted line showing the possible route a Cash Cow can take.

Because the BCG plots the current position of an SBU, or product, it can be used periodically to assess any changes in position. It can also be used to project future positions, either likely or preferred. If we keep to our original example of products on the BCG matrix, Figure 3.8 shows how positions can change for four of them. Two are shown as "planned" and two as "forecast". For "planned" positions, strategists will be taking the initiative in one way or another; for "forecast" positions, defensive or remedial action may be necessary. In either case it will be the marketing mix which is used to achieve the desired objectives.

Figure 3.8: Product change and the Boston Consultancy Group Matrix



Conclusion

The BCG matrix was developed in the 1980s primarily for large organisations in what was then a relatively stable marketing environment. It was popular because it is easy to use and intuitively appealing. However, today it has become somewhat discredited as managers have become more aware of its assumptions and limitations.

The major weaknesses are:

- Market growth and market share are considered by many as inadequate for overall attractiveness and competitive strength. Many marketers consider that models using market attractiveness and business strength to be more appropriate.
- It is difficult to plot information accurately. The sizes of circles, unless done by computer modelling, can only ever be estimated.
- It is not fair to expect all SBUs to have the same rate of return or market share, etc. The whole point of this method is to assess the position of each product, or SBU, and different markets will have different growth rates. It is therefore really better to plot only one product or SBU onto a BCG matrix.
- If the model is used as a predictor of cash usage, valuable products may be left to stagnate and die owing to lack of investment.
- It is not particularly helpful for many SMEs who may have a small market share but are highly profitable.
- The model ignores environmental factors which may have an impact on performance.
- Positioning can encourage planners to develop bad habits, e.g. not allowing enough funds to maintain the Cash Cows so that they grow weak. Planners can also sometimes leave them too many funds and fail to invest in other categories.

F. GENERAL ELECTRIC (GE) BUSINESS SCREEN

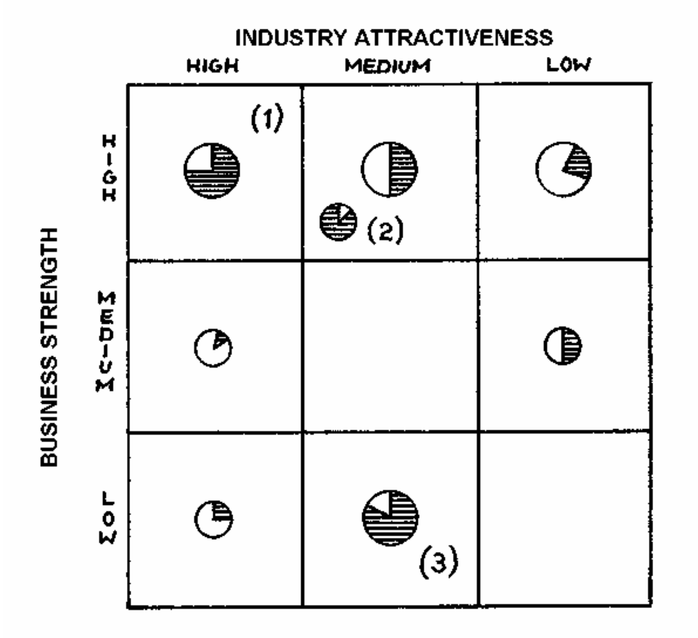
The GE matrix is an improvement on the models we have looked at so far in that it covers more qualitative aspects. It allows for judgment on the part of the planner and takes into account not only the nature of the market, but also the capabilities of the company. SBUs are assessed in terms of the ***attractiveness of the industry*** and the ***business strengths*** of the company.

Typical aspects which are taken into account are:

Industry Attractiveness	Business Strength(s)
Market size (numbers/value)	Differential advantages
Market diversity	Share (number/value)
Growth rate (total/segment)	Sales (volume/growth)
Profitability (total/unit)	Breadth of product line
Competitors	Mix effectiveness
Social/legal environment	Innovativeness

Planners, with their knowledge of the market and the company itself, can decide how an SBU, or a product, can be assessed in terms of the market attractiveness and the company's strength and can then place that product, or SBU, on the matrix. Assessment can be based on "High", "Medium" or "Low" or, more likely, on a basis of "weighting" where the planner will give a score to each of the factors under consideration and then the total is taken as the point at which the SBU is placed on the grid.

Figure 3.9: General Electric Business Matrix



Although this model uses circles, similar to the BCG model, it is different in that the circles represent the ***overall market sales*** (BCG circles represent the income for the company only). The share held by the company is then shown as a proportion of the circle.

Looking at Figure 3.9 we can see the characteristics of various products in a company's portfolio. The company has major shares in three markets:

(1) A highly attractive market, with a large overall market potential revenue; the company has high business strengths. The company is in a very strong position with this SBU.

(2) A market which is viewed as being mid position in attractiveness but the company has high business strengths. The overall market income is not major, in terms of the other SBUs, but activity could generate further interest which could increase the attractiveness of the market. Given the share held, this SBU could potentially be a future high earner for the company.

(3) A market which is not seen as being highly attractive coupled with the fact that the company does not have any high degree of business strength in that field. The fact that the company has such a major share of the overall market may indicate that the competition have withdrawn because of costs incurred, or some other reason, and the company has acquired share by default rather than activity. It is unusual to find a high overall market income in such a market but it can happen, e.g. the potential of selling specialist tooling equipment to manufacturers. The market may be lucrative in terms of potential earnings but not attractive in terms of size – hence the classification as a "medium – attractive market". It really does depend on what planners consider to be important when assessing market attractiveness. In the circumstances shown by the example grid, planners may decide to develop their business strengths in order to capitalise on the overall potential market and to keep the competition out of the field

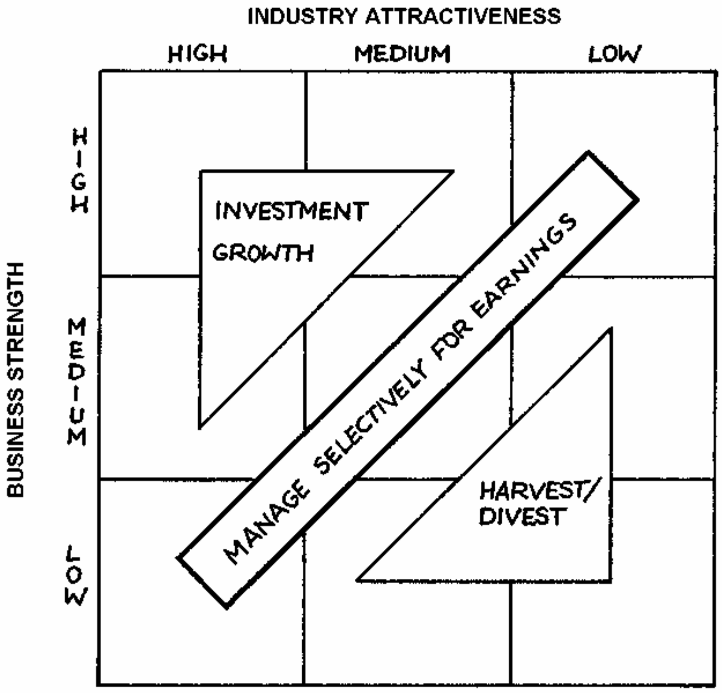
(providing the forecasts for the market show stability or growth). The placing of the SBU on the grid would then change in accordance with its new "classification".

The other products on the grid in Figure 3.9 show a variation in the potential of the market(s), the share(s) held and business strengths.

Strategic Options

Strategic options for SBUs placed on the GE matrix cover three types of marketing management activity. Each strategy covers three of the nine cells as shown in Figure 3.10.

Figure 3.10: General Electric Matrix Strategies



The strategies are defined as follows.

- **Investment for Growth**

  This is a strategy for use with strong products in markets with high or medium attractiveness (similar to BCG Stars), where the company also has high or medium business strengths. Full resources should be used: innovations, product-line extensions, product/brand advertising, intensive distribution, good price margins, etc. Profitability expectations would be high.

- **Manage Selectively for Earnings**

  Strong position in weak market (like BCG Cash Cow); company uses marketing to retain loyalty.

  Moderate position in moderate market; company can identify underserved segments and invest on a selective basis.

  Weak position in attractive market (like BCG Question Mark); company must decide whether to increase investment, concentrate on the niche(s), acquire another business or trim off activities.

- **Harvest/Divest**

  Here the SBUs are similar to BCG Dogs. The strategy can be to minimise marketing activities and concentrate on selected products rather than the whole range. They can divest products from the range, closing down or deleting an SBU which is seen as non-productive or to have little future. Profits are "harvested" because investments are minimal.

G. OTHER PORTFOLIO MODELS

Here we briefly review three further models which offer variations on the BCG and GE matrix approaches, using different variables to reflect different interpretations of the key strategic aims.

Shell Directional Policy Matrix

This is another nine cell matrix, similar to the General Electric one, but here the variables are ***competitive capabilities of the company*** and ***potential profitability of the market sector***.

Figure 3.11: Shell Directional Policy Matrix

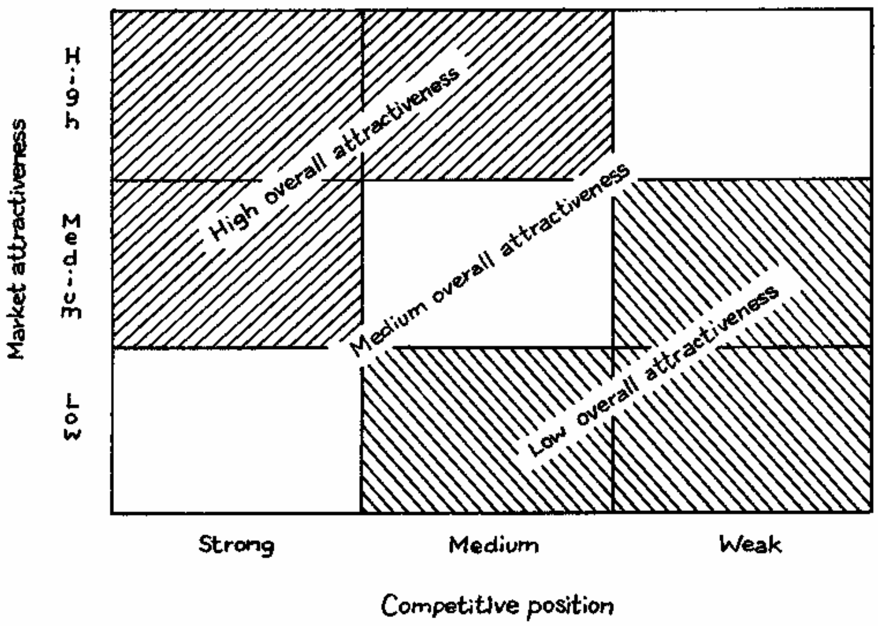
Prospects for Sector Profitability

Enterprise's Competitive Capabilities	*Unattractive*	*Average*	*Attractive*
Weak	DISINVEST	PHASED WITHDRAWAL	DOUBLE OR QUIT
Average	PHASED WITHDRAWAL	CUSTODIAL GROWTH	TRY HARDER
Strong	CASH GENERATION	GROWTH LEADER	LEADER

Abell and Hammond Investment Opportunity Matrix

This is very similar to the Shell matrix except that the variables this time are ***competitive position*** and ***market attractiveness***.

Figure 3.12: Abell and Hammond Investment Opportunity Matrix



Arthur D. Little Strategic Condition Matrix

This is a slightly more detailed model in that there are twenty cells used to identify various SBUs. The variables used with this model are ***competitive position***, which denotes the nature of the position held by the company in the market (and whether or not it can maintain that position), and the ***stage of industry maturity*** which, in some ways, is similar to describing a life cycle of the industry.

Figure 3.13: Arthur D. Little Strategic Condition Matrix

Competitive Position / Stage of Industry Maturity	*Embryonic*	*Growth*	*Mature*	*Ageing*
Dominant	Grow fast. Build barriers. Act offensively.	Grow fast. Aim for cost leadership. Defend position. Act offensively.	Defend position. Increase the importance of cost. Act offensively.	Defend position. Focus. Consider withdrawal.
Strong	Grow fast. Differentiate.	Lower cost. Differentiate. Attack small firms.	Lower costs. Differentiate. Focus.	Harvest.
Favourable	Grow fast. Differentiate.	Focus. Differentiate. Defend.	Focus. Differentiate. Hit smaller firms.	Harvest.
Tenable	Grow with the industry. Focus.	Hold-on or withdraw. Niche. Aim for growth.	Hold-on or withdraw. Niche.	Withdraw.
Weak	Search for a niche. Attempt to catch others.	Niche or withdraw.	Withdraw.	Withdraw.

What this model does ***not*** show is the "non-viable position", which occurs when the company's capabilities are truly limited and the market does not give any indication of opportunities for improvement. In such cases the planner or strategist would simply have to accept that it may be better to cease activity and withdraw from the market in a manner which incurs the least cost and creates minimal disruption to the company's overall portfolio.

H. THE ROLE OF MARKETING MODELS

In marketing text-books and published journals you will find that there are predominantly two schools of thought on marketing models:

- That models are too simplistic and ignore too many variables which can have an influence on the company's activities.
- That models are too complex to construct and require far too much detailed information to make them useful to a planner.

Wilson, Gilligan and Pearson (in Strategic Marketing Management, 1992) not only detail many of the various criticisms which have been levelled against models over the past decade or so, but they also give the opinion of Day (1983) who defends portfolio analysis models as follows:

> "*Current criticisms (of portfolio analysis) are unwarranted because they reflect a serious misunderstanding of the proper role of these analytical methods ... what must be realised is that these methods can facilitate the strategic planning process and serve as a rich source of ideas about possible strategic options. But on their own, these methods cannot present the appropriate strategy or predict the consequences of a specific change in strategy.*"

Day's comments summarise the situation very well – models can be useful but they are no good in isolation. Unless the value judgment of a planner is used, and full consideration is given to ***all*** influencing factors, the use of a marketing model can simply become a theoretical exercise.

If models are used correctly, planning can be improved, resources can be allocated more effectively and control mechanisms can be much easier to establish.

Having said all this, we have to accept that, very often, marketing managers do not use models on a regular basis. There can be various reasons for this:

- Lack of knowledge of the models themselves.
- Knowing the models but not understanding how to apply them.
- Models are seen as a waste of time because they have not been found to be useful in the past.

Thankfully, this situation is changing gradually as more managers are trained in the use and application of models – particularly marketing models such as those we have considered in this study unit. Many companies, both large and small, now expect their managers to use modelling techniques when planning and this trend is likely to continue.

I. STRATEGIC CHOICE

Any final decision on which strategy to choose is likely to have an element of subjective opinion on the part of the planner. Because of this, the selection of the most appropriate strategy will nearly always be a matter of risk assessment. When we say "appropriate strategy" we really mean to say "*the most effective in the given circumstances*".

The more reliable are the outcomes of research and analysis undertaken, the less risk will be incurred. It follows, therefore, that managers do not make strategy selection choices lightly. They need to compare, and contrast, strategies to see which will be most effective before any resources can be committed.

The use of the analytical techniques and models we have covered here allows for this comparison before a final decision has to be taken. However, it is all very well being able to compare strategies for outcomes and effect, but what is really needed is a basis for assessing the value of a chosen strategy.

We could argue that if a strategy is likely to achieve an objective it is a viable proposition, and that is quite true. But several strategies may achieve the same objective and one may be better than another.

Let us look at two fictitious examples of companies involved in strategic planning which help to identify the decision processes which need to be undertaken.

Example Using Porter's Generic Strategy Options

A UK company which deals in one product only (domestic light bulbs) has the following circumstances:

- Annual turnover £3.5m
- Currently number two in the marketplace with a 35% share
- The leading competitor has 45% share
- Market growth at the rate of 5% per annum
- Objective – to be number one with 50% share within two years.

The potential strategies, using Porter's Generic Strategy Options model, are "Focus", "Differentiation" or "Cost Leadership". Which strategy would be most appropriate?

An initial review of the options may be as follows.

- **Focus –** Domestic electric light bulbs would tend to be for mass markets with only very limited scope for any real specialisation. Focus is therefore unlikely to be a viable option.
- **Differentiation** – There may be some scope for differentiation but the fact that the company holds 35% of the market might indicate that they are not differentiating to a large extent. It is likely that the differentiation they offer is simply across the product range – wattage, colour, etc. – and that no particular market segment is being targeted with a different mix. The fact that the current product is domestic implies that business markets have not been addressed.
- **Cost leadership** – Light bulbs can be mass produced and costs can be reduced by investing in new production methods, etc. The danger that we have in this scenario is that the company is only number two in the market and the leading competitor is also likely to be able to mass produce at low cost. However, as an attacking strategy this could be a viable option.

Thus, the initial choice would be to go for a strategy of Cost Leadership. However, before finally deciding that this is the only way to go, there are a number of other questions to be considered:

- Are the resources available for the strategy to proceed?
- Will the new approach affect product quality in any way?
- What is the likely response of the competitor?
- What is the likely level of sales that can be achieved?
- How much can output be increased by?
- What additional marketing costs will be incurred?

The answers to these and other questions can, of course, be found by carrying out the necessary research, extrapolating forecasts, etc. If, for example, it was found that there was not enough money available, in the short term, to invest in new production plant the decision loop would revert back to the original choice of three strategies and another would have to be chosen.

Let us assume that this is the case – based on cash flow forecasts and target sales, that there will be insufficient funds to invest for the next two years.

We have to revert back to a choice of Focus, Differentiation or Cost Leadership. Cost Leadership, it is now agreed, will incur unacceptable costs at the present time. We have already agreed that Focus is not really suitable to the product, so now we need to consider Differentiation.

The first question *is can we do it*? Well, the domestic market is a broad market but it is composed of multiple segments – large and small homes; people who need soft lighting; people who need special lighting for hobbies (e.g. photography); people who need bulbs to give heat; bulbs for outdoors, etc. And, of course, the usual consumer tastes and perceptions apply which means that there will be people who will want "image", "good value", etc. By changing some elements of the marketing mix we could actually differentiate at relatively little extra cost.

Since this seems viable, we would need to go on to ask even more questions:

- Is there enough demand to warrant differentiating?
- What is the likely response of the competitor?
- Can the salesforce deal with increased activity of this nature?
- What effect will the new approach have on my current range? etc. etc.

Again, all questions can be answered by research and extrapolation.

Let us assume that our research indicated that there was latent demand for certain types of products but that overall a truly differentiated offering was going to prove difficult to adopt in the short term. We are left unable to make a firm decision at this time and may, if we are not careful, end up being "stuck in the middle", as Porter puts it – which could well result in lost market share. We do not want that to happen.

So, how do we decide which strategy?

Well, marketing planning is about the long term. Let us, for the purposes of this example only, ignore the short term. Our investigations so far have found that in the long term we ***could*** go for both Cost Leadership and Differentiation – adopting either is only a matter of timing. So how do we decide which strategy?

That's easy to solve – whichever strategy will achieve the stated objective, and the answer is that either, or both, will achieve the objective. Given that both are acceptable, we need some definitive criteria on which to base the selection, and this is considered later in this section.

Example Using Ansoff's Strategic Options

All-Purpose is a company manufacturing paper tissues in the United Kingdom, which currently holds the third largest share of the market (15%). It has two main competitors, Fancy and Functional, who hold 20% and 40% of the market share respectively. The remaining market share is held by a number of small companies producing tissues as by-products of other major lines, e.g. wrapping paper and packaging materials. Total market sales for 1998/1999 were 30 million units. All-Purpose have recently defined their corporate objectives and their intentions are that they will increase their revenue to £15m by the year 2004 but with no effect on the quality of the product or increased staffing costs.

Fancy specialise in the high price/specialist sector and sell 70% of their yearly output in the period leading up to the Christmas selling season, at an average price of £4.00 per box. Functional deal in lower-price products (average £1.25 per box) which are aimed at people buying for everyday use. Most of Functional's sales are via supermarkets and low price outlets, whereas Fancy have concentrated on major department stores and duty-free outlets in UK airports. All-Purpose, on the other hand, have simply sold wherever they could and have no stated distribution policy. Their average selling price is £2.00 per box. They aim at mid price range buyers.

Looking at the relevant market shares and sales prices, we can compare the overall results of the companies for the period 1998-1999.

Fancy have 20% of 30m units	= 6m @ £4	= £24m revenue
Functional have 40% of 30m units	= 12m @ £1.25	= £15m
All-Purpose have 15% of 30m units	= 4.5m @ £2	= £9m

Ignoring all other aspects, the calculations above demonstrate how a company with a lower market share can actually earn more revenue (Porter's Focus strategy) than a company following Cost Leadership strategy.

If All-Purpose wish to increase their revenue to £15m they have four choices, according to Ansoff:

- ***Market penetration*** (same product/target sectors)

  This could only be achieved by increasing market share and, in effect, means that the company must sell 7.5m units, an increase of 3m which represents a 66% increase in sales.

- ***Market development*** (new sectors/unchanged product)

  The company would have to identify new sectors and/or new regions. To gain revenue of £15m they must still sell 7.5m units at an average price of £2.00.

- ***Product development*** (changed product/same target sectors)

  If the company slightly altered the quality of their tissues they could offer a "range" which might attract buyers from the competition.

  As Fancy hold 20% of the market it would be unwise to attack them head-on with the highest quality of goods. All that could sensibly be done is to undercut them in price and aim for the price-sensitive buyers. The same maxim applies for Functional; they are even stronger in market share so All-Purpose have to find some differentiation which will attract buyers. In the low price market it is even lower prices which attract buyers, so All-Purpose must also undercut Functional. If All-Purpose price a new range as follows, they might succeed:

  £1.00 per box – lower quality – for dirty work situations

  £2.00 per box – medium quality – for everyday use

  £3.00 per box – top quality – for beauty, babies, etc.

- ***Diversification*** (new product/new sectors)

  All-Purpose would have to introduce a completely new product to new sectors. This product could be loosely based on what they already produce, e.g. large size tissue for packaging materials aimed at the glassware manufacturers, or it could be an entirely new product offering, say, papier-mâché toys for the under-fives.

Each of the four strategic options must be considered for feasibility in terms of:

- ***Company capabilities***

  Resource issues such as production capabilities, costs, salesforce, etc. must all be investigated.

- ***Competitive response***

  How the competition will react in the face of increased marketing effort is of prime importance to the success of a marketing strategy.

- ***Buyers' needs and preferences***

  Levels of demand and purchasing motivations must be understood.

- ***Attitudes of distribution and channel members***

  If wholesalers and retailers are unlikely to be receptive to proposed changes, perhaps by refusing to stock more units, the strategy could be doomed from the outset.

The questions which need to be asked on the Ansoff strategic options are almost identical to the questions that need to be asked for the Porter example given earlier, which means that we could draw up a list of typical aspects to be considered when selecting strategies – the criteria for our choice. We will return to these criteria below but, for now, let us pursue the All-Purpose scenario a little further.

Comparing and Choosing between Strategy Options

To compare strategies for effectiveness can involve complex calculations and costing exercises, but comparisons ***must*** be made if the right strategy is to be selected. Planners may use a matrix where each factor considered for effect, in each strategy choice, will be given a weighting of some kind.

For example, in the following example, for All-Purpose, a score of 1 represents low capabilities/response and a score of 10 represents high. The notes which follow the matrix give the justification for the scorings.

	Strategy Option			
Aspect Considered	**Market Penetration**	**Market Development**	**Product Development**	**Diversification**
Production capabilities	8	8	6	3
Salesforce	6	6	6	6
Packaging	6	6	6	6
Demand	4	6	8	4
Distribution response	4	6	7	4
Competitive response	2	2	4	2
	30	34	37	25

These figures are purely for the sake of the example, but in reality would be based on research and the value judgment of the planner. So, we could have derived these figures as follows.

- **Production capabilities** may be under-utilised which means that spare capacity could be used very effectively if the product remains unchanged. However, if there are changes made to the product the success-factor, or weighting given to production capabilities, is reduced accordingly.
- The **salesforce** could cope with the existing market sectors but would have difficulty with new sectors.
- **Packaging** remains constant as capabilities will not change under any circumstances.
- **Demand** could be higher in new sectors and for new, or adapted, products.
- **Distributors** may prefer not to carry more of the current range but would be happy to display an extended range. New distributors in new regions might consider the products attractive.

- **Competitors** are unlikely to react strongly if All-Purpose simply try to increase their sales, but there may be a risk of retaliation if new products are introduced.

When the assessment of the strategic options has been completed, the most likely strategy or strategies (with the highest success rating) will be selected. Quite often a company will select one strategy for the short term and others for the longer term, and timetables, or strategy schedules, will be drawn up.

We can see that the strategies have the following rank:

(1) Product development

(2) Market development

(3) Market penetration

(4) Diversification

The rankings indicate the likelihood of success, but they must be considered in terms of the company's present circumstances. Thus, we must ask, for example:

- What are the implications of adopting the strategy?
- What problems will we face in implementing the strategy?
- When can the strategy be actioned?

In the case of All-Purpose, the assessment of these implications for each strategy may be as follows.

(1)	**Product Development**	
	Implications:	Research
		Product/production changes
	Problems:	Promotion Salesforce Distribution Competition
	Action:	Medium/long term
(2)	**Market Development**	
	Implications:	Research
	Problems:	Promotion Salesforce Distribution
	Action:	Medium/long term
(3)	**Market Penetration**	
	Implications:	Increased sales effort Increased promotion
	Problems:	Distributor resistance
	Action:	Short/medium/long term

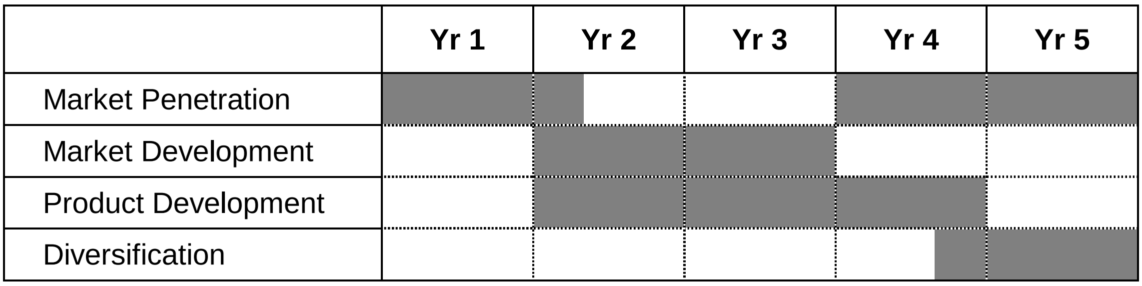
(4)	**Diversification**	
	Implications:	Design/R & D
	Problems:	Lack of creative skills
	Action:	Long term

By taking the implications, etc. into consideration, the strategies can be re-categorised but this time into the order of ***when they can be actioned***.

	Time Frame		
	Short	***Medium***	***Long***
Product Development		X	X
Market Development		X	X
Market Penetration	X	X	X
Diversification			X

The company obviously needs to begin planning for the medium and long-term future, but they must still continue to operate so they must continue with Market Penetration. This is the safest and easiest option for them as the product and target sectors remain unchanged. If they can increase their market share by achieving greater penetration in the marketplace, additional profits can subsidise activities (such as research) aimed at introducing subsequent strategies at later dates.

The actual implementation of the strategies will depend on how much time is needed to complete any necessary activities. The sequence may then be presented as a schedule:



What the schedule shows is that the company will concentrate initially on its current markets to gain share, position and revenue.

Then in Year 2 it seeks new sectors and regions for its current products and, at the same time, begins to develop its product/range. Product Development will continue until the end of Year 4.

At the end of Year 3, the new markets acquired may need greater activity so the strategy of Market Penetration is re-introduced from the beginning of Year 4. This allows for consolidation and expansion of market share – both the original market sectors and those newly acquired which have now also become "existing markets".

The on-going Product Development will assist the efforts to increase Market Penetration throughout Years 4 and 5.

Finally, Diversification is timed to begin as the programme of Product Development reaches its end. This means that resources which have been allocated to Product Development can now be channelled towards the efforts on Diversification.

Criteria for Strategy Selection

You can see from the examples we have used above that the ultimate choice of strategy will not simply be based on what is being aimed for. It will be influenced in many ways by the prevailing conditions in which the organisation is operating, such as:

- The expectations of the various stakeholders
- The corporate viewpoint or policies
- The management culture
- The nature of the product(s) and market(s) served
- The size and power of the organisations and resources available
- The company's position as leader or follower
- The likely competitive response
- The level of demand and customer requirements

Some of these conditions will take on more importance at one time than at others.

In theory, any company can adopt any strategy and hope that it will work. In practice, most companies will have some guidelines which help them to select those strategies which are most appropriate. The guidelines become "criteria" or minimum standards which must be achieved by any strategy.

Marketing	**Financial**
Customer satisfaction levels	Profit and profitability
Level of risk incurred	Cash generation
Competitive positioning	Share prices
Market growth rates	Return on capital employed
Image and stance	Production and selling costs

It has to be said that a lot of organisations concentrate on financial criteria as a basis for strategic choice. However, there are some people who would argue that the marketing influences on strategic choice (organisational aspects, stakeholder expectations, current market conditions, competition, etc.) are much more important.

It is important to remember that there are ***no rules***. Each company will decide which is most important to them and develop their own criteria to suit.

What you must remember is that to express a criterion you must state it correctly. You do ***not*** state a criterion by asking a question such as "*will the strategy result in unacceptable financial risk*?" Although this type of question will need to be answered, the answer will not be a criterion. Rather, criteria need to be ***stated*** – for example:

- *"The strategy **must not** result in unacceptable financial risk."*
- *"The strategy **must achieve** a 10% return on capital employed."*

- *"The strategy **must result** in an increase in buyer satisfaction."*

J. IMPLEMENTATION OF STRATEGIES

On occasion strategies may need to be introduced which are quite radical in nature. For example, a company which has always operated on a small scale in its home region may suddenly decide, for whatever reason, to launch its product in a new overseas market.

This may seem like quite a reasonable approach to Market Development but there may be problems, such as:

- Finance
- Skills of the current workforce
- Acceptance of wider horizons by planners
- Competitive response.

Any of these aspects (and many more) can have an adverse affect on the implementation of a strategy, so strategies should be implemented, or set in motion, carefully to ensure success.

Earlier it was suggested that strategies could be selected on the basis of implications, problems and action time.

If the implementation of a strategy is reviewed under the same categories, problems can be minimised. Put in another way, we can say that if the implementation of a strategy is ***planned***, risk factors will be reduced and the chances of success will be increased – ***planning*** is the key.

As you are aware, strategic planners select strategies which are aimed at achieving corporate objectives. In some companies these planners may be the same people who will be responsible for actually implementing the strategies as well as for monitoring and controlling activities. In larger companies, where there are multiple levels of authority, the strategies may be passed down to the next (i.e. operational or functional) level to be actioned. Actioning a strategy needs further planning.

The level of authority for planning at operational level will depend very much on the size of the organisation, the nature of the management culture and the complexity of the plans themselves. The one factor that does not change is that operational planning takes strategic planning ***one step further***. Plans become more specific and detailed. In effect they become narrower in focus and less flexible than the plans set at the strategic level. However, in common with strategic plans they have one ***real*** purpose, and that is to achieve the corporate objective. If a plan for any operational activity is not working towards the overall corporate objective it is not a good plan. There can be no variance to this rule.

Let us use our All-Purpose tissue company as an example again.

The following table illustrates the process of translating corporate objectives into strategies for the purchasing function.

Corporate objective	To increase profit levels from the current level of £9m to £15m by the year 2003 with no reduction in product quality or performance
Corporate strategies	By the year 2003
	● To increase output by 10% year on year (production).
	● To reduce cost of materials by 5% each year (purchasing).
	● To increase revenue by 15% year on year (marketing).
	● To reduce salary costs by 20% (personnel).

These corporate strategies become the objectives of the operational, or functional, areas which must then develop strategies to achieve them.

Purchasing Function *(example)*

Purchasing objective	To reduce costs of materials by 5% each year	
Potential strategies	(i)	To purchase in bulk to achieve better prices
	(ii)	To implement a new computerised purchasing system
	(iii)	To purchase materials of a lower quality
	(iv)	To recruit two buyers to cope with the changes

Just by looking at these potential strategies you can see that some of them are not in line with the stated corporate viewpoint. In fact, they would work directly in opposition to it so they should not be implemented. If they were, there would be a knock-on effect in other areas of the company:

- Strategy (iii) would affect production ***and*** marketing
- Strategy (iv) would affect personnel

From this simple example you can see that not only is it important that a strategy works towards achieving the stated objective, but also that it does not have an adverse effect on any other of the organisational activities. This applies at ***every*** level and to ***every*** area, including marketing.

Thus, marketing plans must ***fit with*** and ***relate to*** all other plans in the company. This is particularly important at the operational level when interdepartmental cooperation and liaison is so vital. We can illustrate this through looking at an outline strategic marketing plan for All-Purpose Tissues.

You can see from this that a strategic plan is simply a broad statement of intent – it does ***not*** go into too much detail. You will also see that, as the level of the plan moves down the hierarchy, the statements become more precise and we are actually seeing "activities" listed which will help bring the plan to life and, ultimately, to achieve the objectives. These activities, or tactics, are what is needed to set the strategies in motion – to implement them.

(Remember that this is an example only. In practice a strategic marketing plan could well be far more complex.)

Corporate objective	To increase profit levels from the current level of £9m to £15m by the year 2003, with no reduction in product quality or performance	
Marketing objective	To increase revenue by 15% year on year until the year 2003	
Marketing strategies	Year 1:	Market penetration
	Years 2/3:	Market development Product development
	Year 4:	Product development Market penetration
	Year 5:	Market penetration Diversification

Marketing operations

Year 1	Penetration strategy:	Increase promotional activity Intensify distribution outlets Offer sales incentives
Years 2/3	Development strategy (Mkt):	Research markets(s) Promote in/to new markets Recruit distribution members
	Development strategy (Prod):	Research market(s) Develop/adapt products Production and launch
Year 4	Development strategy (Prod):	On-going production/research Promotion of new products
	Penetration strategy:	Intensive promotion Dealer incentives Customer incentives
Year 5	Penetration strategy:	As Year 4 – on-going
	Diversification strategy:	Identify new products Research feasibility/demand Liaison with production/R & D Prepare new promotional material

You will realise that to say simply "*Research the market*" does not give enough detail for anyone to be able to carry out research. We need even more detailed information on what is required and how to proceed. These details are given in the next series of plans which are the tactical/operational plans (or programmes, as they are also known). We will look further into tactical planning in later study units, but the following chart summarises the nature of the plans in the marketing process.

Figure 3.14: The marketing planning process

CORPORATE PLANS

overview of entire organisation
long term/flexible
broad in scope/coverage

STRATEGIC MARKETING PLANS

overview of all marketing function
medium – long term
more detailed than corporate plans
less flexible than corporate plans

OPERATIONAL/TACTICAL MARKETING PLANS

short – medium term
detailed activities/schedules
allocate responsibilities
less flexible than strategic plans

Technology and Systems

In the current dynamic, highly competitive and fast changing global marketplace there is an increasing need for organisations to better understand all stakeholder expectations and have the ability to change the strategic direction of the organisation, quickly, whenever there is a need to do so.

Technology and computer based systems enable organisations to improve the speed and accuracy of information gathering, data analysis and control. This provides management with better information upon which to make their strategic decisions.

Amongst the many technological changes that impact on strategic planning are:

(a) The Internet which provides enormous opportunities for information gathering, competitor analysis, market research and communication

(b) Electronic databases providing a wide source of up to date information

(c) Numerous financial and managerial software packages which enable scenario modelling and evaluation

(d) Business and marketing planning packages. These have proved particularly helpful to SMEs

(e) Improved financial and management control systems which provide rapid feedback and by exception reporting to management.

Technological innovations and developments continue at a fast rate. Organisations need to be fast followers of technological changes at least otherwise they are likely to fall behind their competitors. They also need to address the skills requirement to be able to exploit technology opportunities as they occur. They may often need to employ marketing planners with not only have good marketing skills and knowledge, but also financial and IT skills.

Review Questions

To check your progress with this unit, ensure that you can answer the following questions.

1. What are the three types of organisational stance?
2. Ansoff suggests that there are four basic strategies. What are they?
3. Porter suggests that there are three generic strategies. What are they?
4. Why is the BCG model declined in popularity?
5. List the stages in the planning process

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> The Boston Consulting Group Matrix and the Product life cycle have for many years been essential to the creation of viable marketing strategy. Outline and critically evaluate these two marketing tools and, in particular, comment on their usefulness to the developing small to medium-sized company.

ANSWERS TO REVIEW QUESTIONS

1. Leaders, Followers and Nichers

2. Market penetration, Market development, Product development and Diversification

3. Cost leadership, Focus and Differentiation. A business that follows none of these is said to be "stuck in the middle"

4. The main reasons are:
   - Market growth and market share are now considered by many to be inadequate for overall attractiveness and competitive strength
   - It is not particularly helpful for many SMEs who may have a small market share but are highly profitable
   - The model ignores environmental factors which may have an impact on performance.

5. The stages are:
   - Corporate objectives
   - Marketing audit
   - SWOT analysis
   - Marketing objectives
   - Marketing strategies
   - Marketing programmes
   - Budget
   - Control and evaluation.

Study Unit 4

Analysing the Marketing Environment

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INTRODUCTION

A statement of objectives is how the organisation signals to all concerned *"Where we want to be"*. You cannot possibly get to where you want to be unless you know where you are – so, before defining marketing objectives, the organisation must investigate its current situation very carefully. This involves a full situational analysis.

This unit examines the key aspects of analysing the marketing environment – both internally and externally, and through the use of SWOT profiles.

Remember to attempt the review questions at the end of this unit.

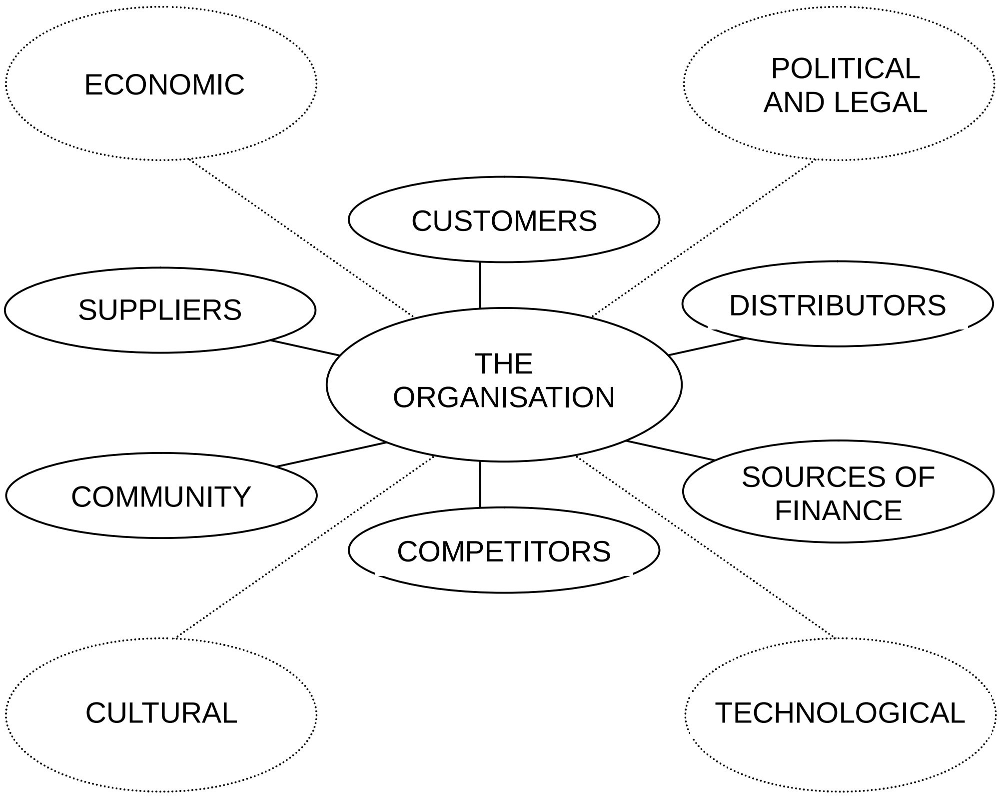
A. SITUATIONAL ANALYSIS

A situational analysis is really a review of what has happened, is happening and what is likely to happen in the environment in which the organisation is operating. The environment is the "operating arena" and takes into consideration everything that affects the organisation and its operations. There are two aspects to this.

- The ***external environment*** covers those variables known as "uncontrollable" in that the firm cannot always bring influence to bear upon them. All the firm can do is be prepared to adapt and be ready to meet expected happenings.

  Some external forces will have a direct influence on the operating procedures within the organisation (e.g. suppliers, customers, competition, etc.). Other environmental forces (political, economic, etc.) will influence the organisation in various ways but may not have an immediate direct effect on its operational activities (Figure 4.1).

Figure 4.1: Environmental forces on the organisation



- The ***internal environment*** covers those aspects over which the firm will have some, if not total, influence and control.

A situational analysis is a structured and systematic investigation involving close inspection of any factors which can have an influence on operating systems, planning, decision making and, of course, ultimate results.

During a full situational analysis, or ***marketing audit*** as it is often referred to, the outcomes of previous activities will be studied. Those that were successful may be used again or adapted to suit changed conditions of one kind or another; those that were unsuccessful will be studied in order to see what went wrong and how the faults could be corrected. This also applies to systems which were, or are, being used.

The information gathered in an audit allows an organisation to see exactly:

- ***Where it is*** (at the time of the audit).

This information can then help the organisation in deciding:

- ***Where it wants to be*** (objective setting), and
- ***How to get there*** (strategy formulation).

To put it another way, the marketing audit can be considered as providing the underpinning knowledge for a lot, if not all, of the planning process.

Scope of the Analysis

We have said that the marketing organisation is affected by both internal and external environmental conditions. This means that there can be a multitude of influencing factors which need to be investigated periodically, both internal and external.

(a) Internal aspects

These relate to the organisational, financial, technological and human resources available, and the current position with regard to operations and marketing – for example:

- Current organisational structure
- Sales volume
- Market shares held by different products
- Profit margins gained
- Systems / technology in use
- Internal communication systems
- Skills of the personnel and training carried out
- Business Orientation
- Resources that are available
- Type and range of products
- Level of stocks manufactured and held
- Level of service given to customers
- Systems for dealing with customers
- Distribution methods and channels
- Promotional methods
- Pricing methods and policies
- Systems for receiving payment
- New product policy and processes
- Employee behaviour – strikes, etc.

(b) External aspects

The external environment may be broken down in a number of different ways.
One approach is to consider the general environment of the organisation as well as the specific of the particular markets in which it operates and the competition it faces.

(i) General environment

The normal approach here is to analyse the environment under four headings, denoted by the mnemonic "PEST" (or some variation such as PESTL or SLEPT).

- ***Political and legal*** – for example:

  Regulations on product quality
  Restrictions on contents
  Laws on packaging or labelling
  Industry practices and norms
  Tax issues.

- ***Social and cultural***– for example:

  Population levels and trends
  Level of awareness of consumer rights
  Changing tastes.

- ***Economic***– for example:

  Recessionary times or otherwise
  Levels of disposable income
  Interest rates
  Exchange rates.

- ***Technological***– for example:

  New materials or components
  New or outdated technology
  New production material or methods.

(ii) The Market

- Size – existing and potential
- Trends
- Products on sale
- Accepted distribution methods
- Standard levels of pricing
- Communication methods used.

(iii) The Competition

- Number of competitors
- Market shares held
- Marketing methods used
- Products offered
- Management styles
- Mergers/acquisitions
- Strengths and weaknesses.

Methods of Structuring the Analysis

You can see that the aspects to be investigated can be quite extensive. Because of this, everyone must have a way of organising the investigation so that no aspect is overlooked. There are several methods that can be used.

(a) Listing

One method is simply to make lists under general headings – for example:

External	Internal
Government policy	People skills
Competition	Resources available
	Customers
	Production capacity

Each item on the list can then be expanded to cater for any or all aspects which needs investigation. For example, **competition** can be given sub-headings of:

- Price range
- Promotional activity
- Distribution network.

If necessary, these sub-headings can be split again into even more precise sections. Using this method you can get a very detailed level of analysis.

(b) PEST

You can use the mnemonic "PEST" to study the external environment:

Political
Economic
Social
Technological.

Again, under each heading you would list the factors which need investigation.

(c) McKinsey's "Seven Ss"

Although originally designed to aid strategy selection, some of McKinsey's "seven Ss" can be useful when analysing the ***internal*** environment:

- Structure
- Strategy
- Systems
- Style
- Staff
- Skills
- Shared values.

(d) What affects us?

You can simply ask the question: *"What affects us?"*. The answer is likely to be:

- The customers
- The competition

- The marketplace
- The marketing process.

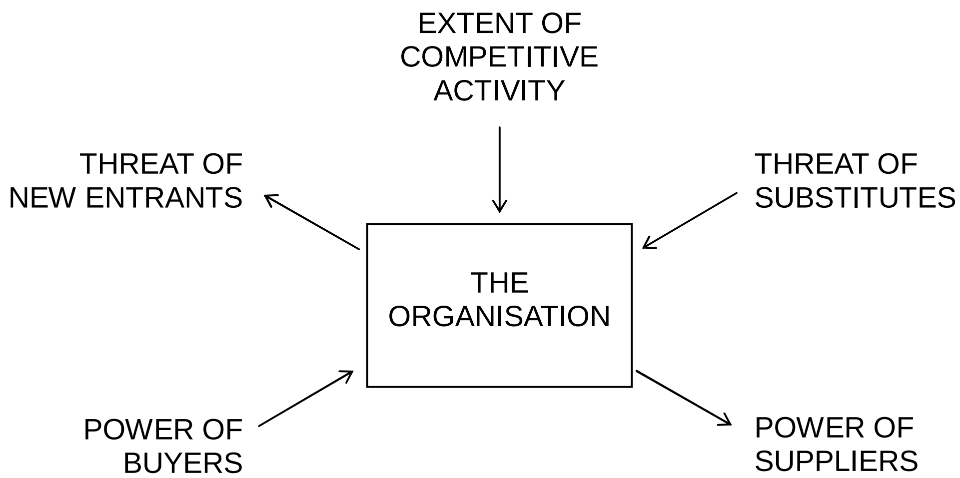
Each aspect to investigate would then be listed under each of these headings.

(e) Porter's Five Forces

Finally, you can use Porter's Five Forces model as a base for investigation of the external environment.

This model (see Figure 4.2) was originally presented to support the suggestion that the nature and intensity of competition within a market is a result of interaction between five "forces".

Figure 4.2: Porter's Five Threat Forces Model



This model is more likely to be used in building up a "threat" profile (see later in this study unit) but it can be very useful in audits as it helps a planner to cover most of the external influencing aspects on his, or her, particular product.

These methods of organising the investigative process are only suggestions. What normally happens is that companies have their own "checklists" for investigation and those undertaking the audit will use the lists to make sure that nothing is missed.

Stages in the Analysis

If a marketing audit is to be successful it should be carried out in a planned fashion and in logical stages.

- **Decide detail/aspects to be investigated**

  A full audit looks at everything; both past and present, but not all aspects are always looked at in minute detail. Sometimes a report on the current status, from the relevant person, will be enough to satisfy immediate requirements for information. It may only be necessary to investigate fully part of the marketing effort or one competitor at any given moment in time because of an event which has taken place.

  Whatever aspect needs to be looked at should be identified clearly and guidelines given on just how thorough the audit is to be. If this is not done it will result in wasted time and effort on the part of the people carrying out the investigation.

- **Collect information**

  Responsibilities must be allocated as to who will collect the information, and how. Remember not all organisations will have dedicated staff to undertake this work.

In SMEs, especially the very small ones, it may be difficult to allocate resources but somehow this work must be undertaken, even if it has to be done by the owner.

- Arrangements need to be made for the storage of information until such time as it can be analysed. **Analyse information**

  If the objectives of the audit are made clear right at the beginning, the analysis stage will be easier as people will know what they are trying to find out, and why.

  Perhaps the most important issue in the analysis of information is who should analyse. The selected person, or people, must understand what they are doing and be capable of assessing all aspects.

- **Draw conclusions/make recommendations**

  The results of the analysis should identify aspects which can be improved, or built upon, to strengthen future activities. Those who have analysed the information should be able to make recommendations that are based on the outcome of their research.

- **Implement programmes**

  Once recommendations have been made, studied and approved, programmes for making changes should be implemented. It follows that the recommendations should have the backing, and support, of decision-makers who have enough influence in the organisation to push the programmes through.

Timing of the Analysis

The frequency with which a marketing audit will need to be carried out varies in accordance with the nature of the business, but audits should be carried out on a "fairly" regular basis. Those organisations that do carry out marketing audits periodically will be better placed to carry out their planning activities.

It is not always a good idea to have audits at exactly the same time every year because they can then come to be regarded as a ritual chore rather than an opportunity to revitalise the activities of the organisation.

The majority of organisations will have full marketing audits prior to any planned major activities and also undertake intermittent "reviews" for aspects such as pricing, distribution, etc. In some organisations it is only when something goes wrong that an audit is carried out. This type of audit is usually done on a panic basis (often as a means of assigning blame!) and is not likely to identify the real reason for the problem.

Who Does the Analysis?

The question of who should do an audit of a particular aspect or marketing activity is one which has caused much discussion.

Some people believe it should be done by those who are actually involved in the aspect under review; others believe it should be done by an independent party. There is justification for both opinions and the decision on just who should do it will be influenced by the prevailing conditions and circumstances of the organisation.

Basically, like any other task in life, the answer to the question: *"Who should do an Audit?"* lies somewhere between *"Do it yourself"* and *"Get someone else to do it"*.

If it is a "self-audit" it can mean that reports are "doctored" in order to preserve the status quo or to hide some detrimental points, but it will at least mean that the people doing the analysis understand the whole issue.

If it is another party who does the audit, it can mean that information is not understood fully or that some information will be withheld by company personnel as they do not want to cooperate, or because they resent the presence of the person (or people) doing the investigation.

Decisions on who will carry out the audit will depend on the resources available, the importance attached to the activity, the influence of the people concerned, the time that staff have available, etc.

The ideal situation is to have an outside party who understands the market and products involved and who can be totally relied on for security and confidentiality, but this usually means high fees and not every company can, or is prepared to, commit the necessary level of finance. This is particularly the case with many SMEs.

Often the decision on who is to carry out an audit can actually predetermine the success or failure of the entire project. If personnel feel "threatened" in any way by the review body they will not cooperate fully and the whole outcome of the audit review can be changed.

B. SWOT PROFILE

The information from an audit can be used to help draw up plans, and as such it will lay the foundation stones of the planning process. However, perhaps the most important use of audit results is that of drawing up a SWOT profile.

A SWOT profile relates to ***strengths, weaknesses, opportunities*** and ***threats***. As such it is a technique designed to provide a framework which will assist in analysing and assessing a particular situation.

We can explain this initially by reference to an individual object or person:

- ***Strength*** and ***weakness*** relate to that individual object or person. Thus, if you assess your own strengths, you might say:
    - I am good at swimming
    - I am good at public speaking
    - I am confident
    - I am lazy
    - I am ambitious, etc.

  The list of your personal characteristics will be quite extensive, but before you could identify which of your characteristics had more strength than the others, you would have to think about ALL of them. Some would immediately stand out as being "major" weaknesses or strengths.

- The same applies to ***opportunities*** and ***threats***. Opportunities and threats come from outside of yourself. They happen because of some change in your environment. An opportunity could be the possibility of a new job, and a threat could be the danger of someone taking something from you.

Translate this idea into "marketing language" and you will see that a company needs to undertake an audit which looks at ***all*** internal aspects before it can extract the major factors which are its own strengths and weaknesses.

Similarly, a company needs to undertake an audit which looks at ***all*** external aspects before it can identify its major opportunities and threats.

Therefore, you can see that SWOT comes as a ***result*** of an audit. Note that:

- The SWOT is ***not*** the audit
- The audit is ***not*** the SWOT
- The SWOT and the audit are ***different***.

Predominantly, strengths and weaknesses refer to internal aspects of the organisation, and opportunities and threats derive from the external environment. We use the word "predominantly" because experience has shown that, on occasion, opportunities (and even threats) will arise from internal sources – for example, new product ideas or new manufacturing processes – and it is difficult to be fully prescriptive on this issue.

Strengths and Weaknesses

Always remember that today's strengths can be tomorrow's weaknesses. Imagine a leading manufacturer being so confident of their product that they relax in their marketing efforts – the competition won't be far away!

Bearing in mind the anomalies which can occur, strengths and weaknesses are essentially internal. Among other things, strengths can be in terms of:

- Superiority in the marketplace
- Staff expertise, loyalty or commitment
- Good reputation for service or quality
- Sound financial backing, etc.

Weaknesses can be the opposite of the above or, perhaps, can be:

- Lack of marketing orientation
- Poor customer care
- Lack of after sales coverage, etc.

Opportunities and Threats

Opportunities and threats derive essentially from aspects of the external environment. Opportunities might be:

- New markets opening up
- A change in technology which can reduce costs or improve production
- A specific activity which is about to happen that will present opportunities for the company, e.g. a new housing development will present opportunities for a number of businesses in the local area.

Threats may be:

- Competitive activity
- Changing customer tastes
- Changes in government regulations or legislation
- A shortage of supplies of raw material, etc.

Using SWOT Results

By examining a situation using the four categories, attention is focused on all the critical aspects of the situation in a way which will:

- Provide a snapshot of the scenario under consideration
- Provide a working summary of key facts
- Give a clear picture of what must be done – i.e. the issues to be tackled – to achieve stated objectives.

The outcome of the SWOT will help a planner define objectives and strategies aimed at:

- **Building** on strengths
- **Overcoming** weaknesses (i.e. trying to convert them into strengths)
- **Capitalising** on opportunities
- **Averting/preparing** for threats.

Plans can thus be tailored to fit the current, or changing, circumstances and should therefore be much more effective.

A SWOT analysis is usually shown as a four cell framework. When compiling the framework you should be as focused and honest as possible. Long lists should be avoided and strengths, weaknesses, opportunities and threats should be listed in priority order – the most important issue being listed first. Strengths and weaknesses are most relevant when benchmarked against key rivals.

C. THE INTERNAL ENVIRONMENT

We know that, because of the staircase effect of business planning, marketing plans can only be developed when we know about the corporate objectives and strategy. Thus, marketing plans and strategies will only be credible if they are based on a clear appreciation of the strengths and weaknesses of the business as a whole.

Therefore, the internal situational analysis is a bit like peeling an onion – we have to work through the organisation a level at a time carefully "auditing" the position at each level, and then using a SWOT profile to help clarify the picture. The levels are:

- The ***corporate level*** – analysing the internal, controllable elements of the business and, thereby, assessing its strengths and weaknesses.
- The ***marketing level*** – analysing the marketing strengths and weaknesses and identifying emerging product/market opportunities.
- The ***tactical level*** – auditing, where appropriate, specific areas, like communications or sales.

We shall be looking in detail at auditing the marketing mix in a later study unit. Here, we shall consider the general nature of the internal environment.

Strengths and Weaknesses of the Organisation

As we noted above, internal factors may be classified as strengths and weaknesses.

You might have been for a job interview where you were asked "what would you say is your major strength?" Each individual would respond differently, but typical answers might include an ability with numbers, a creative flair, the ability to work independently, and so on. Equally, you can be aware of your weaker areas (but may not want to admit them!). To obtain your list, you would have had to carry out an internal search (an audit) and sort your personal characteristics under headings.

You need to undertake the same process when dealing with a company. If an organisation has difficulty retaining staff, you would identify high staff turnover as a weakness – this difficulty would increase costs and reduce the efficiency of the organisation. You would later want to investigate the causes of this problem and probably make recommendations for improving staff retention levels.

On the other hand, if a company has a high proportion of skilled craftsmen and women on its staff, you may identify this as a strength – it would certainly be a resource which could be used and developed. However, if this same company had moved into new production technologies which reduced the need for a traditionally skilled workforce, then this high proportion of skilled staff might be a weakness, causing wage costs to be unnecessarily high.

The context of the facts affects your treatment of them. A strength to one firm, at one time, may become a weakness; equally, what is a strength to one may be a weakness to another. Careful and creative thought is necessary.

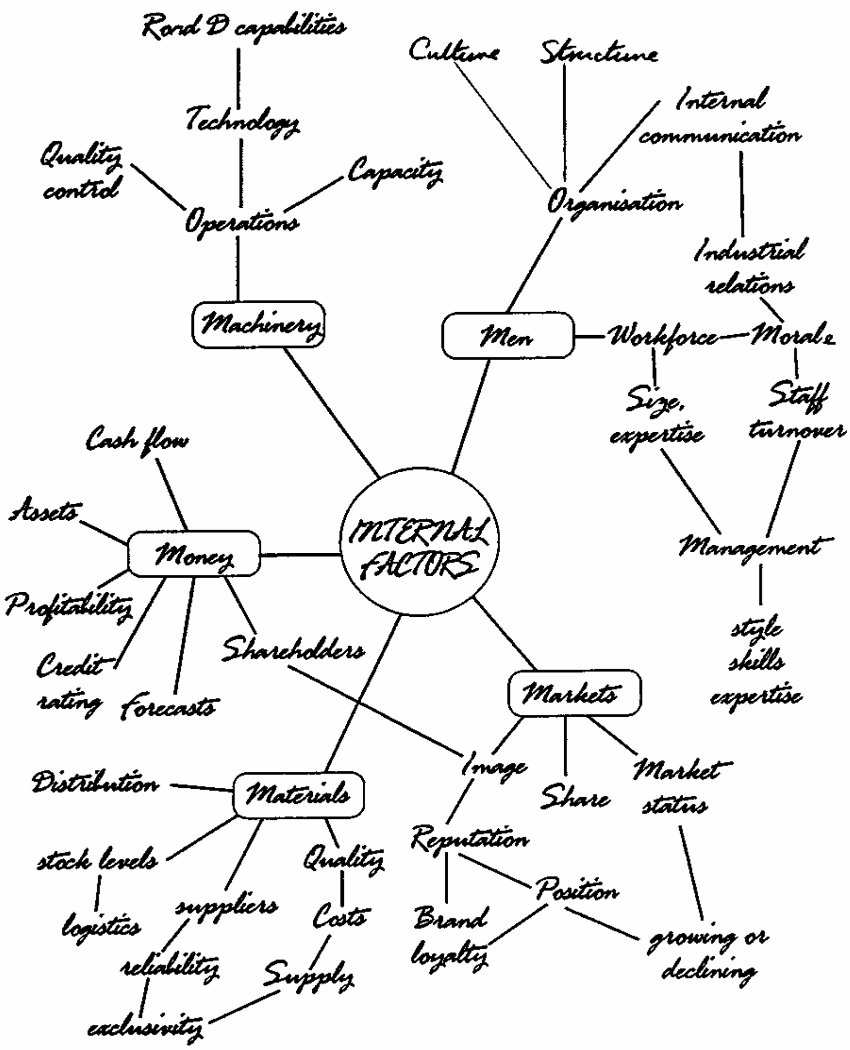
You need to review critically an organisation's resources, capabilities and current market position.

One way of approaching this is the concept of the "5 Ms". This classification of the internal, corporate level, resources of a business divides them into:

- Men (and women)
- Money
- Materials
- Machines – capacity and utilisation, etc.
- Markets.

We can represent these, and their constituent elements, by means of a spider diagram (or mind map) as shown in Figure 4.3.

Figure 4.3: Factors in the internal environment



Because internal factors can be changed or influenced by management action, they may be referred to as ***controllable***. However, it may take considerable time and investment to bring about changes – for example, an operational orientation is a weakness in a competitive market, but culture change could be expected to take several years (perhaps up to 8 or 9) to bring about.

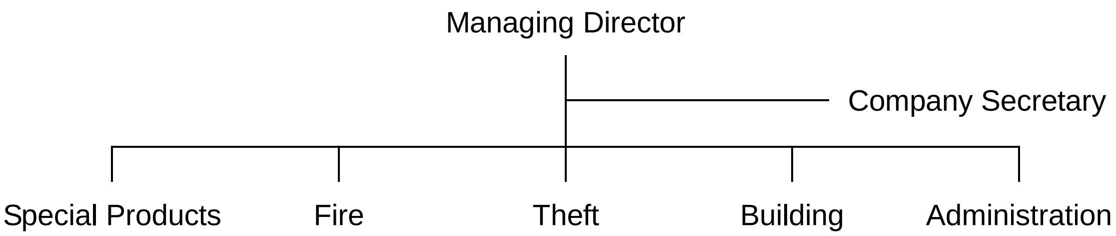
Organisational Structure and Culture

Analysis of the organisation structure and its culture can provide a background, a sort of corporate rationale, against which all other activities and factors can be considered.

The organisation structure or framework indicates how the different levels and functions of the company link together and relate to each other. It is a representation of the ***formal*** arrangements and therefore the formal communication links. (Remember that informal links and communication are equally important in most organisations, although they are likely to be less well-documented.)

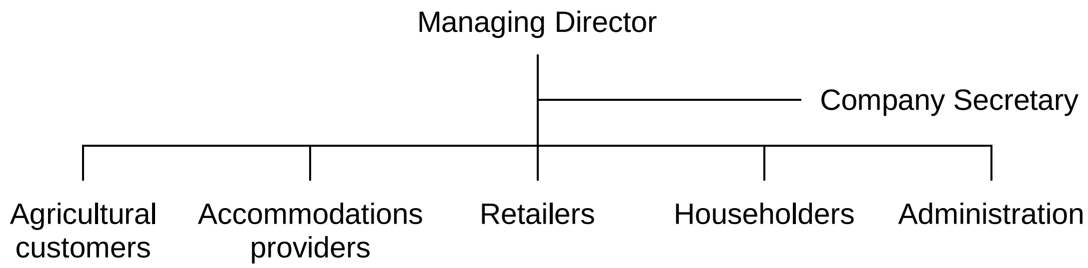
The structure is likely to be both a reflection of, and a conditioning factor on, the orientation and management philosophy of the organisation. Moving an organisation forward often entails a change in this orientation and structural reorganisation can help to refocus people's priorities and approach to the business.

Companies which are product or operations orientated will tend to be organised around the business functions or products – for example, the following structure shows that for an insurance company:



Managers' responsibilities are defined in product areas and not surprisingly, therefore, their main concern is for the products and their delivery (operations). The results may be weaknesses in respect of duplication of calls and administrative work and the full potential of the sales force is not sufficiently exploited.

As companies shift towards a customer or market orientation, they are more likely to be organised around customer groups and market segments – for example:

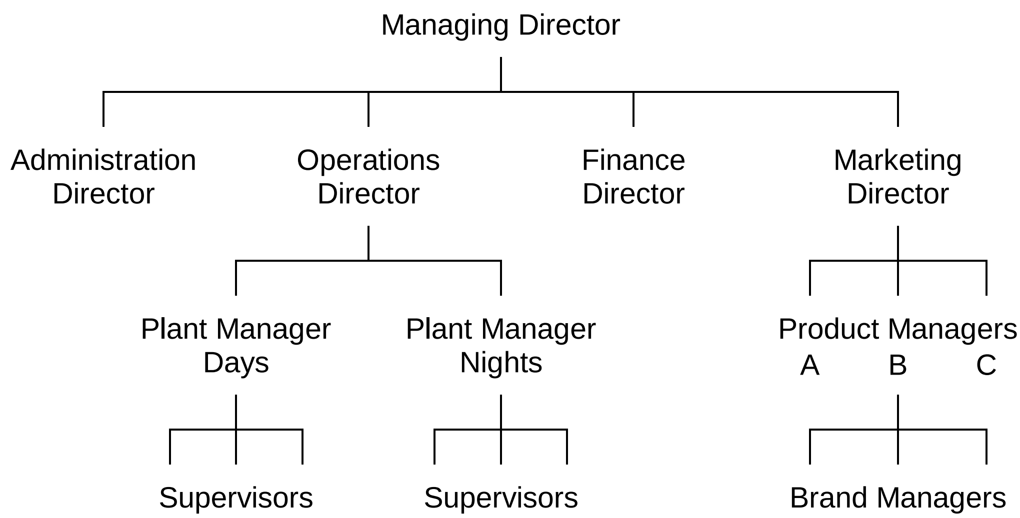


Changing the focus to groups of customers changes the priorities of managers. Achieving their targets will now depend on the managers knowing their customers, and satisfying their needs.

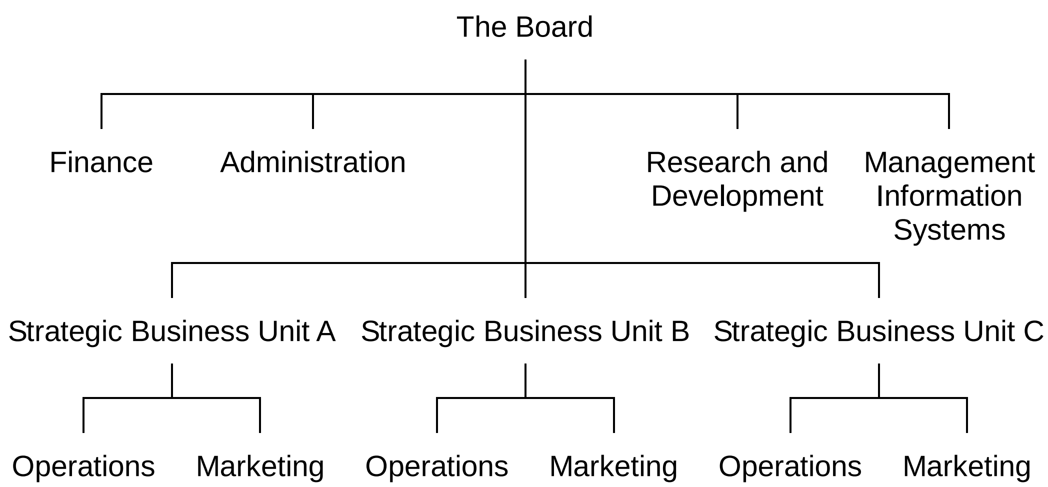
Note reorganisation is not a quick and easy fix to company problems – alone, it will not change the culture of the organisation. This takes time and investment in staff training and reorientation. Reorganisation has often been seen as a way of tackling the symptoms, not the fundamental issues, and it can also cause short-term resentment and confusion.

You will be familiar with alternative organisation structures from your earlier studies. To refresh your memory, we review a few of the key alternatives here.

(a) Traditional or hierarchical structure – based on function



(b) Traditional or hierarchical structure – based on product group or strategic business unit

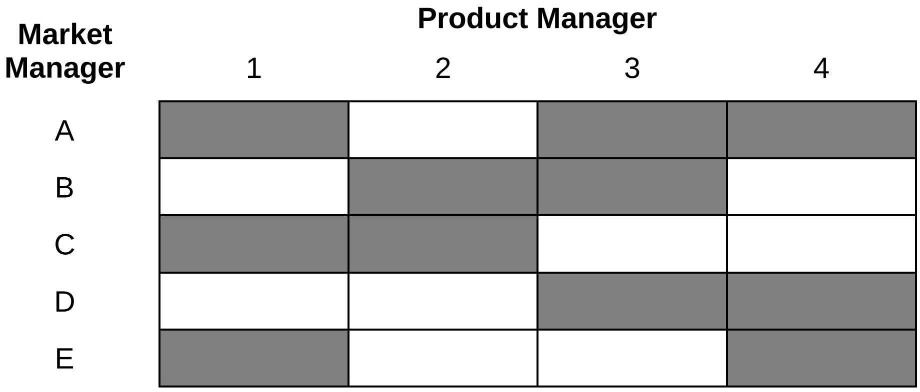


(c) Matrix organisation

The need for flexibility in organisations has led to a shift away from rigid structures and hierarchies. The recession of the early 1990s speeded up this process as flattening the hierarchy also reduces costs. This change was also facilitated by the spread of information technology. Many middle managers are no longer needed to facilitate the flow of information.

One approach is for the managers responsible for a region to bring together those responsible for products in flexible teams to meet the needs of particular customer groups. This is shown in Figure 4.4.

Figure 4.4: Matrix organisation – product based



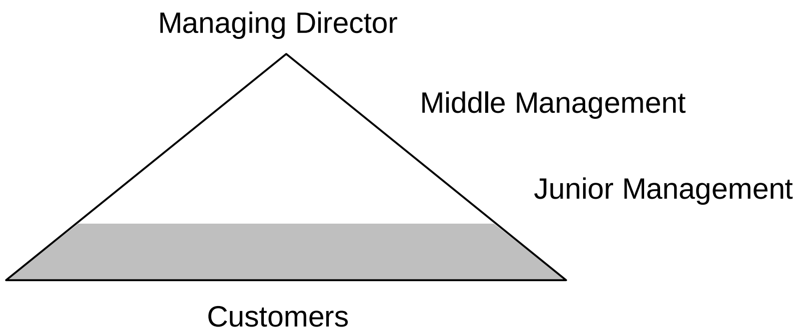
The whole organisation can adopt a similar approach using project teams drawn from the functional areas of the business – as illustrated by Figure 4.5.

Figure 4.5: Matrix organisation – organisation wide projects

	Board				
Project	**Operations**	**Admin**	**Finance**	**R & D**	**Marketing**
1					
2					
3					
4					

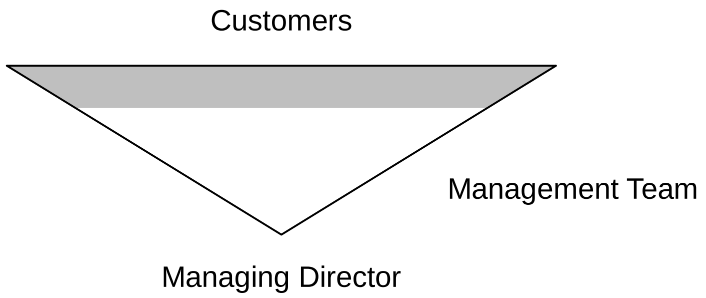
(d) Inverting the pyramid

The traditional hierarchy has the added disadvantage of placing customers at the bottom of the structure – their place distanced from senior managers and seemingly responsible for supporting the business!



It is not surprising that in such a structure customers are not always highly regarded!

Flattening and inverting the pyramid puts the customer on top and the much closer management team now has the task of ensuring processes and systems exist to ensure a consistent, quality interaction between the organisation and its users.



(e) Contemporary trends

With the rapid advancements in technology have come significant changes in organisational structure. Many organisations have "re-engineered" and are now significantly flatter in structure than they were just a few years ago having removed layers of middle management. The phenomenal growth of the web, broadband Internet and mobile technology now enables a growing number of staff to work partly from home. Technology and the drive for improved shareholder value have driven more organisations to consider outsourcing and have led to the growth in call centres. These changes have enabled many organisations to significantly reduce their staffing and establishment costs and it is argued, by some at least, that it has improved the quality of life of many of their staff.

D. THE EXTERNAL ENVIRONMENT

Organisations do not exist in a vacuum; they are part of a much bigger system – i.e. the environment in which they operate. This environment, sometimes referred to as the macro-environment, comprises a range of factors which impact on the organisation. These external factors cannot be changed or significantly influenced by management action. They are, therefore, referred to as ***uncontrollable***.

You will have come across these environmental factors elsewhere in your studies. They are usually classified under the mnemonic "PEST":

- Political (and legal) factors
- Economic factors
- Social (and cultural) factors
- Technological factors.

To this list we should add "competitive activity" because the actions of competitors are external to the organisation.

Opportunities, Threats and Organisational Response

Change in any of the external factors – and they are all, more or less, characterised by continual change – will have an impact on the organisation. The "opportunities and threats" classification helps management to consider the implications of this on the organisation's operation and/or plans. For example, if a competitor introduces a new method of production using machinery instead of skilled labour:

- This could be a threat, because their lower production costs could give them a price advantage in the market-place.
- It could also be an opportunity, creating a gap in the market for high quality, hand-made products at a premium price.

(a) Opportunities or threats?

It is important to note that change is seldom either solely negative or positive. Generally, it presents both opportunities and threats, depending on the particular circumstances of the organisation and how it is equipped to respond.

Thus, undertaking an audit for business planning means much more than listing environmental factors and categorising them simply as an "opportunity" or a "threat". One type of external change will have very different implications for one business compared to another. The manager's job is to think about the implications of each change in the context of that business. For example, high inflation rates will have a greater effect on firms with demand which is price-sensitive, than on those selling price-inelastic necessities.

Do not be fooled into thinking that an environmental audit is simply a mechanistic process. The skill of the planner lies in the interpretation of events and market information. Consider the following table of the potential implications of a number of external factors – you may well identify different opportunities and threats from those listed, but what is important is to understand the range of possible consequences.

External Factor	Opportunity	Threat
A fall in the birth rate	Parents can spend more on each child Bigger market for higher-priced products	Total sales volume of children's products will fall
A lowering of the retirement age	More demand for leisure activities	Less disposable income in this market segment
A fall in the exchange value of the home currency	Products now seem cheaper in overseas markets	Increased cost of any imported raw materials
A relaxation of retail trading legislation	Increased sales – more opportunities to buy	Distribution costs may increase
New member countries joining the EU	New markets open up	New competitors join the EU club
Increasing popular interest in environmental issues	More demand for "green" products	Additional costs of environmentally friendly products and materials
Development of satellite TV	Access to global promotional opportunities	Fragmentation of TV audiences – fewer messages received

(b) The need to be responsive

A surprising number of organisations, large and small, admit to paying little attention to the external environment during planning. This complacency results from the misguided view that things will stay the same – blinkered thinking which is surprising when we are surrounded by such clear evidence that things do not stay the same. In fact change does not only occur, but seems to be happening at an increasing rate and there is equally strong evidence that those who do not respond to change do not thrive and may not survive.

An operation's long-term survival is dependent on the ability and willingness of its management to respond to the changing environment. Firms who fail to do so simply cease to exist, like the buggy whip manufacturers. In the same way, the dinosaur failed to adapt to the changing environment and eventually became extinct.

Just think what effect the 9/11 attacks in New York in 2001 have had on many businesses! Managers must react swiftly to any potential impact on their business and have contingency plans in pace "just in case".

- Those who wait for environmental changes to occur and then respond can be labelled ***reactive***. Their survival is not guaranteed, because it may take them too long to develop and implement an appropriate strategic response. Slow response gives an advantage to more flexible, forward looking competitors, costing market share and competitive advantage which will be hard to win back.
- Although some environmental changes cannot be predicted, many can. Firms most likely to thrive and be successful are those which actively look for the changes in the future and respond ahead of them, taking a ***proactive*** approach to the business. For example, population changes are some of the most significant to marketers as changes in the population profile change the size and potential value of market segments significantly – demographic trends can be identified and, say, a reduction in the birth rate which would reduce the size of the market for baby products can be planned for.

(c) Becoming a responsive organisation

Organisations which want to ensure that they are responsive to changes in their external environment will often need to make changes in their:

- culture
- organisation
- information systems
- planning approach.

It is one thing to be ***aware*** of the importance of the external environment, and another to take this knowledge and ***use it*** as an opportunity to gain competitive advantage. Organisations which are proactive to change have to generate a culture which is excited by change and which encourages executives to take the risks associated with change and new methods of working.

This culture is most likely to be created in smaller, non-bureaucratic environments. A characteristic of many SMEs is that because of their size they are able to react faster to change. To achieve these characteristics large organisations may break up activities into near autonomous groups and operating units or SBUs (Strategic Business Units). Many of the large multinational companies like IBM are blaming their loss of market dominance on their size – too big, too bureaucratic, and too far from their customers. Reorganisation is seen as one way of bringing the individual parts of the business back in contact with the market-place.

Managers can only make decisions based on the information which is available to them. Management and market information systems need to be available to provide reliable and relevant intelligence about competitor activity and environmental changes. This requires investment in the information resource. You should be alert to the adequacy of information available to the case company you are working with and be prepared to make recommendations for its improvement when it appears inadequate.

Planning must always take place against a changing background. The external macro-environment will change – perhaps unexpectedly or perhaps more dramatically or quickly than had been forecast. These changes must be identified and their implications fed into the planning process so that plans can be reviewed and, if necessary, modified. The planning process for a proactive operation cannot be fixed in time – it must be dynamic and flexible. Similarly, plans cannot be written in tablets of stone and mechanisms for their ongoing evolution must be established. Two particular techniques are as follows.

- ***Scenario planning*** – Forward looking organisations are increasingly providing their managers with practice in planning techniques and themselves plan for possible future scenarios as a sort of planning insurance policy.
- ***Contingency plans*** – This involves specific preparation for possible events, perhaps identified through scenario planning.

Political and Legal Factors

This is possibly one of the most difficult areas of the environment to monitor and predict. Government policy can change rapidly and sometimes very unexpectedly, and the legislative changes which result from political decisions can have far-reaching effects on business operations and on all elements of the marketing mix.

In addition to existing legislation to protect customers' rights, the environment and the conduct of business, other changes are at times proposed and enacted to which managers must be responsive and, where possible, proactive. Whilst organisations can and do work to influence political opinion through lobbying, it is not always possible to be effective in such aims. You may find it useful to draw up a checklist of factors to consider under the general heading of the political and legal environment. The following suggestion represents one such list, but the details will be conditioned by the particular circumstances of the company.

A Check-List for Political and Legal Audit

(a) What legal changes are likely / possible nationally/internationally?

(b) What pressure groups exist within the firm's macro-environment? What changes would they like to see?

(c) What environmental legislation might influence the business?

(d) Are any developments likely in the following or similar areas?

- Employment law
- Health and safety
- Product liability
- Packaging
- Pricing
- Promotion

(e) Would there be any impact on the business if there was a change in government?

(f) What are the risks involved with operating in certain specific overseas markets? Are they increasing or decreasing?

(g) Are there any changes which might alter the level or extent of competitive activity?

(h) Are there any local political changes which might affect the business – planning constraints, transportation developments, grants or taxation?

As we noted above, political and legal decisions can have implications for all elements of the marketing mix. The particular consequences will depend on the market sector under consideration, but the following general examples given here provide an indication of how far-reaching government intervention and influence can be.

(a) Product

- Legislation on packaging has been some of the most direct and extensive, affecting aerosols and the recycling of packaging materials.
- Ingredients and materials used in production can be constrained for health and safety reasons – for example, E numbers in food products.
- Legislation can open up new products/markets, such as seat-belt legislation, whilst government policy can increase market potential, as in the case of the promotion of private health insurance.

(b) Price

- Directly affected by changes in indirect taxation and duty – for example, the imposition of higher taxes on fuel.
- Different levels of duty in different countries have resulted in the market for day-trips to France to buy up cheaper beer and wine for consumption in the UK.
- Government policy which changes exchange rates influences directly the price of goods in export markets.
- Government can influence how prices are displayed or set out, as in the case of credit companies being forced to show the true APR.

(c) Promotion

Implications may be seen in all types of promotional activities.

- Advertising – restrictions on TV advertising of tobacco; deregulation of radio broadcasting; decision not to fund the BBC by taking commercials.
- Sales promotion – restrictions on the type and organisation of sales promotions (which often differ between countries).
- Direct mail – the Data Protection Act restricts the type of information which may be collected and stored, and use to which it may be put.

(d) Place

- Sunday trading legislation
- Licensing laws
- Smoking bans in restaurants
- Health and safety legislation.

Economic and Demographic Factors

Population changes are normally easy to forecast as there is plenty of lead time – however, they still seem to catch some companies unawares. Any changes in the number of people in a country, their distribution within it, ethnic mix or age profile are of particular interest to those developing a marketing strategy.

In some countries, census information is not easily available or up-to-date. Even in the UK, data can be up to 10 years out-of-date, and so should be treated with some caution. In the late 1980s figures from the USA held something of a surprise, when declining trends in the birth rate showed themselves to have reversed. The increase in the birth rate was due to the number of older women starting their families, thus creating two child-bearing cohorts within the population.

Some of the most creative marketing strategies have come about in response to demographic changes and the recognition of product/market opportunities generated by lifestyle marketing. The growth of the "Grey" market with its affluent over 60-year-old customers and the high spending "empty nesters" are both examples of demographic changes.

Economic changes are often more immediate and unpredictable and yet of critical importance to all organisations. Business is interested in effective demand – the desire to buy, backed by the necessary purchasing power.

Economic changes can alter the purchasing power/disposable income of the whole population or segments within it. Changes in direct taxation can alter the distribution of income as well as income levels; indirect taxation has the same effect as a price rise.

The average income within a household depends on attitudes to women working and the size of the family group – a factor influenced by culture as well as economics. The availability of credit and the rate of interest can also change current demand as we have seen clearly during periods of recession.

Overall the level of economic activity in the economy influences demand from overseas, the extent of international competition, and the level of employment at home.

Managers must be aware of the economic health of the country and the shape of the business cycle which is relevant to their sector of activity.

Again, we can create a general checklist of factors to be considered in analysing the economic and demographic environment, with the final details being dependent upon the particular market circumstances of the company.

A Check-List for Economic and Demographic Audit

(a) What is the economic forecast for the markets you are working in?

(b) What is the current trend for:

- disposable income
- employment
- amongst the target market segment?

(c) What is happening to that segment in terms of:

- size
- location?

(d) What is the forecast rate of inflation and growth for the economy?

(e) What likely changes will there be to the cost and availability of credit:

- generally
- amongst target customers?

(f) What changes in the structure and distribution of the population are forecast?

Social and Cultural Factors

The key to developing an effective marketing strategy lies in a detailed understanding of the target customer and his/her attitudes, motivations and behaviour. These are strongly influenced by the social and cultural dimensions of our lives, but these, too, are constantly evolving and changing, often very rapidly.

Our attitudes to health, the environment, religion and leisure have all changed dramatically over the last decade or so. Such changes have brought about new products like weekend breaks and health promotion check-ups, a revolution in packaging and a popular movement supporting Sunday trading.

We can see the importance of social and cultural factors by considering the way in which they have influenced the development and marketing of a number of quite varied product types over the last few years.

(a) Chocolate products

- Attention to, and promotion of, reduction of calorific content, amount of sugar and other additives – all related to the trend for healthy living
- Development of snack/convenience products suited to our changed eating habits of snacking and grazing
- Marketing orientated to the concept of a self-indulgent impulse purchase suited to our changed attitudes to personal rewards and "spoilt" lifestyles.

(b) Bottled mineral water

- Campaigns related to the healthy lifestyle
- Marketing orientated to the concept of an ostentatious consumption good with something of a prestige image.

(c) Microwave meals

- Development based on convenience, as suits our leisure-oriented lifestyles and less time available for cooking as more women work
- Wider variety of types of foods – especially Indian and oriental – to meet demand as our tastes become more cosmopolitan, influenced by travel and the multi-ethnic profile of our population.

(d) Cars

- Development of smaller models as family size reduces
- Becoming more energy efficient as we become more environmentally aware
- Becoming cheaper as our ownership of cars increases and perception of them as luxury products declines.

(e) Washing powder

- Becoming more environmentally friendly, both functionally and in packaging terms
- Becoming more able to cope with a wider range of materials at low temperatures (energy saving).

(f) Cosmetics

- Strong emphasis on products not being tested on animals
- Less emphasis on packaging
- Demand rising as we increasingly "pamper" ourselves
- New markets in cosmetics for men as our attitudes to fashions and sex change.

(g) Garden fertilisers

- Becoming increasingly environmentally safe – not harmful to the local animal and plant life, and not damaging the environment (such as peat from Ireland)
- Increased demand as more leisure time encourages more gardening.

Again, we can create a general checklist of factors to be considered in analysing this aspect of the external environment, with the final details being dependent upon the particular market circumstances of the company.

A Check-List for Social and Cultural Audit

(a) Who are the target consumers and what changes are occurring or likely to occur in terms of the following points?

- Their education
- Lifestyles
- Values
- Behaviour

(b) What are the relevant changes in customers, consumers and other interest groups to:

- The products and services you produce?
- The way you do business?
- The way your competitors do business?
- The way your products are packaged, promoted or distributed?

(c) Any relevant or likely changes in consumer or environmentalist groups which would impact on the business.

Technological Factors

Technological innovation and technological improvements have had a profound effect in all areas of marketing. Computer technology, for instance, has revolutionised product design; quality control; materials and inventory management; the production of advertisements and other promotional materials, and the management and analysis of customer information. The Internet, Interactive TV and mobile phones have opened up new channels of communication and distribution and made information widely available to all. Technological advances are progressing at a rapid pace.

A Check-List for Technological Audit

(a) What new technology might influence our production or operational approach?

(b) Are there opportunities to use new materials in production?

(c) Are there new kinds of competitive products being produced?

(d) How can we use new technology to offer better or new products to our customers?

The Competitive Challenge

It is very important that the competition is not ignored when undertaking an environmental audit. Competitors are external to the organisation and whilst they may be influenced by your activities, you cannot control them.

You need to think not only about what position they currently have in the market-place, and their strengths and weaknesses compared with your own, but you must also consider what they are likely to do in the future. When proposing new strategies for your own organisation, it is important to take into account how the competition is likely to react. Your competitors' response will certainly influence the success of your recommended strategy.

For our planning to be safe, we really need to know as much about our competitors as we do about ourselves. This means acquiring information on such aspects as:

- Product range
- Unique service offerings
- Target market sectors
- Market positioning
- Market share
- Promotional activities
- Timing of campaigns
- Distribution methods
- Pricing policies
- Style of management
- Objectives and intentions.

This type of information is often used to construct a "response profile" of the competition – i.e. a picture of how they have responded in the past to competitive activity. By knowing their past responses it should be possible to make assumptions on how they will respond in the future.

Gilligan and Fifield (1996) identify several question areas which should be answered in relation to the competition:

- What are the competitor's current strategy and performance levels?
- What strengths and weaknesses does the competitor possess, and what are the levels of resource capabilities?
- What are the competitor's apparent goals and what appears to drive the organisation?
- What assumptions does the competitive organisation hold about itself and how realistic are these?
- How is the competitor likely to respond when challenged?
- Where is the competitor most vulnerable?
- What short- and long-term shifts in strategy is the competitor likely to make?
- What action on our part is most likely to lead to a competitive response?

The answers to these questions can help in determining which strategies can be adopted safely without fear of a response. For example, if we know that the competitor is unlikely to respond to us having a massive advertising campaign, we can use that method relatively safely. Or, if the competitor is likely to respond aggressively to any price reduction we might make, we would try to avoid cutting prices to attract customers and, instead, use some other mix element as an incentive.

The whole point of competitive response models is to try and "out plan" the competition and carry out marketing activities where they are least likely to create an aggressive response. Many companies will try to avoid direct conflict with the competition as this is a waste of resources and, in the end, only the stronger contender can win.

The response of a competitor very much depends on the ***nature*** of that competitor. Kotler identifies four types of competitor:

- ***Laid back*** – this is the type of competitor who rarely responds to competitive action, perhaps because they "do not notice" or because they feel very secure in their market share.
- ***Selective*** – the "selective" competitor will respond to certain activities, but not to others. For example, they may ignore below the line promotional "pull or push" campaigns, but react very quickly to increased above the line advertising.
- ***Tiger*** – the competitor who will always respond quickly to any competitive activity. This can be for reasons of protection of market share or quite simply to signal warnings to the competition not to try and take the market share. These competitors are often very strong and leading organisations in the marketplace.
- ***Stochastic*** – these competitors are difficult to understand. Sometimes they will react and yet at other times they will ignore increased activity. They are the most difficult type of competitor to come to terms with as there is no way of really knowing what will happen when you adopt a marketing strategy. Planners facing this kind of competition need to be very careful that they cover every aspect when they prepare their plans.

The key points in any competitor analysis are as follows.

(a) The structure of the industry

The size and number of competitors has an implication for the nature and intensity of competitive activity.

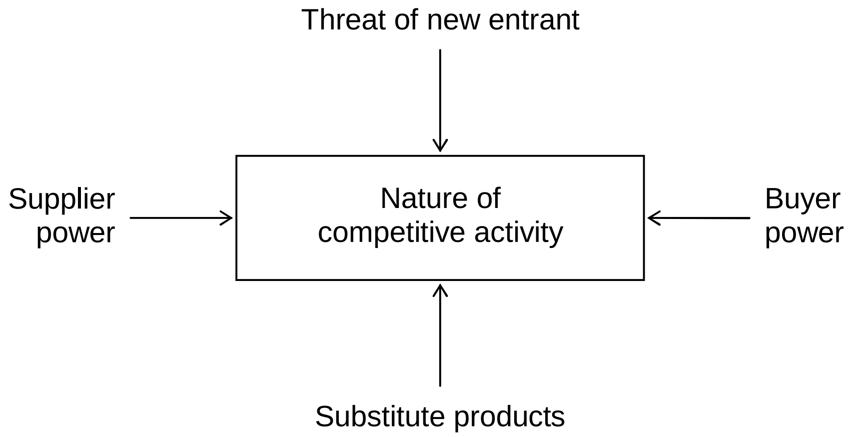
The economists' models of the theory of the firm provide us with some useful insights.

- ***Perfect competition*** – where there are lots of buyers and sellers, products tend to be undifferentiated and prices set by the market.
- ***Monopolistic competition*** – when firms are faced with limited numbers of competitors, they differentiate their product through branding, packaging and advertising to win short-term competitive advantage and price freedom.
- ***Oligopolistic markets*** – these are markets dominated by a handful of large suppliers, each able to influence price or output in the market. These suppliers often collude to avoid price wars, acting as a monopoly to limit output and keep prices up.

  Prices tend to be based on a market rate price and movement outside that can lead to a price war. Competition takes the form of ***product differentiation*** – strong branding, packaging and product development are all important.
- ***Monopoly*** – this occurs where one firm dominates the market, controlling output and prices. Monopolies are often run by the public sector and feature price discrimination in some form. But remember, small firms can have a local monopoly – for example, the village shop – so we need to assess monopoly power within the context of the market in which the business operates.

(b) Nature of competition

Porter's Five Forces Analysis can be used to provide a considerable insight into the factors impacting on a business performance.



Note that it is important to look at the nature of competition from the customer's point of view. It may not be that it is the attributes of other companies which are the real competitive threat, but the comparative attributes of other products in relation to the needs of customers. Other aspects of the marketing mix may also be significant – for example, the location of retailers.

Too much attention to the activities of other companies in the **same** sector can leave the back door open to an **unrecognised** competitive threat.

(c) Market share and trends

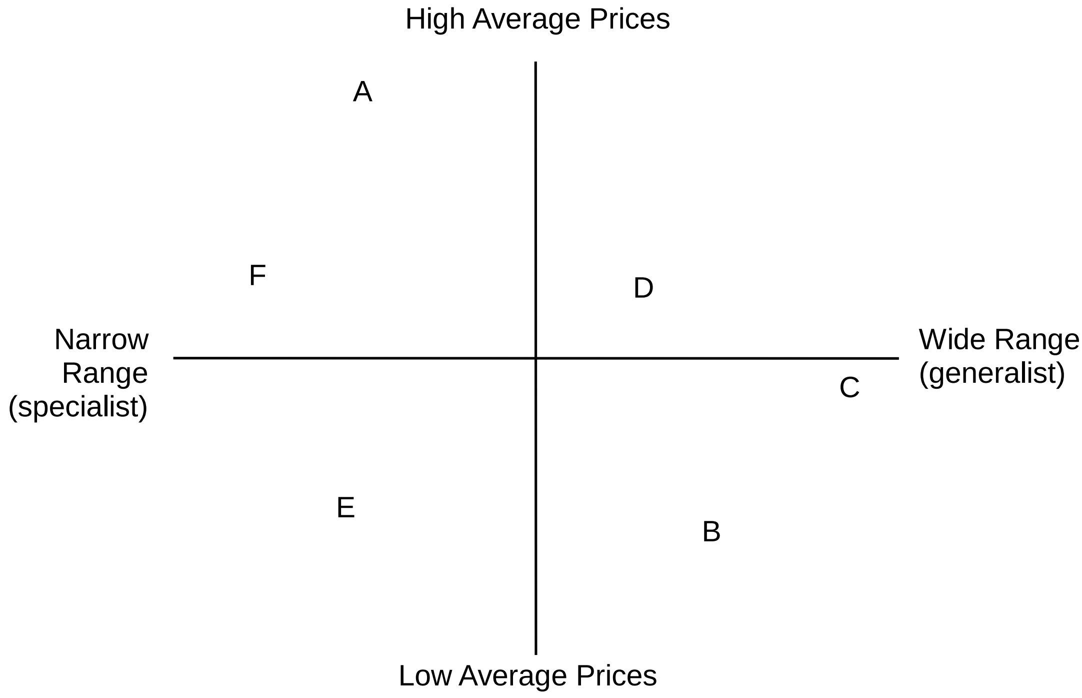
What is the state of the market – is the value or volume of sales static or changing? What are the relative positions of companies within the market – are we growing or declining, what is happening to others? Who are the major competitors and what is happening to their market share?

Wherever possible you want to establish as detailed a picture of the competitors as possible. To do this you should study the essential strengths and weaknesses of major competitors and monitor their current performance. Seven questions, in particular, need to be asked:

- Which ***price*** policies are competitors pursuing?
- What kind of ***corporate image*** are competing firms seeking to project?
- Have any large customers been ***lost*** to other firms?
- Which ***promotional forms*** have competitors adopted?
- Are competitors engaging in any marketing activities ***not*** being undertaken by the firm in question?
- How ***profitable*** are competing firms?
- Have competitors recently introduced ***new*** products or ***modified*** existing ones? If so, why?

One approach to competitor analysis is to draw up a positioning map to see how you and the competitors relate to one another in respect of key factors. Figure 4.6 plots the competitive position in relation to price and range of products.

Figure 4.6: Competition analysis – positioning map



As you can see from Figure 4.6, there are six key players in the business. If we consider the position of B, we can see that the closest competitors in terms of price are E and C, whereas D and C are the closest in terms of the range of products offered. It is likely that B is competing most strongly with C, but has an advantage in price, although not in terms of the range offered.

There are considerable gaps in the market, in particular for a premium price, wide range provider.

Using positioning maps like this helps to get a sense of which competitors are the most "threatening". They can be constructed by reference to whatever competitive variables are considered appropriate to the situation – for example, geographic proximity or speed of delivery.

Being aware of the type of competitor, coupled with knowledge of their company, activities and likely responses, enables planners to select strategies which are safer and therefore more likely to be successful.

Review Questions

1. What are the components of Porter's Five Forces model?

2. What are the stages in a marketing audit?

3. What is a SWOT profile?

4. List the main environmental factors that effect an organisation

5. Should the marketing audit be undertaken "in house" or by someone who is independent?

6. Name the components of McKinsey's "7 Ss"

7. What is a positioning map?

8. What are the "5Ms"?

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> Outline Porter's 5 Forces Model and describe how it could be used to improve a company's understanding of its competitive environment. Select an industry of your choice to illustrate your answer.

ANSWERS TO REVIEW QUESTIONS

1. Extent of competitor activity
   Threat of substitutes
   Power of suppliers
   Power of buyers
   Threat of new entrants.

2. Decide the aspects to be investigated
   Collect the information
   Analyse the information
   Draw conclusions and make recommendations
   Implement the recommendations.

3. It relates to strengths, weaknesses, opportunities and threats. It is a technique designed to provide a framework which will assist in analysing and assessing a particular situation.

4. These include: economic, social, cultural, political and legal issues, the community, distributors, sources of finance, technology, competitors, customers etc.

5. There are advantages of doing it "in-house" and advantages in getting someone else to do it. You should be able to list the advantages and disadvantages of both approaches.

6. Structure, strategy, systems, style, staff, skills and shared values.

7. It is a four-cell analysis, which shows how competitors relate to one another in respect of key facts such as quality and price.

8. Men (and women), money, materials, machines and markets

Study Unit 5

Marketing Information

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INTRODUCTION

In this unit, leading on from the consideration of the requirements of the situational analysis in the previous unit, we review the flow of information which comes from this analysis. We start by considering the need for systems to manage this information and identify the basic requirements of marketing information systems. From there, we look at the process of marketing research which seeks to acquire the necessary information.

We shall be concerned less with the details of these features of marketing as with their strategic intent and the role that they serve in supporting the development of effective marketing strategies and programmes.

Don't forget to try the review questions at the end of this unit.

A. MANAGING THE INFORMATION FLOW

Information acquired from the situational analysis needs to be placed, or stored, in a system in such a manner that it can be retrieved and utilised at a later time should it be necessary.

In an organisational context, information which will aid decision-making will be placed, by some process, in a system which allows for:

- The storage of information
- The interpretation of information
- The transforming of information into intelligence
- The retrieval of intelligence (and information)
- The transmission of relevant intelligence in an appropriate format.

The "place" where the information is put is called a ***Management Information System***. The system may be manual or computerised, according to the size of the business and the resources available.

Management Information Systems

With any information system, information is fed into it, transformed into a format that makes sense, and then stored. It can stay stored for short periods of time, or for relatively long periods of time, depending on the nature of the information and the purpose it serves.

It is often the case that when people talk about a Management Information System (MIS) they are thinking in terms of computerised systems. This is because of the number of very large, and influential, firms which have access to networked computers – many on a world-wide basis. However, not all companies have the benefit of expensive technology and there are times when an MIS consists of pieces of paper stored in a filing cabinet.

Management Information Systems are not exclusive to large companies. There are many individuals who work at their own trade who would say that they do not have a Management Information System, but they do! The self-employed carpenter or plumber is constantly gathering information on his own particular markets and potential customers, etc. He may keep this information in his head, but the information will be recalled as and when appropriate.

Therefore, accepting the above, you could argue that a Management Information System is always present – irrespective of the size, or complexity, of the organisation.

The effectiveness of the system, or otherwise, lies in the planning and organisation which is undertaken to make sure that the system meets the required standard.

Information which might be held in an overall Management Information System includes:

- Financial records
- Details of tax and dividend payments
- Personnel details
- Purchasing costs
- Production schedules, etc.

For an organisation, the overall Management Information System should cover ***every*** section. The system needs to be designed so that it is multi-purpose and of use to everyone in the organisation. If one section of the organisation is left out the system is failing to cope.

Each individual section of the organisation will have different information requirements but, ultimately, all of the systems need to be inter-linked in some way, so that information can be used to best effect.

Thus, the Production Department, or function, will have its own information requirements but there may be others in the organisation who will need access to it – for example, the person who is checking an order for a customer may need to see which batch of a product is currently completed or in progress.

Marketing Information Systems

A Marketing Information System (MkIS) has been defined as:

> *An organised set of procedures and methods by which pertinent, timely and accurate information is continually gathered, sorted, analysed, evaluated, stored and distributed for use by marketing decision makers. (Zikmund and d'Amico, 1993)*

It will contain information relating specifically to the marketing effort but other people in the organisation may, at times, need access to some of that information. Hence the necessity for the inter-linking of systems across the whole spectrum of the company.

If the systems do not link in together, there is a possibility that the corporate objectives will be confused and diluted and, consequently, will not be achieved.

A MkIS is a sub-section of the overall management system. It will contain information which is pertinent to the marketing effort but, as we noted, it must fit into the overall Management Information System.

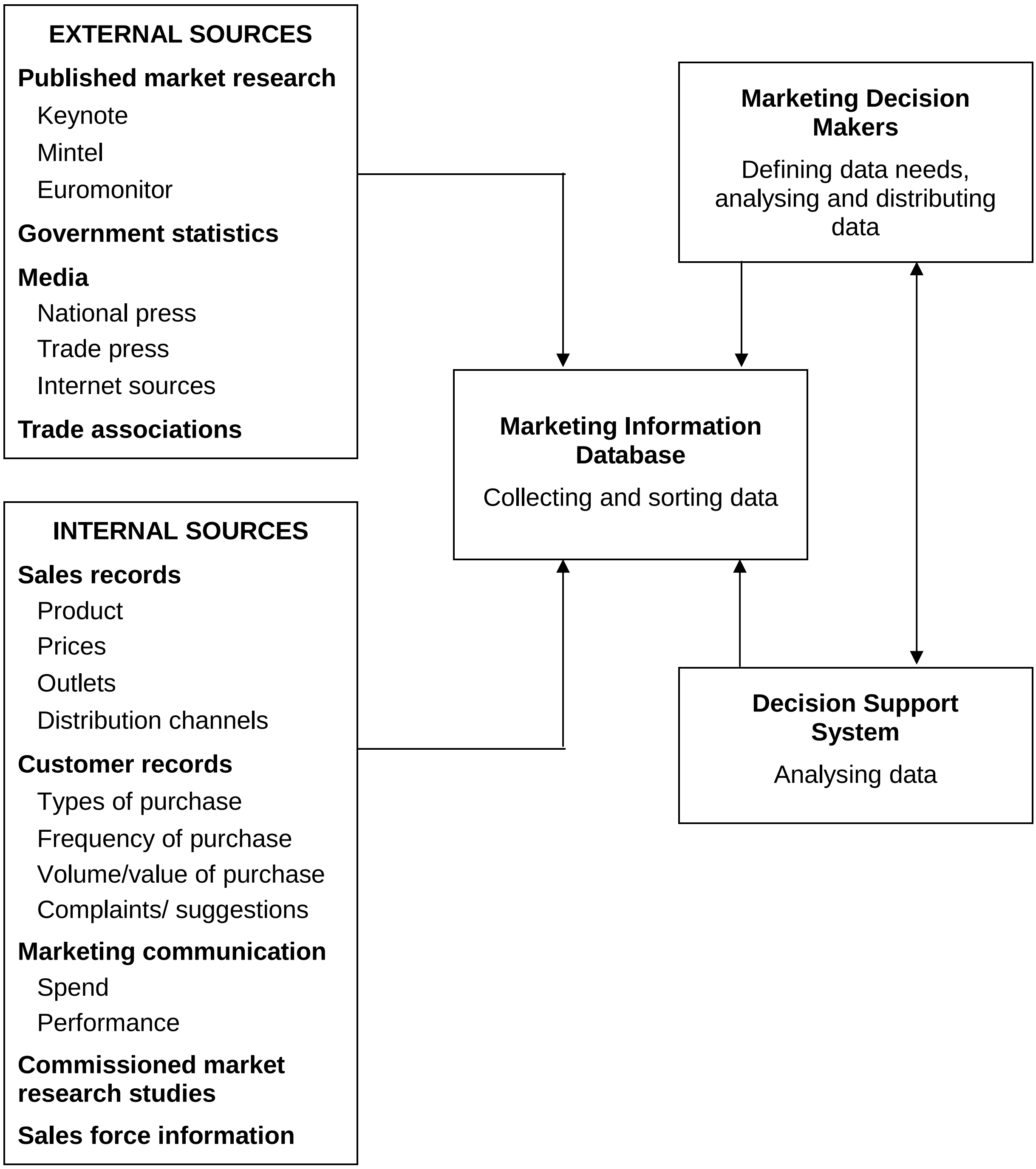
In a similar fashion to the way that the overall Management Information System is made up of a number of smaller information systems, so the Marketing Information System itself is said to consist of sub-systems.

The sub-systems are:

- ***Internal records system*** – the day-to-day recording of marketing activities
- ***Marketing intelligence system*** – the sources and methods used to collect information
- ***Marketing research system*** – the systematic and planned gathering of information
- ***Marketing support or analysis systems*** – the statistical systems used to analyse the information.

Collectively these sub-systems combine to produce an effective method of gathering and handling the necessary information for the marketing effort (see Figure 5.1).

Figure 5.1: The Marketing Information System



(a) Information held in a marketing information system

Fig. 5.1 illustrates a selection of the type of information that will be held on a MkIS. In reality a MkIS will hold details of any information which will help in the marketing effort.

(b) Benefits and problems of MkIS

Information gathered and held in the system can be used for a wide variety of purposes:

Customer analysis	Forward purchasing
Profit analysis	Planning and decision making
Sales force control	Sales forecasting
Competitor analysis	Improved data retrieval
Cost savings	Preparing product launches.

Each and every one of the above examples of how an information system can be used is important in its own right and, to a large extent they are self-explanatory.

It has been said that managers are only as good as:

- The information they receive
- How well they interpret it
- How well they act upon it.

This may, or may not, be a truly accurate statement, but we have to accept that information gained does help make life easier. So, by providing the right information to the right people at the right time in the right format from the best source at an acceptable cost, a marketing information system should:

- reduce uncertainties in adopting certain courses of action;
- improve decisions on which course of action to pursue;
- help in setting standards and measuring performance, and
- help managers to fulfil their responsibilities to the organisation.

This all sounds quite straightforward, but reality is never quite as easy and problems do occur. Basically, these centre around the ***nature*** and ***timing*** of the information. Information can be:

- Given too early and then it is forgotten
- Given too late to help with an action
- Doctored to make it look better
- Unverified so it is not credible
- Excessive and, consequently, ignored
- Insufficient for the purpose
- In the wrong format to be understood.

All of this indicates that a lot of information systems are not all that they might be. Problems can often be traced to the ***design*** of the systems being used.

(c) Design and implementation

It is extremely difficult to design a marketing information system that meets the needs of all those concerned because quite often managers:

- Do not know exactly what they need to know
- Want to have their own "special files"
- Wish to maintain an air of mystery/secretiveness
- Wish to preserve the security of their department.

However, the main reason for the difficulties in designing any system is that information requirements vary from one activity, or section, to another. The type of information required will depend on the type of decision making involved.

In marketing there are three basic flows of information:

- Incoming from the environment
- Internal operating data
- Outgoing to the environment.

The information system used needs to be able to cope with all elements of these information flows.

When designing a system, checks should be made to see if it is going to be effective:

- Is the system open/flexible enough to allow information in from the environment?
- Do the internal operating systems produce the best data that can be used to improve the services to the customer?
- Are outgoing communications reaching the right audience? etc. etc.

If the checks prove that there is an information blockage somewhere, the system needs to be redesigned to allow it to fulfil its purpose.

Discussions need to take place to make sure that the information processes gather only ***needed*** information rather than ***wanted*** information as there is often a major difference between the two. If information is gathered and stored on a "nice to know" basis it can result in wasted resources of time, money, space and effort – not to mention the costs involved in obtaining the information.

To have an information system does not always mean that it will work to its full advantage. People operate the system, and people vary in their capabilities. Therefore part of the design and implementation of an information system must address the issue of the "operators". Decisions need to be taken on:

- ***Who*** will have access, and ***when***
- ***Who*** will input – ***when*** and ***how often***
- ***Who*** will analyse – ***which methods*** will be used.

Training may be required for some, if not all, of the people who will be involved. At the very least, everyone needs to be aware of the objectives of the system and the benefits it can bring, even if they don't all understand the collection and analysis methods used.

Types and Sources of Information

Information systems have to be "fed" with data which, when considered and analysed, can be turned into intelligence that can be utilised by those who are in decision-making positions or need the information to carry out their day-to-day operations. Information can come from a multitude of sources and in various formats.

External sources	Internal (to the organisation) sources
Government departments	Past history of customer buying
Employers' federations	Sales force information
Trade associations	Return on investment
Professional institutes	Money spent on promotional campaigns
Private firms	Production capabilities
Public and private research agencies	Personnel details, etc.
Mass media – Newspapers, Magazines, TV and radio	Details of enquiries received from unserved markets
Banks	Complaints and suggestions
Embassies and Chambers of Commerce	
The Internet	

The information may be extensive or brief but will be basically one of two "types" – macro-statistical or micro-statistical.

(a) Macro-statistical Information

This is the data produced by public sectors which relate to a country as a whole. All countries produce this type of information and organisations use it a great deal.

Macro-statistics can help marketing organisations to:

- Assess the market share trends
- Monitor the size/growth of markets
- Count the numbers of potential customers
- See who the main competitors are
- See which countries are dealing with which
- Monitor regional patterns.

(b) Micro-statistical Information

This is the data, produced by private organisations, which is specific to the organisation. This type of data is compiled by monitoring the activities of the business – for example, production, sales, labour supply, return on investment, etc. In effect it is the result of the internal records system of the MIS.

Micro-statistics can help organisations to:

- Plan for the future
- Adapt their activities to meet changing market conditions
- Attack competitors who are missing opportunities
- Defend market share in the face of increased competitive activity
- Grow in market share or size as and when conditions dictate
- Shrink activities to defend themselves
- Consolidate forces before renewed action.

It is arguable as to which type of information is most useful to a marketing planner, but you should remember that information is the lifeblood of the planning system and, as such, should be kept "flowing" into the MIS. To keep it flowing, research is needed.

B. MARKETING RESEARCH

Research may be defined as:

The
gathering
analysis
storage
retrieval and
dissemination of information
to aid decision making

Research is a systematic process, as you can see by the model above, and is one of the most common and oft-repeated activities to be found in the marketing discipline. There are very good reasons for this.

If we accept that planning is a necessary activity for marketing effectiveness, it follows that we need to be as certain as we can of any decisions that we make. This certainty will only be present if we are confident in what we are doing.

- Confidence comes from knowledge
- Knowledge comes from investigating
- Investigating means research.

Why Research?

There could be thousands of answers to this question – for example:

- To find out costs involved in advertising
- To find out what customers want to buy
- To determine which distribution methods are more efficient
- To analyse what the competition are doing.

The reasons shown above, and thousands of others, could all be described as very valid reasons for researching. However, they are primarily "research objectives" in that they actually outline the task in hand. They highlight a problem which needs addressing and a proposal is then made to carry out research as a component of some form of assessment.

The main reasons that lead to research being carried out are:

- To reduce risks
- To help in planning and forecasting results
- To aid "mix decisions"
- To improve decision-making capabilities

To put it another way, research is a management tool which, in tandem with other available management techniques, can help a much more effective outcome to be achieved.

Types of Research

The primary classification of research is into quantitative and qualitative.

(a) Quantitative research

"Quantitative" comes from quantity – meaning numbers. Results can be in the form of numbers or percentages. This type of research is used to assess trends, potential and actual growth or decline, etc. Data is relatively easy to collect and analyse and, because of this, can be done by people who are not completely familiar with the product or market. However, researchers must understand what they are doing if they are to be effective.

(b) Qualitative research

Qualitative research is all about ideas and opinions, or likes and dislikes. Because opinions are involved it requires greater skills on the part of the interviewer and the analyst.

The results from qualitative research, if recorded on a Likert scale, or semantic differential basis, can be ***quantified*** and this is very common. For example, questions are posed and the interviewee is asked to give the opinion which is nearest to their own – ranging from "very true" through a possible of five minimum options to "very untrue" (see Figure 5.2).

Figure 5.2: Semantic Differential Scale

	Strongly agree	**Agree**	**Neither agree nor disagree**	**Disagree**	**Strongly disagree**
The service is good.					
The showroom is spacious.					
The literature is well-produced.					
The product is good value for money.					

Other distinctions between different types of research that you need to be aware of are as follows.

(c) Formal research

This type of research is where a plan has been developed and a system is set in operation. It is ***structured*** and is aimed at achieving an objective. Because it is formal, everyone has targets to aim for and everyone can monitor performance and achievement. Formal research is ***planned***.

(d) Informal research

Informal research is where information is gathered without a formal system in operation, e.g. overheard conversations at exhibitions, gossip, hints from friends or competitors, etc.

(e) Market research

This means an investigation into aspects of the ***market***: the size, trends, competition, legislation, barriers to entry, etc. Market research assists in the audit stages of marketing planning. It is a general view of the market and is used as a basis for decision making. It is really concerned with the comparative analysis of markets and market sectors.

(f) Marketing research

Marketing research is the investigations into how to reach, or serve, the customer and/or the end-user in the best way. Marketing research is concerned with the marketing mix elements – product, price, place and promotion and, in most circumstances, will include the "soft" elements of people, physical evidence and processes. This type of research is undertaken by an organisation to make sure that it is offering the best possible mix to its target audience.

It is not uncommon to get "market" and "marketing" research confused. It is worth reading the two paragraphs above repeatedly until you are absolutely sure you know the difference.

The confusion between the two may well be because of the fact that when researching ***markets***, the researcher will obviously take into account such aspects as the level of pricing which is being charged in the market, the type of distribution which is preferred by the current market, the nature of the promotional activity undertaken by the competition, etc. The researchers must do this if they are to form reasoned opinions – they then move on and carry out their own individual research to see which is the most appropriate mix to offer to the chosen segment and whether or not the organisation has the resources to cope with the ideal mix. If the organisation does not have the resources, further research may be carried out to see where costs can be reduced, etc.

Research Methods

The costs of researching can be very high – even if the organisation uses its own staff to carry out the entire process – so it must be done in a ***structured*** and ***logical*** way.

There are two types of research:

(a) Desk or secondary research

Desk research is carried out by using information which has already been published by another party – i.e. it is ***secondary***. Such information can be:

- Internal information, available in-house – past enquiries/sales records, etc.
- External information, available from sources which have reasons to publish information of different types – market surveys, annual reports, etc.

Desk research is so called because it can literally be carried out from a desk in an office. Using the Internet, telephone and postal services, researchers can obtain a vast amount of previously published material which can help in making initial assessments of a market.

Remember, though, that such information is secondary – i.e. not new, but second-hand. Because the information collected has already been published, it will have been prepared for someone other than the organisation wishing to use it. This can present a number of problems:

- It may be out of date
- It may be irrelevant to the needs of the organisation
- It may not be accurate (e.g. if collected for tax purposes)
- It may be based on a different statistical basis to that used in the home market, which will make nonsense of the information.

Desk research can help in eliminating unsuitable markets or segments, which can mean reduced costs and certainly reduced risk factors.

It is only when researchers are satisfied with the results of their desk research that an organisation should consider moving on to more specific ***field research***. Insufficient or incorrect information can lead to unnecessary costs and expenditure as this may mean that an entirely unsuitable market/sector was not eliminated at the appropriate time.

(b) Field or primary research

Field research is new (primary) research done by, or for, the organisation itself. It relates directly to the problem in hand and should never be undertaken until desk research has been completed satisfactorily.

Field research can be carried out by an assortment of means, including:

- visits
- questionnaires, and
- surveys.

All of these will involve some form of sampling. The size of sample researched will depend on the nature of the product and market being investigated, but the sample must ***always*** represent the whole target market. If it does not, it will not give an accurate picture of the overall outcomes which can be expected.

Field research should be carried out by people who have good knowledge and experience of both the product and the market itself. Failing this, they should at least be experienced in undertaking research.

Field researchers should be capable of producing unbiased reports and recommendations. A major problem to overcome in field research is personal bias on the part of a researcher, or the "self-reference criterion", as it is sometimes called. This simply means that people hold such strong opinions that they superimpose their own ideas on what they hear or see – thus negating the results of the research activity. This is more common in international research in that, very often, researchers think that methods used in their home market will work in foreign markets and they do not "hear" what is being said to them by the people being sampled.

Apart from aspects of interviewer bias which may occur, field research has two major problems – ***money*** and ***time***. It can be ***expensive*** in that external agencies need to be engaged to conduct the research or, if personnel from the organisation are being used, ***time*** will be lost while researchers are "away" from their normal duties.

As field research is based on people finding out about people – their likes, dislikes, etc. – it can inevitably mean delays. People being researched may not be available; people undertaking research may be ill or tied up with too many projects; people who are responsible for analysis may have too many projects, etc. When planning field research, potential delays should be considered and, where possible, some time allowed accordingly.

(c) Internet research

A substantial amount of research is now undertaken online. E-consultants estimated that in 2005 10% of all UK research was done online worth £160 million. This figure will certainly increase substantially in future years. The Internet is now used extensively for general research, online focus groups, questionnaires/surveys, pop-up surveys and extended e-mail groups.

Market Sensing

Market "sensing" relies on the level, or depth, of understanding of the external environment on the part of the marketing planner. If planners are fully cognisant of the influencing factors and any potential problems which may arise they will be able to bring added value (value judgment) to any decisions made.

This in-depth knowledge of the particular environment will mean that research will be more focussed and, therefore, there will be a greater possibility of success.

There can be no doubt that in-depth knowledge is of tremendous advantage. However, planners must be careful. Not only is "instinct" notoriously unreliable, over-confidence in one's knowledge or ability can lead to complacency and short sightedness. Unexpected events or competitive activities can and will create havoc if they are allowed to catch you unawares.

Another problem which crops up is that managers fail to communicate why they choose (or do not choose) to take certain actions as a result of "market sensing". This can create uncertainty in others and may result in resistance to proposed plans.

Organising Marketing Research

Marketing research exists to aid decision-makers.

The complexities of the market mean that external influences must be continuously monitored, with information supplied to managers in time for action. The main aim of the research process, then, must be that relevant information is gathered and assessed. Information should be the servant of the decision-making manager by providing the means to reduce uncertainty or risk.

(a) Constraints on the process

Information does not come free, it incurs a cost. Research's contribution to better performance must be worth more than its cost. Information in business is not worthwhile for its own sake.

Four major constraints are applicable to all forms of marketing research as follows (and the acronym CATS is commonly used as an aide-memoire):

- **Cost** – the budget is not elastic
- **Accuracy** –the data must be processed accurately so that the information is reliable within established parameters
- **Time** –the research must be completed in time to affect the decision
- **Security** –new product research, for example, is handicapped by the need for security.

It is important to call only for sufficient information to allow the decision to be made in conditions of acceptable risk. There is never sufficient budget (of money and/or time) to allow for all potential information to be gathered. Thus marketers grow accustomed to making decisions without access to complete information.

(b) The research plan

A plan for research is not really any different to any other plan. It should include all the normal elements of ***objective***, ***strategies*** and ***programmes*** and, above all, it should be ***logical*** and ***structured***.

The key elements of the plan are as follows.

- ***Outline the problem*** – could be investigation into new markets; research into buying patterns; trends in market size, etc.
- ***Define the objectives*** – obviously based on what the problem is
- ***Determine the target to be researched*** – crucial in a research plan
- ***Decide how the research is to be carried out*** – questionnaires; panels, etc.
- ***Decide who is to carry out the research*** – in-house or external agency
- ***Determine the time scales***
- ***Set or agree the budget*** – this may be done initially in order to help in making other decisions
- ***Implement the plan*** – set everything in motion
- ***Monitor and control*** – constant checking to make sure that all activities are being done and time targets, budgets, etc. are still on course
- ***Reach conclusions –*** report; action.

And, just as in every other plan, there may be amendments made owing to changes which take place. A plan always needs to be flexible enough to cope with adaptations to meet the current situation. Having said that, if the planning activity is carried out correctly, environmental conditions will have been anticipated and amendments should be minor.

(c) Responsibility for the process

Problem definition, the starting point of research, is the responsibility of the decision-maker ***not*** the researcher. In practice the two should be able to work together to specify the extent of the problem. The researcher must also know what it is that the marketer wishes to do, or what alternatives are faced. Only then does he know what to research.

Responsibility for the other stages of the research process is as follows.

- Possible courses of action — Decision-maker
- Planning the research — Marketing researcher
- Using secondary data — Marketing researcher
- Collecting primary data — Marketing researcher
- Analysis and report — Marketing researcher
- Decision(s) — Decision-maker
- Implementing action — Decision-maker.

Review Questions

1. Define marketing information systems

2. Research is classified into two main types. What are they?

3. What are the stages in a research plan?

4. Differentiate between field and desk research

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> Outline and describe the key types of information needed about customers so that effective strategic marketing decisions can be made. Give specific examples of the various research techniques available for collecting relevant customer data from the marketing environment.

ANSWERS TO REVIEW QUESTIONS

1. It is an organised set of procedures and methods by which pertinent, timely and accurate information is continually gathered, sorted, analysed, evaluated, stored and distributed for use by marketing decision makers.

2. Quantitative and Qualitative research.

3. The stages in a research plan are:
   - Outline the problem
   - Define the objectives
   - Determine the target to be researched
   - Decide how the research is to be carried out
   - Decide who is to carry out the research
   - Determine the time scales
   - Set or agree the budget
   - Implement the plan
   - Monitor and control
   - Reach conclusions.

4. (a) Field research is new primary research. It is original research.

   (b) Desk research is using research that has already been published. It is secondary research.

Study Unit 6

Auditing the Marketing Mix

Contents ***Page***

INTRODUCTION

In the previous two units, we have considered the analysis of the current position of the business only from the corporate perspective – looking at the internal and external environment, and the means of managing the information involved. Whilst that analysis included some aspects of marketing activity in broad terms, it did not provide a detailed analysis.

Now we shall examine the processes whereby that detailed analysis is provided –through a marketing audit. This evaluates current strengths and weaknesses in marketing terms and allows the corporate analysis to be focussed on the costs and benefits of individual marketing activities, and how well corporate objectives and strategy are integrated into the marketing effort of the organisation as a whole.

At the centre of this are the elements of the marketing mix – the variables which are used to influence demand. Each element needs to be analysed within the marketing audit and the relative strengths and weaknesses identified.

A. APPROACHING A MARKETING AUDIT

The more information that is available, the more effective the audit will be. However, it is not always worthwhile spending really enormous sums of money on data collection, since valuable judgments can often be made from outline information which can be obtained less expensively. The usefulness of detailed information has to be balanced against the ***cost*** of the research necessary in its acquisition.

The time spent on a marketing audit will be time wasted if the data examined is not ***accurate*** and ***comprehensive***. Auditors must, therefore, adopt critical approaches to data collection and validation. Some checking will be necessary.

Many aspects of marketing audits are qualitative in nature, and the question of "accuracy" of information then becomes rather vague. Subjective opinions necessarily differ, particularly where the appraisal of individual performance is concerned. Often, the adequacy of a marketing activity is linked to the ***interpretation*** of the ability of the manager in charge of the activity – the quality of personnel and the quality of operations often go hand in hand.

To obtain truly objective assessments of qualitative variables, outside consultants may prove valuable complements to internal staff. The existing management will know where (and how) to obtain data, but consultants can offer useful advice about the ***relevance*** of the questions that internal auditors intend to ask. Consultants, moreover, can provide insights into how answers to questionnaires should be interpreted.

Quantitative measures, even of qualitative aspects of the activity, should always be sought. For example, the "quality" of the corporate image can be researched and responses in terms of recognition and style measured. Without quantification, monitoring and control become almost impossible. A £2 million investment in a redesigned corporate livery and identity could not be evaluated without a clear picture of where you were starting from.

We noted above that strengths and weaknesses of each element of the marketing mix must be considered systematically. Wherever possible, results should be benchmarked and quantified.

However, the process of evaluation should not be undertaken too mechanistically.

- It is not just the individual elements of the marketing mix which influence demand, but also how they work in combination. This is a much more difficult thing to evaluate.
- Weaknesses can exist, but they are not necessarily important to the customer and so do not influence demand significantly. For example, analysis may show products are

10% more expensive than those of competitors, but analysis of customer behaviour may indicate demand is price inelastic.

One approach to this is the use of a sorting grid which places factors against customer importance measures. This will reduce the likelihood of under- or over-valuing a factor, as well as providing a common framework for comparative purposes.

		STRENGTHS	WEAKNESSES
		+10 +5 0	*0 –5 –10*
IMPORTANCE TO CUSTOMERS	*Very Important*		
	Important		
	Less Important		

At all times, the marketing mix should be approached from the customer's perspective. This can be done through market research or by just using empathy to put yourself in the customer's shoes. The customer perspective should include existing, target and potential and segments – those not using your services today may have a different view from regulars.

B. AUDITING THE PRODUCT PORTFOLIO

Products are the raw material with which the company has to work.

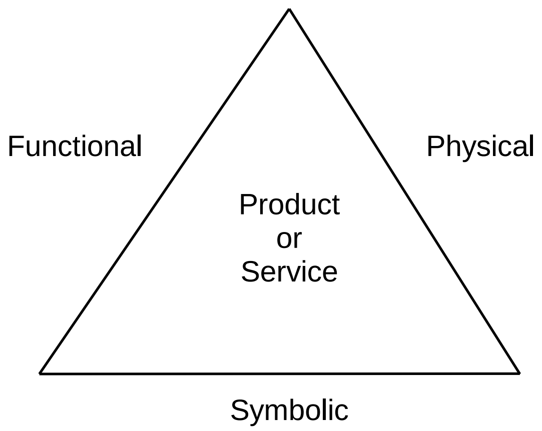
They can be moulded, modified and represented to the market in a variety of guises, but at the end of the day the company achieves its objectives by selling products or services. The capacity you have today is finite. Tomorrow you may be able to expand or introduce a new range, but today you have to do your best with your current product range or mix.

As part of the marketing audit you need to assess the current product portfolio. In organisations which are very complex with a diverse product range, this activity may be best done within smaller groups or Strategic Business Units.

As the product itself represents a significant "P" in the "4Ps", the marketing manager's views and opinions on product planning issues are paramount. But other function specialists, particularly those involved in Production, Research and Development operations, will also have views, and it is appropriate that key strengths and weaknesses in these areas are identified within the marketing audit if they are relevant.

We also need to be aware of the different perspectives from which the product may be viewed.

- From the **business** perspective the product represents an investment in resources to which some value has been added.
- From the **consumer's point of view** the product is a tool for solving a problem. It provides benefits which can be seen as:



Assessment of the strengths and weaknesses of a product or product range needs to take into account all three dimensions of the product as perceived by the consumer.

Key Issues in Product Policy

Product policy is concerned with two key issues:

- Is the company's product mix right for the market and for the company?
- Are the products within the mix being marketed as effectively as possible?

The two issues are independent. However, if the company is failing to obtain maximum returns on an existing product because of poor marketing, the two may become interdependent, and this may have a bearing on the decision to discontinue certain lines, or to introduce new products.

The first part of this question is, apparently, simple but it is, nevertheless, strewn with pitfalls. In theory, the ultimate arbiter of the acceptability of a product or a group of products should be the consumer. However, does that imply that a company should launch product after product, and simply let the market decide? Alternatively, can we assume that consumers are capable of being manipulated into wanting whatever they are given, with the implication that companies should be, primarily, concerned with "internal" criteria – raw material availability; plant capacity; competitive strength; margins, etc. – in deciding the optimum product range? The continued high incidence of new product failures suggests, on the contrary, that manufacturers neglect the consumer at their peril.

The second part of the question refers to the fact that, whereas a product might be a good one with a ready market, that product might just not be right for the company. Obviously, in this case, it is the "internal" criteria which are the deciding factors.

The common starting point is the ***product audit***. As its name implies, this is an exercise which every company must perform regularly to determine, as well as it is able, the strengths and weaknesses of its existing products.

Techniques and Planning Tools

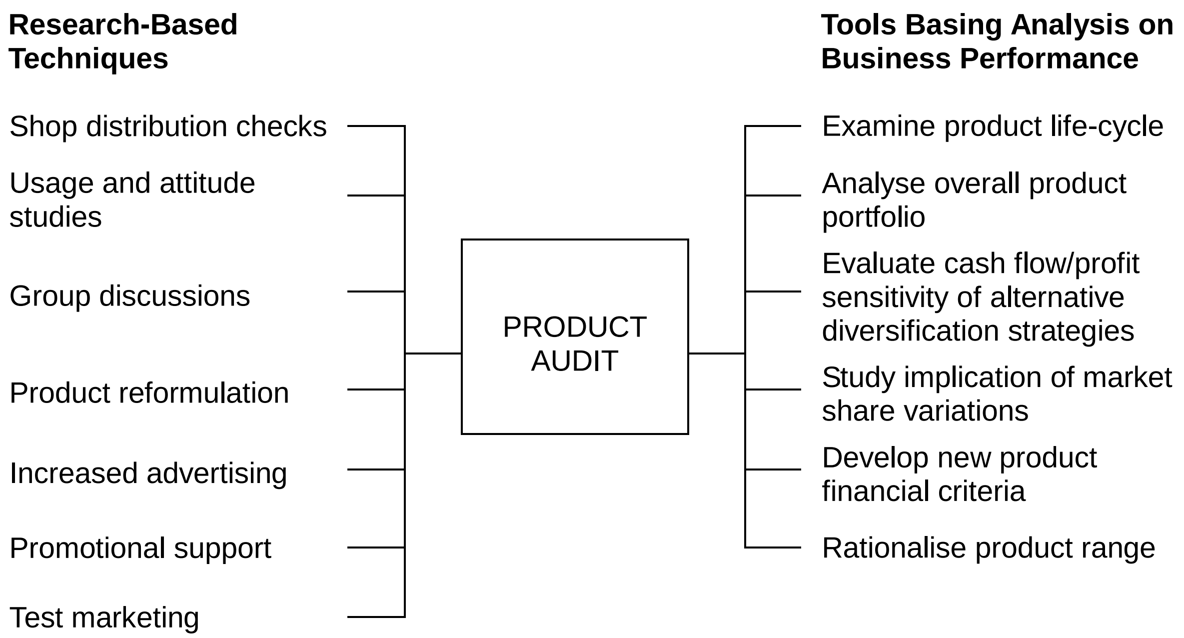
Numerous techniques and planning tools have been developed to assist marketing management. Some, such as brand share/expenditure models, are very sophisticated, whereas others, such as Pareto's 80:20 "rule", provide simple, but surprisingly accurate, shorthand. Broadly speaking, these tools fall into two main groups:

- Those which are based on the premise that market research can determine changing market needs with sufficient precision to justify using consumer requirements as the criterion of product policy.
- Those which, while recognising the paramount importance of obtaining consumer approval, place more emphasis on business performance – product margins,

influences of changes of product mix on overall profitability, differences in scale of production between competitors.

The main such techniques are summarised in Figure 6.1 and we shall be reviewing some of them later in the unit.

Figure 6.1: Product audit techniques



The Product Audit Check-List

Before going on to review some of the techniques and tools to aid with product analysis, we should identify the key areas which should be included in a thorough product audit.

The following list identifies those issues which are of general significance. It is likely that there will be others which are specific to particular product(s), so as you work through those identified here; think about how you would amend them to suit specific sectors and product categories.

Typically, the check-list will cover, for each major product or product group, such aspects as:

- Market share
- Consumer likes/dislikes
- Historical sales trend
- Seasonality
- Proportion of total company sales
- Contribution margin
- Proportion of total contribution
- Plant capacity and level of use
- Return on investment
- How it fits into the firm's product mix
- Product definition
- Product benefits.

(These last two elements are examined in detail later in the course.)

There are also a number of specific questions which could be asked and which may help to focus on particular strengths and weaknesses.

(a) How balanced is the product portfolio?

(b) Is the product mix:

- Broad?
- Deep?
- Consistent?

(c) Are there appropriate objectives for each product line?

(d) Are they being achieved?

(e) Is the product portfolio consistent with the overall corporate mission and positioning?

(f) What are the opportunities for:

- Deleting products?
- Extending through modifications?
- New developments?

(g) What are the strengths and weaknesses of the various product lines in terms of:

- Functionality?
- Image?
- Packaging?
- Costs of production?

(h) For each product line, what is our competitive advantage?

(i) How do our products compare with those of the competitors?

(j) What product-based factors are critical in the consumer's purchase decision?

(k) If new products are featured in the case, what NPD process is being used and how effective is it?

The Product Mix

Most companies and organisations produce more than one product or service. The term ***product portfolio*** or ***mix*** refers to the combination of products offered by the company. It is necessary to analyse the organisation's product mix, describe it, and evaluate it.

The following terms are commonly used to describe a product mix:

- ***Depth*** – which refers to the number of products or brands offered within any range. A manufacturer of kitchen products may offer a range of toasters. If there are eight models of toaster available within the range, the mix could be described as deep. Deep ranges might indicate a differentiated marketing strategy targeting different market segments with each toaster option.
- ***Breadth*** – A broad product mix refers to the number of lines or ranges which are offered by the company; so if our kitchenware manufacturer has 15 ranges, from kettles to microwaves, you may want to describe his mix as broad.
- ***Consistency*** – refers to the amount of apparent synergy between the products offered. All kitchen products would be consistent; if, in addition, they were all electrical products, which would increase the consistency.

Note that there is nothing good or bad about a product mix which is deep or shallow, consistent or inconsistent. These are simply ways of describing what the mix is, ***not*** value judgments about the range.

As with many techniques of analysis there are often grey areas. For example, you may be unsure if a particular product is an extension of an existing line, or the start of a new range. However, it does not really matter. The technique is a means of helping analysis and description, but you should not get too tied up in detail.

Managers must decide what proportion of their resources will be dedicated to each product or product range. Again the skill in getting this balance of products right is about assessing ***current*** demand and supply, but ***future*** assessments of demand and competitors' activity also have to be taken into account.

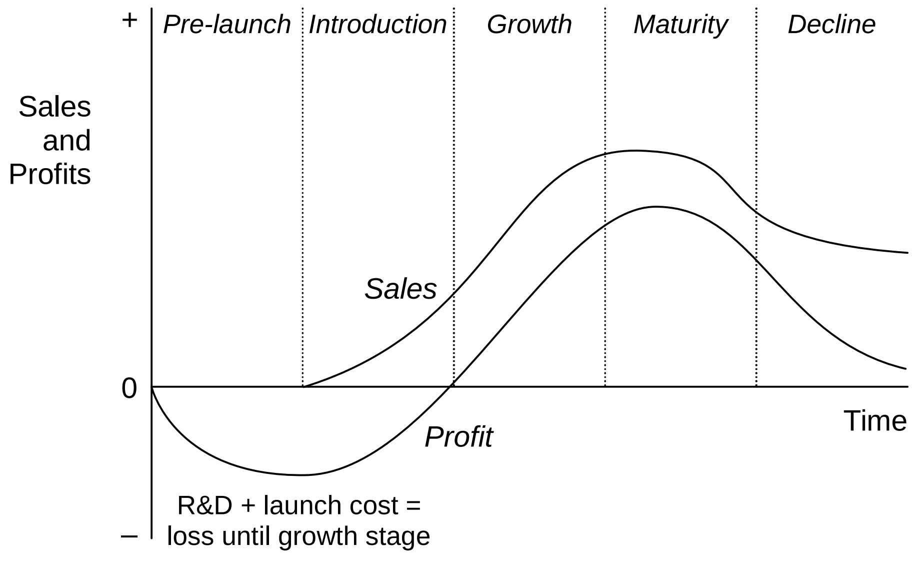
Most companies would expect to have a portfolio of products which are made up of goods and services at different stages of their life cycles. This way they can provide the balance of today's and tomorrow's breadwinners and, by spreading their resources over a range of products, they can reduce the business risk of unexpected changes in demand.
(Note, though, that many companies are guilty of ***product proliferation*** which can spread resources very thinly and might lead to lower financial performance.)

Using the Product Life-Cycle Concept

You should be familiar with the concept of the product life cycle (PLC) from your earlier studies. Here we shall concentrate on its use as one of the management tools which can help to analyse a company's current position.

Once you have plotted a company's product on the PLC, you can begin to use it to analyse and predict the situation the company faces.

Figure 6.2: The product life cycle



Although price may change through the life of the product, thinking about the sales volume line as representing the magnitude of cash flow is helpful (sales volume × price = total revenue/cash flow).

Profitability does not provide the same curve as sales, so a mature product, providing good cash flow, does not provide the company and shareholders with profit growth, as profit has already levelled off at the maturity stage and is, like sales volume, no longer growing.

This lack of profit growth is unlikely to be acceptable to shareholders. To avoid it, managers have to forecast where their products are in terms of sales and profit growth and manage the portfolio of products to provide continuity and growth for the organisation.

The PLC concept is a very useful tool for doing this. Again, you should take care to use the concept as an aid, not a hindrance – you should not regard it as a precise measuring or forecasting tool, but as a valuable, approximate indicator.

By planning the product portfolio, PLCs can be linked to provide cash flow + profit growth. This is where the critical element of ***timing*** comes into product planning. Too late, and the business is starting to be short of profit growth and cash flow; too soon, and it fails to maximise the contribution from the mature products.

If we consider an existing portfolio of products and establish their position on the product life cycle, then it is possible to consider the opportunities for extending the life cycle of mature products and the desirability of introducing new products to the portfolio.

The advantage of using PLC in this way is that the analysis can be done quickly and does not need to be highly accurate to give you a clear picture. It can also be a useful format for presenting analysis of the current position to the examiner.

As with all models and frameworks, there are usually also some disadvantages; the plc is no different. Many believe that the plc is a useful guide to what might happen rather than a prescription of what will happen. At best it does provide some useful indications at each stage. Some of the concerns are that it is difficult to predict how long a product will take to move through the lifecycle. Fashion, for instance, will usually move through very quickly, whereas the Mars Bar has been in the mature stage for over fifty years. Some products may fail and never reach the mature phase whilst product revitalisation may substantially alter the shape of the lifecycle. You should also note that products might be at different stages of the lifecycle in different parts of the world. Take the mobile phone, for instance. It may be mature in the UK but in the growth stage in parts of Africa.

Despite these weaknesses the plc is a well-used concept. When considering product marketing strategies you should take into account other considerations as well as the plc.

Other Approaches to Portfolio Analysis

You are likely to be familiar with other models and techniques of portfolio analysis from your other studies. There is no single, correct method – they are all tools of analysis which you are free to select from, modify and use.

Whilst the techniques you choose to use are a matter of personal choice, we would recommend that you keep them simple. Do not be afraid to modify the techniques to ensure they are relevant. Remember, also, that some of these tools can be used to help in the evaluation of alternative strategies and most can also be used effectively to communicate strategy.

(a) Boston Consulting Group

The BCG approach plots, on a grid, a product's relative market share against growth in that market. The grid is divided into four categories reflecting combinations of high or low market share and high or low market growth.

From the product's position on a grid, products may be categorised as cash cows, stars, question marks or dogs (see Figure 6.3). The analysis can be performed on each product in a range and the relative position of each gives a snapshot of all products in the portfolio or SBUs within the business overall indication of the portfolio. This contrasts with the use of the PLC which is more normally used to forecast the trend in sales of a product over time.

The benefit of the BCG analysis lies in the fact that it forces managers to think about future market growth and the company's competitive position.

Figure 6.3: The BCG Matrix

Relative Market Share

High *Low*

10x *4x* *2x* *1x* *0.5x* *0.1x*

Market Growth (%)			
	20 *15*	**Stars** Modest + or – cash flow	**Question Marks** Large – cash flow
	10 *5*	**Cash Cows** Large + cash flow	**Dogs** Modest + or – cash flow

(Relative market share is measured on a logarithmic scale against the share of the firm's largest competitor. A value of 0.5 indicates sales volume of 50% of the biggest competitor, whilst 3.0 indicates the firm is the market leader with 3 times the sales of its nearest competitor. 1.0 indicates joint leadership.)

Ideally, firms are seeking a balanced portfolio with the stars, cash cows and positive dogs paying for the new development of the question marks. When analysing the portfolio you should:

- Look for the balance
- Consider ways in which dogs and stars can be converted to cash cows
- Look for ways of turning question marks into stars
- Make sure there are not too many question marks and stars indicating inadequate funding for the thorough development of any one new product or its successful development of potential.

BCG analysis is a fairly crude way of identifying potential cash flow problems facing the business. It is a useful tool but needs to be used with caution. The BCG grid assumes a direct relationship between market share and profitability. This is, to say the least, an over simplification of the issue. Market share can be important, but other factors need to be considered in evaluating its role in profitability. Today many marketers believe that market attractiveness equates to more than simply the growth rate of a market and a products respective market share. This has led to the growth in popularity of the market attractiveness- business position model.

(b) Market Attractiveness – Business Position Model

This is another two-dimensional matrix but rather than using single measures to define the vertical and horizontal dimensions this model employs multiple measures.

- The vertical axis – market attractiveness

  This will include the strengths and resources that relate to the market.
  (e.g. competitive intensity, industry sales, economies of scale, seasonality etc).

- The horizontal axis – business position

  This will include such factors as sales, relative market share. R&D, price competitiveness, product quality, market knowledge etc.

Note: Each company using this model will select its own criteria.

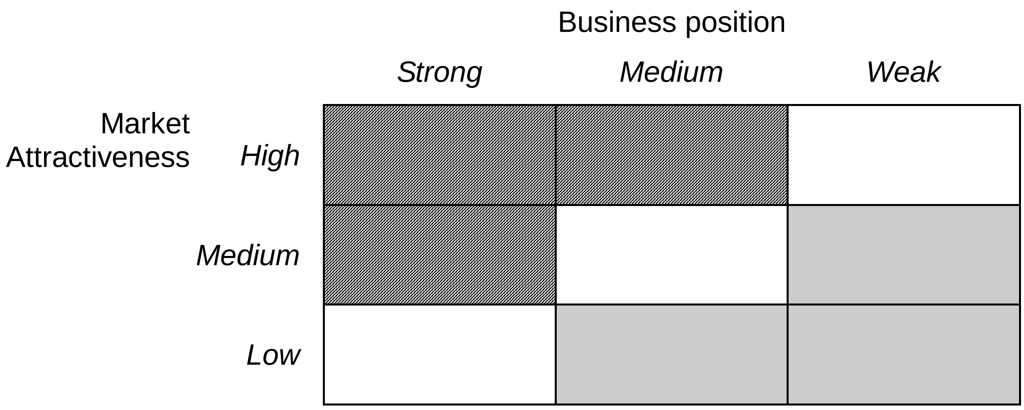
If a firm is to be successful it must be working in "attractive" markets, i.e. ones which generate profits, have low risks, are growing, etc., and it needs to have competitive advantage in those markets.

This model provides considerable flexibility because it allows you to identify the criteria by which you are going to assess these two dimensions. When the current position of products or SBUs is plotted, the manager is advised to think about the future development of that market. The cells of the matrix then give a clear indication of the investment and management behaviour which might be appropriate.

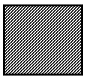
(Note that this model is also particularly helpful in not-for-profit sectors where simple success measures like market share are inappropriate.)

The second consideration is from the business perspective to help identify the likely competitive advantage of a product.

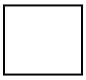
Figure 6.4: Market attractiveness – business position model



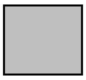
The particular business strengths associated with the positions on the grid are as follows:



High overall attractiveness: Invest for growth – these are the best positions to be in attractive markets.



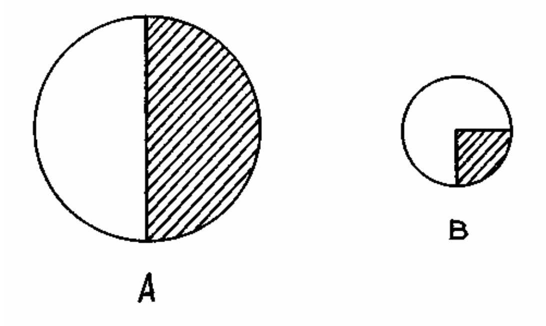
Medium overall attractiveness: Invest selectively and with caution, but the markets are mediumly attractive.



Low overall attractiveness: The business is weak in unattractive markets.

Note that, when placing products or SBUs on the portfolio matrix, it is normal to use a circle to indicate the overall size of the market. Bigger circles equal bigger markets, and the shading of an area indicates the firm's current share of that market.

Figure 6.5: Indicating market size and share on the Market attractiveness – Business position model



Here, A indicates a market about twice the size of B, with the operation having 50% of A and a 25% share of B.

C. THE STRATEGIC ROLE OF PRICE

Pricing is one of the key elements of the marketing mix, and pricing strategy is a key part of planning and therefore must be carefully reviewed. This is because:

- Price influences sales value through its effect on demand (most obviously where demand is highly price elastic).
- Price/volume relationship is one of the key control measures for marketing management.
- Prices obtained determine the margins and profits which the company can secure.
- Pricing, where "market-based" rather than "cost-based", is an important indicator to consumers of quality, value, image and status.
- Competitive pricing has a direct bearing on cost control and improvements in productivity.

The determination of cost and price is an essential step in planning and controlling the marketing mix. What, for example, do we mean when we say that the cost of an item is £x?

Does this represent:

- ***total cost*** – i.e. material + labour + overheads
- ***added value*** – i.e. labour + non-bought-in overheads or
- ***marginal cost*** – i.e. cost per additional unit?

How is the sale price arrived at – through consumer attitude surveys, competitive pressures, or government decrees? Is the level of profit gained (if there is any profit at all) too much, too little, or about right? How do we know – and what are the commercial/political/social implications of our answer?

These are all questions which need to be addressed when considering the strengths and weaknesses of pricing strategy. Far from being easy, pricing strategy and planning are complex and fraught with uncertainties. Yet, because it is the element of the overall marketing mix most overtly concerned with numbers and their relationship, there is an understandable, widespread, and fallacious belief that its application is a "scientific", controllable process, subject to known rules and consequences. The marketing manager is confronted, on the one hand, by the economists who consider that he or she should be capable of manipulating price to achieve any particular outcome and, on the other, by politicians who are convinced that he or she is, in fact, doing so.

Pricing Objectives

A good starting point for any review of pricing is to identify the intended outcome.

Clarification of the overall pricing objectives is important if strategy is to be effective. However, you might find that the objectives set suffer from inherent weaknesses:

- **Lack of precise definition**

  For example, "to maximise profitability medium term", however laudable, is too vague to be helpful.

- **Lack of realism**

  For example, in a competitive market situation, a declared objective to increase market share while at the same time improving margins through price increases would provide very questionable guidance.

- **Inconsistency**

  It is not uncommon for the statement of company objectives not supported by a clear statement of strategy, to consist of the potentially-conflicting aspirations of various functions within the organisation. For example, a finance director anxious to increase prices to improve short-term cash flow; a production director wishing to increase sales on major lines to improve operating efficiencies; and a marketing director wishing to increase market share in the medium term.

The Marketer's View of Price

Price is undoubtedly a critical decision directly affecting both demand and the financial health of the business. However, marketers need to be clear on the role they expect price to play within the overall marketing mix.

It is often the intention of marketing strategy to make products more price insensitive or inelastic. This is done by emphasising unique features and investing in techniques of product differentiation. If successful this strategy reduces the role of price as an influencer of demand.

It is important to remember this when reviewing pricing strategy. Customers are making decisions based on their perception of value for money.

This could be expressed as:

$$\frac{\text{Utility/Benefits}}{\text{Price}}$$

Six elements of the marketing mix add benefits, so the equation could be more exactly stated as:

$$\frac{\text{People/Physical Evidence/Processes/Product/Promotion/Place}}{\text{Price}}$$

Strategies which add value rather than lower price can be very effective. Price is ***not*** the only variable which can influence demand.

It is also important to bear in mind that it is the customer's perceptions which are important here – lower prices are often associated with lower quality and value.

The Pricing Audit Check-List

For most organisations in the private sector the bottom line is critical and any review of pricing needs to be undertaken in that context. Thus, an analysis of the price and profit issues provides a useful starting point for developing a pricing check-list.

Selling Price	–	Costs	=	Profit
Would lowering it increase sales volume?		Would a higher volume lower average costs?		What happens to profits if the selling price changes?
Could we get more selling to different market segments?		Are there potential cost savings through modifications of the product?		What happens if the mix of customers or products changes?
How does it compare with competition?		How efficient is the distribution strategy?		Is the profit margin sufficient, in line with competition and expectations?
Do customers perceive it to be good value for money?				
Is it the same for all customers?				

From this, we can develop a set of questions upon which to base the pricing audit:

(a) Are the pricing objectives appropriate?

(b) Are pricing decisions integrated with other marketing mix decisions?

(c) Is pricing strategy taking into account:

- Stage of product life-cycle?
- Pricing of competitors?
- Customers' response to price?

(e) How consistent is pricing throughout the product range?

(f) What is the policy on discounts and differentiated pricing? How does this affect profits?

(g) Is sufficient use being made of price promotions?

D. AUDITING PROMOTIONAL ACTIVITY

Decisions on price are shared with finance, and on products with operations and R and D, but the area of promotion is the marketer's special province. Many still think, mistakenly, of marketing and promotion as one and the same thing. This is incorrect and much too narrow a view, but promotion is the element of the marketing mix likely to absorb much of the marketing resource and by which the effectiveness of the marketing function might be judged by colleagues. It is also an activity which, without clear planning and control, can eat up scarce resources for very little return. In the past there has been a tendency to build up a mystique about promotion and how it works. Lord Leverhulme is supposed to have said in 1910 that "half one's advertising is wasted – I wish I knew which half". It may have been true then – but today's techniques are causing marketing managers to rethink radically their segmentation and promotional policies and are also providing a very close control over the budget.

Today's marketing manager should not have any wasted budget – clear and structured analysis provides the insight into what works and why.

Guidance Note on Terminology

"Promotion" is a technical term that ***you must use correctly***. Academic definitions are of little practical use here. It is far better to understand what the terms mean in actual use – what benefit you gain from each element.

(a) Marketing communications

This is a global term which covers all communications with a market in marketing nature both without and within the organisation – i.e. to any stakeholder group.

(b) Promotion

This embraces all the tools of marketing communication combined, when used to promote (sell) the "package".

(c) Promotion mix

This refers to the four individual "tools" that make up promotion:

- ***Advertising*** – projection of a message in media that is paid for
- ***Public relations (PR)*** – whose role is to protect, project, and promote without paying for space
- ***Sales promotion*** – triggering action at point of purchase
- ***Personal selling*** – person-to-person sales contact.

(d) Positioning

This is the perceptual concept that distinguishes a package, from the consumers' point of view. Positioning is based upon the following combination of factors:

- product characteristics or consumer benefits
- price/quality/value
- brand values
- use
- user product class/competition
- cultural symbolism.

Positioning statements are succinct descriptions of the exact position that the product is to take in the minds of the target market. Great care and considerable time are taken to ensure that such statements are accurate and detailed. They will become the focus for all marketing effort and so the creative management time devoted to them will be repaid in long-term benefit.

It is difficult to challenge a competitor who holds a position. Usually it is better to define, establish and protect a position that is unique in the market.

What Promotion is Being Undertaken?

This first stage in a promotional audit is to identify the full extent of the promotional activity. Some aspects may not be directly controlled by the marketing function – for example:

- Sales activities may be a different function
- Vans and cars may have corporate livery
- Senior managers may be involved in corporate hospitality and sponsorship
- PR is sometimes handled at corporate level
- Communication to various publics, including shareholders and distributors, may be generated from elsewhere in the business.

Thus, the key initial questions are:

- What is currently being done?
- By whom?

- Why?
- How successfully?

Promotional Objectives?

An excellent starting point for reviewing promotional performance is the promotional objectives:

- What is intended to be achieved?
- Is this realistic?
- Is it happening?

There is little point in having clear promotional objectives if they are not subject to control. Lord Leverhulme did not know if half his advertising spend was being wasted; we can be much more precise.

Consumer research techniques enable us to measure what is happening with a reasonable degree of accuracy. A company that has researched over the years will have records of promotional effectiveness which will show trends. These will enable them to pinpoint the cost-effectiveness of their work and so gain a major competitive advantage.

There are ***three*** main promotional objectives:

- To create awareness
- To affect attitude
- To generate action (sales).

These are the bases for our controls, so we shall examine them in more detail.

(a) Creating awareness

Awareness is measured by tests of recall and of recognition.

- ***Recall tests*** are carried out first by well trained market researchers. Recall tests discover which brands are actually recalled (remembered) without prompting or help. They indicate the brands that are fresh in the mind, but – interestingly – it is not always the brand that is remembered. Heineken found in the early days of their classic campaign that customers were asking not for Heineken, but for "that beer that reaches parts other beers cannot reach"!
- ***Recognition tests*** follow recall. The respondent is shown a list of brands and asked which are recognised. Sometimes a "blind" is put in, a brand that does not actually exist. Often this is "claimed" by a respondent, and the number of such claims helps in judging the value of the research.

(b) Affecting attitudes

Attitudes are very much harder to assess. They are so subtle, and complex, that specialist and highly skilled researchers must be employed. Direct questions cannot be asked because they may elicit inaccurate answers. Respondents in their replies may:

- State what they think we want to hear (people are so nice)
- Wish to hide something they feel may show them in a bad light
- Accentuate something that shows them in a good light.

It is necessary to use "***depth research***". Groups of people are gathered together with a trained researcher, and are encouraged to talk about and around the subject. From all that is said, the researchers extract the underlying attitudes and then report back.

This technique is highly dependent on the skills of the researchers and you should be very careful in using the information until trust has developed over a period.

(c) Generating action (sales)

We shall review methods of evaluation in this area under the headings of public relations, sales promotion and personal selling.

- ***Public relations (PR)***

  PR activity is extremely difficult to evaluate. It is not simply a measurement of column centimetres and a calculation of their value had they been paid for. This is partly because this is unrealistic, but mainly because PR obtains space within news columns – space that is denied to advertisers. Further, it may obtain coverage under the by-line of a journalist or journal and so achieve the credibility of its host. It is worth considerably more than the equivalent bought space.

  Naturally there is need to clip coverage (and to record radio and TV), but true evaluation comes from the control established over clearly set communication objectives. PR has a job to do. That job should be broken down into components, objectives set for each, and a budget established.

  Evaluation will often have to result from commissioned surveys, from channelled feedback, and from a general level of satisfaction that PR is doing a good job. This last item sounds vague – but you must remember that PR is part of the overall promotional budget, and that if overall promotional objectives are attained within budget, it is a matter of judgment how best to break it down. This breakdown can be done most satisfactorily as a result of experience, and from the objective/task management of promotion.

- ***Sales promotion***

  This is much easier to evaluate. Working as it does at the point of decision it is tied much more closely to results than the other tools. The Mateus Rosé wine offer – "buy three, get one free" – worked very effectively.

  (i) It sold three bottles at one time – thus blocking competition

  (ii) It generated re-use – thus creating/reinforcing preference

  (iii) It provided a fourth bottle – an extension of (ii)

  (iv) It generated a database of customers, by forcing proof of purchase to be sent through the post (a redemption coupon was returned for the fourth bottle)

  (v) It encouraged a further visit to the off-licence – and so was popular with the trade.

  A promotion such as this can be carefully costed. With experience, the uptake can be forecast accurately and the number of offer coupons printed can be far more than will be redeemed. In volume, they give prominence to the brand, and they ***are*** needed if the level of uptake is to be achieved.

  Sales promotion is rapidly being adopted outside retail – life insurance companies offer a calculator providing your reply is made within seven days, Municipal and General Motor Insurance offers a Duracell torch, and the AA offers a road map providing a request for a quotation is made.

  Note that the promotions are tied not to ***sales***, but to ***response***. It is the product that has to sell itself. The quotation, it is felt, will be sufficiently attractive. Getting a response is one of the most difficult activities in insurance selling, so it is an obvious area for sales promotion, and response is easy to evaluate. Evaluation should, however, be in terms ***both*** of requests for quotations ***and*** the sales that result.

Industrial marketing generally has little use for sales promotion. However, it is certainly used to encourage middlemen to stock, and sell. It is also used to secure a response from the end user. In West Africa, one paraffin supplier with the best quality, the best distribution and price parity, found itself out-sold by a rival whose product was found to contain one 50 cent piece inside every five-gallon drum – a sales promotion that was targeted at the customer! But – it was easy to cost, and to control, and what is the difference between this and the airlines' sales promotional campaigns?

Airlines run travel points schemes to benefit frequent travellers. Corporations found that executives were routeing themselves on specific airlines and choosing the longest route – for personal gain. Similarly, fleet owners found that drivers were buying at garages offering personal incentives, rather than at the cheapest. The solution, in both cases, is some form of corporate card whereby the employer gains the benefit, not the employee.

- ***Personal selling***

  This is not difficult to control, yet gives considerable trouble in many organisations. Lack of precise definition is generally the problem. Coupled with indecisive management, it means that there is neither clarity nor purpose. The result is confusion!

  The types of control that are in general use are the following:

  (i) ***Number of calls made*** – the more calls, the more chances to sell! What constitutes a "call"? Is it when the buyer is seen? For how long? Where? Was any attempt to sell made? Was only the secretary seen? If so, does this count? (A secretary is often a valuable call, since he or she is a strong influencer on access, a provider of information, and a potential influencer on decisions.) Therefore on its own this is not a very useful measure.

  (ii) ***Ratio of orders to calls*** – often used in conjunction with (i) with the purpose of establishing the quality of call. But what if the number of calls cannot be verified, if the size/profitability of order is not shown?

  There are many assumptions made in (i) and (ii), but they lend themselves to the management style that relies upon computer-generated data. They can result in a salesperson receiving a commendation for 100% order to call when he makes 27 calls in a day, and takes 27 cash orders each of £5 value!

  (iii) ***Achievement against sales target*** – this puts the number of calls made into perspective. Calls should still be reported to update customer records and to substantiate expense claims, but they are no longer a prime source of management control.

  Target achievement as the only basis of control leaves territory management in the hands of the sales force. If individuals hit target, well and good; if they exceed it, even better!

  Problems occur when the targets are badly set, and if the sales force comes to believe that achieving target is an automatic signal for management to increase target next time around. In the opinion of some members of the sales force, targets are almost always badly set. They can become a permanent gripe, and an albatross around the neck of the sales manager.

However, properly constructed, with the assistance of the sales force, accepted (not imposed) targets are a fine way of control in certain circumstances. They are particularly useful when:

- There is no upper limit on product supply.
- There is no requirement for a personal visit – the salesperson is free to determine how he gets the business. He may choose to work from home, by telephone, which can be good in the short term, but a disaster long-term.
- There is no requirement for cold calling, nor for business extension.

Targeting must be used carefully. It must be seen to be fair, and accepted as fair. It lends itself to the type of business where commission only is inappropriate, but where salespeople's remuneration needs to be linked to achievement of sales.

(iv) ***Achievement against behavioural target*** is not widely used, because it is extremely hard to monitor. Given that we know a prospective client is moved down a continuum of behaviour, it makes sense to monitor achievement in terms of behavioural change. This provides vital data, but no revenue except at and after the intent-to-buy stage. There is need for very good training, and for excellent communications if this targeting is to work satisfactorily.

(v) ***Profitability (overall or by order)*** – the bottom line is profit. The sales force is motivated by profit, not volume.

An order taken and delivered, but not paid for, is a loss to the firm. Responsibility for the whole sale – to include credit control and cash collection – lies with the salesperson. Incentives are paid only when each sale is complete – when each invoice is paid.

(Salespeople rewarded only on volume can knowingly sell to a "dodgy customer". It is even known for the credit controller's view to be overridden by a sales team that has no worry about cash collection. Irresponsible, yes; human nature, yes!)

To introduce profitability as the criterion, it is not necessary to reveal corporate costings. All the sales force needs is a base line "cost" beyond which it must not negotiate. This is the bottom line of acceptable profit to the company and can, in exceptional circumstances, be as low as marginal cost.

In practice, a combination of several of the above basic methods will be used. The mix should suit the nature of the company's business, its markets and its salespeople.

The Promotional Audit Check-List

Based on the above discussion, we can identify the following questions as central to an audit of promotional activities.

(a) What are the objectives, and are they consistent with the overall marketing objective?

(b) What resources are available and are they being used

- efficiently?
- effectively?

(c) Are promotional decisions based on reliable customer and market research?

(d) How does our promotion compare with the competition's?

(e) Is the whole range of the promotional mix used:

- consistently?
- creatively?
- in a coordinated way?

(f) What feedback on promotional effectiveness is available?

(g) What are the strengths and weaknesses of:

- the corporate image?
- the brand image?
- our advertising?
- our sales promotion?
- PR?
- sales force activities?

(h) How is the promotional budget set? Could it be used more effectively?

The Internet

In many ways the Internet is revolutionising communication and much of this is centred around the website. For many people the Internet is replacing the telephone, the fax and the letter. Internet marketing is useful to any size and type of organisation and can be a cost effective tool when integrated with traditional methods. It is particularly valuable for SMEs, where lack of resource is often a major issue. Many small businesses have developed very successful international businesses through the Internet. With rapid Internet penetration, particularly with Broadband, companies and individuals are gaining experience and as trust grows Internet marketing is becoming a dominant force in both the B2B and B2C sectors.

The Internet is now an important communications channel. It is now an advertising medium in its own right and complements other media. It is also a means of delivering imaginative sales promotion and other incentives and is used to publicise PR issues and CSR programme. It also provides the ability to take orders, deliver some products, aids customer service and customer relationship programmes as well as being an important tool for information search and dissemination and database development.

Technological developments are driving three main platforms of the so-called new media. These are: e-mail marketing, wireless marketing and interactive TV. E-mail marketing is primarily used as a means of CRM to create and build relationships and create sales through regular, targeted and relevant contacts. Text messaging is a very popular form of wireless marketing, however, as with the Internet, advances in technology are likely to open up new opportunities. Interactive TV marketing provides the opportunity for two way contact between the marketer and the individual via the televising set. Here the consumer can use the interactive facility on the remote to request information about a product or service. It also opens up interesting opportunities to undertake market research.

As with all marketing activity it is vital to monitor and evaluate performance. Sophisticated software is used to understand traffic flows and visitor click-stream behaviour (hits, click-throughs and impressions) on a minute-by-minute basis and to act as the basis for charging for the services provided.

E. EVALUATING THE DISTRIBUTION PROCESS

This is the P of "place" in the marketing mix. It is also the element which is treated less creatively and less seriously by many marketing managers. Changes in distribution, though, can affect the costs, positioning and revenue of a product.

Decisions about distribution are critical for the following reasons:

- Without availability, customers cannot buy the product or service which has generated demand but which, unsatisfied, will yield no profits
- The benefit of products available when and where customers want them, provides added value to the customer and can directly affect demand
- Changes in distribution can open up new market segments
- The length of the distribution channel selected will directly affect the control over the marketing of a product and the amount of capital tied up in distribution
- Distribution costs represent a substantial part of the total cost and so improved effectiveness of distribution can significantly influence profitability.

The Impact of Technology

Some of the most interesting changes currently taking place in marketing are in the area of distribution, linked often to improved technology, for example:

- The development of "just-in-time" manufacturing, which reduces stock levels to a minimum
- EPOS (Electronic Point of Sale) and EFTPOS (Electronic Funds Transfer at Point of Sale) which improve the flow of information about distribution outlets, levels and trends, allowing for more detailed analysis and control
- The ability to deliver some products and services electronically has reduced the need for some intermediaries – for example, many airlines no longer sell tickets through travel agents; they now sell tickets direct online
- The growth in Internet marketing enables many organisations to communicate directly with their existing and potential customer base thus reducing the role of some intermediaries who use to provide this function
- Technology has created a new type of intermediary who provides web based points of access and receive a click-through commission on sales or enquiries generated. Examples include www.opodo.com and www.expedia.com.

Selecting Distribution Channels

The key is to transfer your products to the customer using the most cost-effective control. The distribution decision is, therefore, always one of ***cost v. control***.

- Sell direct to the end user and you ***maximise*** your control and distribution costs
- Use intermediaries and a long channel of distribution and costs and control are ***minimised***.

At a strategic level, the important decisions are often about ***power*** in the distribution channel:

- If there are many small distributors, power and therefore control tend to stop with the manufacturer
- If there are a few powerful distributors, e.g. retail supermarkets, the power is held by the retailers.

Deciding on the distribution strategy means not only thinking through these power bases as they are now, but also in the light of how they may change in the next 10-15 years. Supermarkets were a new phenomenon only 30 years ago. New forms of retailing are therefore likely to arise and reach saturation in shorter and shorter time periods, thus changing the balance of power in distribution.

The Distribution Audit Check-List

An audit of the distribution process should seek to identify:

(a) How the product reaches the consumer and the costs included

(b) How much control the manufacturer has over the product or service at point of sale

(c) How competitors reach their customers

(d) The strengths and weaknesses in the current distribution system:

- From the firm's perspective
- From the customer's perspective.

(e) The balance of power within the channel and forecasts of how that might change

(f) Extent and depth of market coverage and the loyalty and motivation of middlemen in the channel.

F. MARKETING STRATEGY REVISITED

Earlier in the course we discussed the dimensions of planning and the planning hierarchy. It is when you start to analyse the sequencing of the different levels of the auditing process that it becomes apparent how dynamic the planning activity has to be and the degree of interchange which needs to take place between corporate and operational levels of planning. This is particularly true of the marketing function.

Relating the Corporate and Marketing Audits

Having identified the external environmental opportunities and threats during the corporate audit, this information must now be developed by the marketing team and used to identify the product/market opportunities which are open to the organisation. At the same time threats to existing products and markets must be identified and their implications for sales calculated.

Note that the marketing team is not making any decisions – only identifying the alternatives open to the business and providing the sales forecast information and analysis which will be necessary at a later stage, if a preferred strategy is to be selected.

The Ansoff Matrix provides a basic model which captures the combination of product market opportunities available to any organisation. It is therefore a useful management tool for the marketer working at this stage of the marketing audit – it is a framework which helps ensure that all the alternatives have been identified.

Figure 6.6: The Ansoff Matrix

		Products	
		Existing	*New*
Markets	*Existing*	MARKET PENETRATION	PRODUCT DEVELOPMENT
	New	MARKET DEVELOPMENT	DIVERSIFICATION

Notice that product/market opportunities come about because of changes in the external environment. The quality of the environmental audit is therefore critical to the accurate and thorough identification of opportunities and threats in the marketing audit stage.

In reality the marketing team will not be responsible for selecting a product/market strategy in isolation from senior management. The decision to enter a new market or develop a new product is critical to the whole business, with important underlying resource implications – it becomes a corporate strategy.

Marketing's task is to provide the necessary information to the corporate level planner so that a decision can be made and a product/market strategy selected. This would be the basis of the corporate strategy, indicating the way in which the organisation intends to achieve its stated objectives – how it will fill the planning gap.

If the decision is made to build on strengths in design and product function by developing a new product, resources will be allocated to R and D. However, if the agreed strategy was to take existing products in European markets, investment in the marketing activity would be needed. The function of the plan at corporate level is to provide this direction and to ensure the appropriate allocation of resources within the operation.

Once a strategy has been chosen and communicated in the corporate plan, the marketing team will be responsible for developing a marketing plan to ensure that it is implemented successfully.

Figure 6.7 summarises the whole process of moving through the situational analysis and marketing audit, relating them to corporate objectives and determining corporate strategy, and finishing by developing the marketing plan

You need to be clear about this sequence as it reflects the totality of steps which must be taken. The quality of the end product – the marketing plan – is dependent on the quality of work undertaken in each of the preceding stages.

Figure 6.7: From corporate objectives to marketing plans

Functional audits compiled to form the situational analysis
↓
Environmental audit identifies external opportunities and threats
↓
Marketing audit combines product/market strengths and weaknesses with environmental analysis to identify alternative product/market opportunities (and threats) open to the business
↓
Market information on each of these is collected and forecasts made
↓
Data and options fed to senior management for evaluation
↓
A corporate strategy is selected
↓
A marketing plan to implement this strategy is developed

Assessing Alternative Strategies

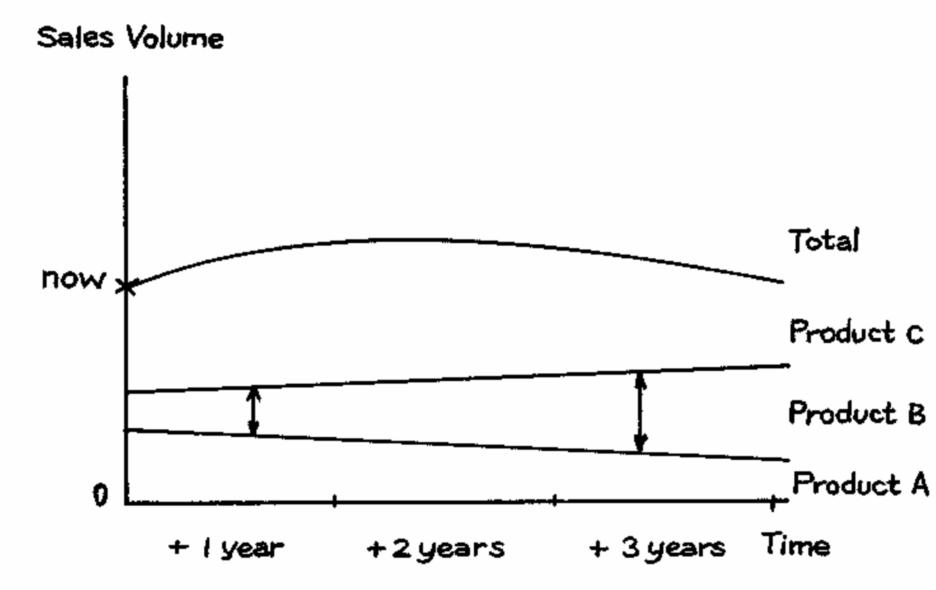
Although the decision making about new products and markets, major changes to the portfolio or shifts in positioning is likely to take place at the corporate level of the business, marketing has a critical role to play in:

- providing information on the feasibility of the alternatives
- forecasting demand
- advising on the marketing implications of any decision.

Central to this is that the identified threats must be considered and forecasts about their implications for each product/market must be calculated. Each product group will need to be reviewed in the light of its changing position in the product life-cycle as well as the changing environment. Some marketing research may be needed to provide this data. The objective is to identify where the company will be in one, two or three years, if it does nothing new.

This is the starting point for gap analysis.

Figure 6.8: Gap analysis



The first step in gap analysis is to ask where we will be with no action. Figure 6.8 forecasts that sales of Product A will decline, those of Product B will increase, and those of Product C, having risen, will then decline.

This technique allows sales volume or revenue for all products to be considered and a picture over time forecast. It is, though, very dependent on the quality of the information available to and from managers, and it is this which will determine the quality of the forecasts available to the business.

We must also remember that forecasting is ***not*** an exact science. The threats identified in the environmental audit may prove greater or less than originally expected.
Other unexpected threats may arise, or competitors may respond differently than anticipated. Ongoing monitoring of the situation will be essential to alert managers to any changes or developments in their basic premises.

The other thing that marketing must do is to provide information which can be used to assess the impact and potential of identified ***opportunities***. Whilst threats affect essentially existing products and markets (though they can also reduce the potential of new markets and products):

- Opportunities can expand the current value/volume of product market sales, as you can see in the case of Product B in Figure 6.8
- Opportunities also mean potential benefits to the firm from:
  - (i) taking existing products to new customers
  - (ii) taking new products to existing customers
  - (iii) developing new products for new markets.

Dealing with these last three options involves even greater unknowns, so forecasts may be much less certain. However, one of the most valuable contributions which marketing makes to the business is the creative thinking it can bring to this area of analysis.

Review Questions

1. List three approaches to portfolio analysis.

2. What are the four individual tools that make up promotion?

3. How might you measure the effectiveness of awareness?

4. What questions might you ask if you were undertaking a pricing audit?

5. Why is the role of intermediaries changing?

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> The Boston Consulting Group Matrix and the Product Life Cycle have for many years been essential to the creation of viable marketing strategy. Outline and critically evaluate these two marketing tools and in particular, comment on their usefulness to the developing small & medium sized company.

ANSWERS TO REVIEW QUESTIONS

1. The PLC, the BCG matrix and the Market Attractiveness – Business Position model

2. Advertising, Public relations, Sales promotion and Personal selling

3. By using recall and recognition tests

4. You might ask:
   - Are the pricing objectives appropriate?
   - Are pricing objectives integrated with other marketing mix decisions?
   - Is the pricing strategy taking into account the PLC, competitor pricing, and customers' response to price?
   - How consistent is pricing throughout the range?
   - What is the policy on discounts and differential pricing?
   - Is sufficient use being made of price promotions?

5. The role of intermediaries is changing because of the high cost of physical intermediaries and
   - the increasing acceptance and versatility of the Internet for doing business and carrying out
   - many of these functions and roles more cost effectively.

Study Unit 7

Consumer Markets and Consumer Behaviour

Contents ***Page***

(Continued over)

INTRODUCTION

In this study unit we focus on consumers – specifically the markets for products and services which consumers form and the way in which they buy.

We start by considering the concept of segmentation. Market segmentation is the process of dividing the market into specific groups of consumers who share common needs. This underpins successful marketing. A tightly segmented market allows clear market targeting which focuses effort and maximises effect around a clear position.

Allied to segmentation is the concept of positioning. This is the process of establishing the product or service package clearly in the minds of the consumers.

We then move on to examine buying. What may seem to be a very straightforward activity has great significance and complexity to marketers. We consider the process by which the decision to buy is arrived at and the influences on that decision.

A. MARKET SEGMENTATION

Apart from the highly specialised companies which deal with very few customers, organisations have to find their buyers. However, the number of people, and organisations, in the world make it almost impossible for any organisation to reach, and serve, every potential customer. This means that there must be some way of "splitting up" the overall market into smaller, more manageable portions. This is done by ***segmentation***.

The word "segment" refers to one part of an item which can be split into several pieces. Therefore "segmentation" is the process of splitting something up into parts, or sections.

Because the separate pieces all come from the main item they will be broadly similar, but there will be differences. For example, if you open an orange and divide up the fruit into segments, the segments will all be pieces of orange and will look almost the same, but there may be slight differences in size between the segments. Some pieces may have more juice than others, or you could even have one piece which is beginning to go rotten because of age or because it hasn't been stored correctly.

The situation is exactly the same with market segments – some market segments (or sectors) look the same but have slight differences.

Consider all of the adults in London at any one time – they are all people and yet there is a wide range of differences. Some are men, some women. Some are English, some from other countries. Some are tall, some short. Some can drive a car, some cannot. Some are rich, some are not. Some like music, some do not. I could list thousands of "differences" if I either chose, or had the time, to do so but I think you will understand what I am saying. We begin with a "common" factor and then we sub-divide into characteristics to suit our own needs.

Imagine we are selling clothing in London. We may have products which are suited to only men, or only women. That fact alone would force us into segmenting. Our products may be "fashionable" or "functional" – another variable in the target sector to be selected. The products may be expensive – another variable, and so it goes on.

Each additional "variable" or "segment characteristic" means a more closely defined target audience. The better we define the target sector, the better we can match our offerings to meet the needs of the sector.

As this is what marketing is all about, it follows that one of the tasks of the marketing planner is to identify suitable market segments. This can, of course, be done by "instinct" but instinct is notoriously unreliable and it is much better to use recognised bases of segmentation to identify target audiences.

Bases of Segmentation

The marketing manager can have two basic audiences or target markets: ***internal*** and ***external***. Both of these overall targets can be split up into smaller segments for more precise handling.

(a) Internal

One of the responsibilities of the marketing function is to take a leading position in promoting internal communications and to keep everyone informed about what is happening. Although internal communication may not immediately be seen as being part of the overall effort in making money, it is important.

Never overlook the ***liaison aspect*** of marketing, as it is vital that everyone works together to achieve the objectives of the organisation. If internal target audiences are not communicated with in an effective manner, the ultimate offering to the buying customer will suffer. From this we can see that it is just as important to be able to segment the internal target audiences as it is to segment the external audiences.

Different people within an organisation will have different needs and requirements. If we were to address the individual needs of every single person we would never get any work done, so we have to "group" people of similar characteristics together by some recognisable factor – for example, on the basis of:

- ***Status*** – directors, managers, supervisors, operatives
- ***Job*** – secretaries, receptionists, telephonists, cleaners
- ***Department*** – Marketing, Personnel, Purchasing, Production
- ***Location*** – north, west, laboratory, kitchen, warehouse

Depending on the type of communication necessary, you can quickly identify the correct target. Managers would need reports; others would need information of proposed sales incentives, etc.

Even using these general groupings, you may feel it necessary to sub-divide even further. For example, if you had a product which was being launched in one part of the country first, you may choose to announce it to all the personnel in that region so that they would be aware of the promotional campaign which was taking place. You might delay informing the rest of the company until later.

If you had a problem which related to something in the Finance Department it may not be necessary to tell everyone else in the company.

(b) External

The external audiences for a marketing manager will, of course, include all stakeholders, such as shareholders, distributors, agencies, etc. We have already considered the variety of people who are affected by, or will affect, an organisation. Therefore, as we are primarily concerned with catering to customers, we will at this point only look at the external potential buying markets.

An organisation may be dealing in ***industrial*** or ***consumer*** markets, or a combination of both. Both industrial and consumer markets can be split into smaller segments, making them more manageable and easier to serve.

- ***Industrial external markets***

  The industrial market, although it will never have as many individual parts as the consumer market, is very large and can still sometimes be considered to be "mass market" (consider paper clips, and paper).

Organisations who deal in business-to-business markets still need to segment to make operations more manageable and to keep their activities under control. "Groupings" can be made to achieve this, just as in the internal market we looked at earlier:

(i) ***Organisations*** – location, size, wealth, manufacturing process

(ii) ***Trades*** – plumbers, builders, hairdressers, bakers

(iii) ***Profession*** – doctors, dentists, lawyers, architects

(iv) ***Status*** – directors, managers, supervisors

(v) ***Function*** – Marketing, Personnel, Manufacturing, Finance

(vi) ***Purchasing pattern*** – quantity, value, frequency.

The product or service being offered will often dictate how an industrial market is segmented, but the same principle applies throughout – breaking up the larger overall market into smaller sections to make it easier to manage and serve.

- ***Consumer external markets***

  Consumer markets can be segmented in numerous ways, but are generally based on either ***demographic*** or ***psychographic*** criteria.

  (i) ***Demographic***

  There are a number of possible bases here, including

  - Sex – men, women, boys, girls
  - Age – children, adults, senior citizens
  - Region – UK, Africa, north, south
  - Residence – house, mansion, flat
  - Income – rich, poor, earner, non-earner
  - Education – higher, basic, continuing, completed.

  (ii) ***Psychographic***

  Psychographic segmentation is, broadly speaking, based on life styles and can be sub-divided into two main sections:

  - ***Social***

    Social groupings are those which are "outside" the individual, for example, those based on:

    Culture – the overall beliefs and accepted standards of a society

    Sub-culture – a distinct section of a "culture" which will display additional characteristics which set it apart from the rest of the society

    Class – high, low, A, B, C1, D, etc.

    Group(s) – interest, hobby, special cause

    Family – married, single, stage in Family Life Cycle (see later).

  - ***Psychological***

    Psychological characteristics relate to the individual person, for example:

    Personality – serious, fun-loving, aggressive, dreamy

    Attitudes and opinions – firmly held opinions, open-minded, cynical

Motivation – highly motivated, not interested

Buying pattern – impulse buyers, extravagant, careful.

You can see from the wide range of possible segmentation bases that a marketer could actually segment on ***any*** base that they considered appropriate to the product they were offering. For example, consider the outlined characteristics of this market segment:

- women
- two metres tall
- with dark green hair
- who like to sky dive
- are left handed and
- live in the Arctic Circle.

The segment criteria are quite specific but the segment is unlikely to be of much use – unless you are selling parachutes in coordinating pale green silk, which will only support the weight of a woman, have the ripcord on the left-hand side and melt in the sun – a highly unlikely product! The segment is also unlikely to be profitable as there would not be many women living in the Arctic Circle who matched the description.

However, it is worth noting here that if a woman who fitted that description came to you and asked you to make this very strange product at any price, you may well choose to do so if it brings you enough profit – but there would not be much future in investing resources into the manufacturing process, would there?

So where does this leave us now? We have the bases of segmentation but, if we allow our own ideas to take precedence we can see that we might fail to select a suitable market segment. This can only mean one thing – we need rules or ***criteria*** for segments.

(We shall return to the issue of the bases of segmentation in external consumer markets in more detail in the next section.)

Criteria for Segmentation

The rules for segmentation are easy to accept as they are simply common sense. Always remember that while the marketer is trying to identify a segment which matches the product or service being offered, a profitable outcome is also required. This means that the segment must be:

- **Identifiable**

  It must be capable of being identified as a separate section of the overall market and must display some common characteristic which sets it apart from the overall market – for example, distinctive needs, geodemographics or psychological traits.

- **Recognisable**

  Do the members of the segment recognise themselves as being "different" and do other organisations in the chain of distribution recognise the segment? If neither the buyers nor those who serve them recognise the segment it is unlikely to be a successful option. It is more likely to be a "created" segment in the mind of a person who believes strongly in the benefits of a particular product. This, though, is not true marketing – it is "product led" marketing.

- **Substantial**

  It must be large enough to warrant activity on the part of the marketer. In the extreme example above, the woman with green hair could not be described as a "substantial" segment.

- **Profitable**

  It must be capable of achieving the desired objectives. This may not be in financial terms. Segments can be identified and used as a means of entering a market even though they produce little or no profit. This type of situation is often found in international marketing if an organisation just wants to get a "presence" in the marketplace for some reason or another. A segment, which produces little profit, can also be chosen as an "investment" because of potential add-on sales at a later date.

- **Accessible**

  The marketer must be able to reach the segment both by communication and by the product package. It is no good identifying a potential segment if you cannot serve it because of government regulations or location, etc.

- **Measurable**

  You need to know the size of the segment before, during and after your activities. If you cannot measure, you cannot assess your success. Someone once said *"If I cannot measure it, I cannot manage it"* and this is very true.

- **Reliable/stable**

  The chosen segment must demonstrate a history and a future. If a segment suddenly appears, say because of a fashion fad, it may not be either stable or reliable. Unless the organisation is able to move quickly and satisfy the immediate need, the segment may disappear just as quickly.

- **Sustainable**

  The organisation must be capable of serving the segment in the longer term. It is pointless identifying a segment which is so big that it is impossible to maintain. All this will do is to create dissatisfied customers and wonderful opportunities for competitors to come along and take the segment over – with the resulting losses of investment and effort for the original organisation.

  Another aspect which should be considered is whether the segment "fits" with the company image and objectives. For example, a company which sells high quality goods and relies on brand image would be unwise to suddenly start marketing to a lower income group – they could lose their credibility with the loyal customers they have in the higher price bracket which might mean greater losses than the income derived from the new segment.

Market Segmentation and Level of Service

Many customer buying patterns cut across the classic forms of segmentation, such as social class, sex, age, lifestyle etc. The increased emphasis on customer service has revealed segments based on our preferences for types of service. For example, the financial services market can be segmented into those who seek speedy, round-the-clock service transacted by telephone, and those who prefer the face-to-face service of the branch network. An analysis of both types of customer has shown that people of various age groups, both sexes, various cultures etc. make up users of both the elaborate, extra information and guidance service, and the basic, no-frills, lower-cost, faster service.

In the modern approach, customers segment themselves in terms of the ***level of service*** they want. This type of segmentation is fluid, as changes in technology and occupational patterns exert influence. This presents companies with considerable opportunities, as shown by the growth in Internet banking and insurance. While traditional forms of segmentation are still appropriate in some areas, this approach is gaining wider acceptance.

Maintenance

The concept of splitting up the overall market into smaller sectors is a well tried and tested approach in understanding and dealing with the market. However, because our markets are made up of people we may find that something changes the target segment. The changes may be significant or even very slight – but they will happen because some factor will create, or cause, the change.

If you think about the "groupings" that we used for segmenting the audience you will see that these are descriptive terms only – for example, in consumer markets, secretary and low earner, and in industrial markets, bulk purchaser or low purchaser. We have no indication of the reasons why the particular customer fits in that segment. All we know is that at the time segmentation took place the customer fitted the description. Likewise we have no way of knowing if the customer will remain in the segment – something may happen to change it:

- The secretary may be a low earner because family commitments mean she can only work part time. If her circumstances change, she could move up into a higher income bracket and change her purchasing habits accordingly.
- The industrial bulk purchaser may have been forced into this to secure continuity of supply of materials. Should the materials become readily available the purchaser may revert to buying only enough to meet the organisation's immediate needs.

These are very simple examples of the type of changes that can take place; obviously there could be other more dramatic changes. The point is that changes ***do*** occur in market segments. Just because a situation existed in the past does not mean that it will always remain the same.

Any change in a market segment can mean a change in results for the marketer. Changes can mean lost revenue, wasted resources, etc. Therefore, it must be fairly obvious that segmentation is not just a question of identifying a grouping and leaving it at that. It should also be a case of ***understanding*** the reasons for the grouping, as well as ***monitoring*** for changes.

Thus, maintenance of market segments is very important. Success with a segment can result in complacency on the part of a planner. This is the time that the competition are likely to strike. If slight reductions in turnover are either not noticed, or ignored, market share could be affected long term.

Customers are people, who need to be taken care of. If an organisation fails to understand its customers and keep providing what they want, the competition will soon capitalise on the situation. This works both ways, of course. If the competition are seen to be neglecting their segments they, too, are vulnerable. Hence the need for on-going market assessment and monitoring – for both defence and attack.

The process of segmentation is a logical approach to markets and can bring a variety of benefits to marketing planners. Perhaps the main benefit is in the understanding gained of customers. Greater understanding allows marketers to appreciate why people buy. Knowing why they buy is the beginning of knowing how to serve them as customers and how to position the company or its products.

Reasons for Segmentation

We can summarise the underlying reasons for segmentation as follows.

- **To focus activities**

  Segmentation allows planners to be much more targeted in their approach. Mix offerings can be tailored to match customer needs more precisely. This should result in greater satisfaction for the customer and higher profits for the organisation.

- **To reduce risk**

  Increased knowledge will always reduce risk factors. There will be less wastage of effort and other resources, and a much greater possibility of success.

- **To defeat the competition**

  If a company can find a market segment which matches the offering being made it will have competitive advantage. However, remember that the competition will also be involved in segmentation as they, too, will be looking for some "unique proposition" that they can offer. The more effective and precise the targeting, the better the chance of success over the competition. The race for market share is often won by the company which gets to "the segments" first.

- **To understand the customers**

  If the buying customers are understood, their needs will be understood and the marketing effort will be that much better. Following on from this, the customers' future needs will be anticipated and ultimately satisfied, with the company making a profit – marketing in its truest form.

- **To assist in planning**

  Objectives can be more clearly defined, appropriate strategies chosen, pricing levels set in accordance with the target segments capability to pay, communications correctly pitched, etc. The increased knowledge of the buyers, gained in the process of segmentation, should result in much better, and more accurate, planning.

Note that these reasons/benefits are essentially the same as those given in earlier study units for planning and/or research.

B. SEGMENTATION OF CONSUMER MARKETS

We noted above that consumer markets can be segmented in numerous ways, but are generally based on either demographic or psychographic criteria. Here we review the main ways in which marketers segment these markets. There is no right or wrong way to do this – the approach adopted will depend upon the characteristics of the product package under consideration.

You also need to bear in mind why we undertake the process of segmentation – to identify groups of customers with shared needs or buyer behaviour. Segmenting a market simply because we can, for example into age groups, is of no value unless age influences buyer behaviour in this market.

The degree of sophistication in segmentation is such that, where a few years ago it was necessary to blanket a whole segment, it is now routine to tightly focus onto selected individuals within it who have a known desire/interest/need in or for the type of package that is offered. Usually the package(s) will have been specially created from the segmentation information.

Social Class

Early segmentation was based on social class and whilst these classifications still provide a useful shorthand description, they are of little value in the targeting policies of today because they are so large and diffuse.

Social classification groupings are based upon the occupation and income of the head of the household (accepted to be the man!), and divide the population into six groups, as follows.

A	Upper Middle Class	(Bishops, surgeons, directors of large firms, etc.)
B	Middle Class	(Vicars, police inspectors, etc.)
C1	Lower Middle Class	(Curates, police sergeants, etc.)
C2	Skilled Working Class	(Foremen, police constables, etc.)
D	Manual Workers	(Most semi-skilled and unskilled workers)
E	Benefit takers	(Pensioners, widows, anyone using state benefits).

Age and Life Cycle

Even when certain needs/patterns of behaviour can be identified, segmentation is a complex activity. A bank targeting school leavers must take into account age, but also experience and expectations of youngsters from different types of schools and differing social backgrounds. Within the overall target market there are several individualised niches. This principle holds throughout this type of general segmentation but does not invalidate its major benefit – simplicity.

Distinctive Needs

Segmentation by need relies upon a succession of techniques to collect data and process it into information. One approach is to use ***factor analysis*** initially to remove highly correlated variables and then to apply ***cluster analysis*** to create a number of maximally different segments. Each cluster is internally homogeneous and externally very different from every other cluster; it is then profiled in terms of its attitudes, behaviour, demographics, psychographics and media consumption habits. The result is specific segments, unique to a purpose, and named appropriately.

Andreasen & Belk found six market segments in one survey:

- The passive homebody
- The inner-directed self-sufficient
- The active homebody
- The active sports enthusiast
- The culture patron
- The socially active.

Lifestyle Segmentation

This form of segmentation is concerned with identifying market targets that share an approach to living. This does not relate only to high-flyers and high-achievers. Environmentalists have a chosen/preferred lifestyle which certain packages can help to satisfy. Again it is necessary to profile and describe individual sub-segments since not all within the overall segment share exactly the same needs.

We consider life style analysis later in the unit as part of our examination of consumer behaviour.

Psychographic Segmentation

Here segments are defined on the basis of social class, lifestyle and/or personality characteristics. Personality variables classify individuals by the traits that they exhibit and some brands have been equipped with "personalities" to match those believed to exist within the target segment. However, there seems little evidence that personality alone is sufficiently strong (or measurable in sufficient detail and accuracy) to justify this form of segmentation.

Behavioural Segmentation

Based upon what people are actually observed to be doing (observed behaviour), this form of segmentation is quite reliable. It can be based around orange juice as a breakfast drink, greeting cards segmented by Christmas, Easter, Get Well, etc. The intention is to look for major occasions that mark life's phases to see if they are (or can be made to be) accompanied by certain needs.

Benefit Segmentation

This is a powerful form of segmentation that classifies buyers according to the different benefits they seek. Timex watches were created because research found that only 31% of the American watch-buying market bought for symbolism; there was a market gap for a lower-priced watch with durability.

Benefit segmentation usually implies that a brand should focus on satisfying one benefit group. Thus a second, third and fourth brand may be needed to cover the market – but each, although perhaps very similar, must be positioned uniquely.

Geodemographic Segmentation

The original, and now definitive, model of geodemographic segmentation was designated ACORN (A Classification of Residential Neighbourhoods). It was developed in Britain and is now available worldwide, wherever post or zip codes exist.

ACORN depends for its success on the probability that like people live together and behave in similar fashion. Thus if a grouping can be identified, labelled and its behaviour studied, it is likely that a similar grouping elsewhere will share similar behaviour.

Cluster analysis is applied, via powerful computer software, to the census data taken by the Government in the first year of every decade (and updated by a sample census every sixth year of each decade). All relevant data is now considered, rather than the simplistic, inaccurate "head of household" classifier.

There are 11 ACORN Groups, subdivided into 38 Neighbourhood Types. The Groups are as follows.

	Residential Neighbourhood	**% of population**
A	Agricultural areas	3.3
B	Modern family housing, higher incomes	17.7
C	Older housing of intermediate status	18.0
D	Older terraced housing	4.2
E	Council estates, category 1	13.1
F	Council estates, category 2	8.8
G	Council estates, category 3	7.1
H	Mixed inner metropolitan	3.8
I	High status non-family	4.1
J	Affluent suburban	15.9
K	Better-off retirement areas	3.8
U	Unclassified	0.5

Considerable detail is available about each Neighbourhood Type – as you can see from this general description of Type B3 (which covers 4.4% of the population):

> *"B3 Post-war functional private housing consists of post-war private estates of smaller functional housing, many of which have been built in the 60s and 70s. Many families in these estates will be first-time buyers who previously lived in the inner city areas or the better council estates; they are often manual workers employed in routine factory jobs.*
>
> *Young families, now with mortgage commitments, are likely to shop in bulk at modern supermarkets offering competitive prices.*
>
> *Places such as Tamworth, Canvey Island and Wigan have a large proportion of this type of housing.*
>
> *The car plays an important role in the lives of the people in this Type, with double the national average of 500+ miles being driven each week. Since holidays by car and in caravans are popular this will explain some of this high mileage, as will the fact that the grocery shopping trips are usually done in the car.*
>
> *People in this Type are happy to spend money on home improvements, and, as many of them also have a garden, on garden equipment as well. Leisure goods such as golf clubs, video cameras, home computers and cameras are also preferred purchases. Quality music at home is high on the list of priorities with significant spending on CDs, CD players and hi-fi systems costing over £300.*
>
> *Newspaper reading habits are more likely to be in the middle market range – such as The Daily Express. Eating out in restaurants is not particularly popular – apart from steak houses.*
>
> *Preferred leisure activities include sports such as cricket and fishing and regular visits to theme parks."*

Have a look at www.upmystreet.com – it's free! This is a computer-based programme based on Acorn and describes neighbourhoods based on postcodes. Type in your postcode and you will see a profile of your neighbourhood. Is it accurate?

Other forms of geodemographic segmentation are also available – PINPOINT and MOSAIC are two of the best known. They work to the same principles as ACORN but build their databases differently so as to produce an end result that has unique benefit. FINPOINT, for example, is a sister to PINPOINT but focuses on individuals in relation to the marketing of financial packages.

ACORN data is easy to obtain on contract – and at a price. ACORN are only willing to discuss individual prices with those who have a serious interest, but their services are cost-effective. Using ACORN data you can, for example:

- Be given an exact count of target households to leaflet, an exact number of leaflets to print, and road maps that specify which houses to drop leaflets on
- Match a target segment against media (who are now showing their readership by ACORN classification)
- Select sites for retail shops so that they are proximate to their target customers

  ACORN data helped retailers to prove that customers choose stores by time and simplicity, not distance criteria. In other words, being close to the customer is not enough. If the journey is difficult, or perceived as difficult, the shopper will go elsewhere. Shoppers will go 25 miles on a motorway rather than 3 miles across town, for instance.
- Adjust stock range and levels so that the correct goods are in areas of demand.

When the considerable detail that ACORN has amassed on Neighbourhood Types is cross-referenced with information acquired by individual organisations, it is possible to target extremely precisely. As databases grow and more targeted media and delivery systems become available, we shall see individual targeting for packages that are sufficiently important.

One simple way for organisations to secure that additional information is through the ***guarantee cards*** that most manufacturers ask buyers to complete and return and the ***loyalty cards*** used by many large retail stores. In the UK there is no need to register a purchase with the manufacturer – your contract is with the retailer – yet many of the cards are filled in and returned. You will notice that they normally ask for more data than is needed simply to register a purchase. Every card that is returned extends the manufacturer's database, and provides more information about his customers.

C. TARGETING

Targeting refers to selection of the ultimate sector(s) which a marketer chooses as being the most likely to be successful in achieving the corporate/marketing objectives. It also covers whether the approach can be the same for all targeted segments or must be differentiated.

(a) Target selection

There may be several segments which are attractive and choices may need to be made as to which segment(s) are the best option. The "Market attractiveness – business position" model provides a useful tool for this.

- Market attractiveness may be measured by such criteria as:
  (i) price sensitivity of segment
  (ii) potential loyalty
  (iii) likely cross-spend
  (iv) growth potential.
- The business position will be assessed by the buying criteria and priorities of customers in the market segment in relation to the product offer of one's own company and that of competitors.

Target segments should always be measured against results expected, as well as bearing in mind the reasons for entry into that segment. Only then can the most appropriate segment be chosen.

Most companies will have a method of measuring markets/segments on a weighted basis. This involves forecasting results and comparing one against the other, all of which is part of the marketing planning process.

(b) Differentiation

Once you have selected the segments you will target, you must decide whether you are going to approach them with the same or a different marketing mix.

Three strategies may be identified.

- ***Undifferentiated*** – where a single mix is applied to the whole market, a strategy which is most appropriate for small businesses or a niche market.
- ***Concentrated targeting*** – where one mix is applied to one particular segment of the market, but an undifferentiated approach is adopted to all other segments.
- ***Differentiated targeting*** – where a different marketing mix is adopted for each different segment of the market.

Differentiation raises costs, but should increase revenue.

D. POSITIONING

Positioning is crucial to the success of marketing today. The focus of marketing thinking is upon positioning the product or service so that it appeals to the specific target audience(s) for whom it has been created.

In marketing terms "positioning" refers to the place that a product or service holds in the ***minds of the target audience(s)***. "Product positioning" is often incorrectly used – it is the ***concept of the product in use*** as perceived by the individuals in the target audience(s) that is positioned, never the product. Thus, it refers to how a customer "sees" or "perceives" an offering and marketers must make every effort to ensure that what they are offering is what the customer wants. For example, if buyers view a product as being fairly priced with reasonable quality, they may prefer to pay an increased price for higher quality or a lower price for a slight reduction in quality.

Positioning Maps

Positioning maps are a useful tool for undertaking competitive analysis as well as for communicating marketing strategy.

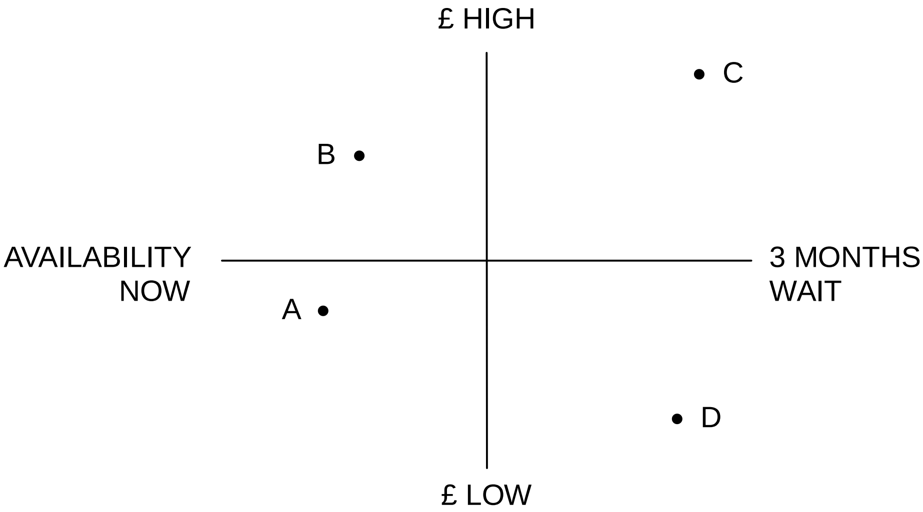
By taking two of the key variables influencing consumers, it is possible to plot companies or products against one another. This gives a picture of the market in terms of:

- competitive position
- gaps in the market.

It is also possible to show diagrammatically how it is intended to change position, should that become necessary.

Figure 7.1 shows how four products are positioned within a market in relation to the variables of price and availability. (Note that, here, only two dimensions are shown for clarity, but multi-dimensional mapping may be necessary in reality and is in routine use.)

Figure 7.1: Product Positioning Map



The four products are:

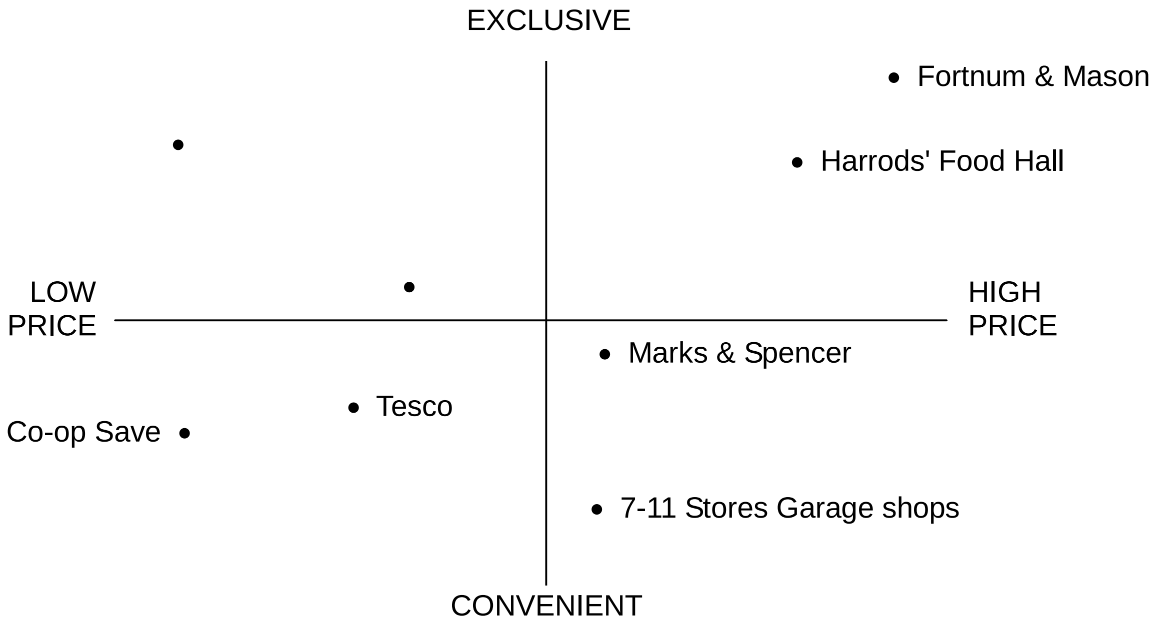
- A is a convenience product – easily available and at a low price
- B is attracting a premium price for the convenience of JIT (just-in-time) availability
- C is positioned to gain a premium price for limited or exclusive availability
- D offers a low price in exchange for waiting for delivery.

Marketing strategy will vary considerably depending on the position held (and, of course, for a new entrant wanting to position a new product within the market). It will need to identify a gap in the market, rather than plunging straight into competition with others. In other words, there must be enough customers to make the positioning feasible and attractive to the segment(s) being targeted.

Be creative with your positioning maps – although they should be based on two of the marketing mix variables, there are many dimensions and levels within each. For example, promotion includes image, which can be classified as modern/traditional, inferior/superior or necessity/luxury.

The next example shows positioning in respect of retail food outlets.

Figure 7.2: Retail Food Positioning Map



Remember that it is ***customer perceptions*** which are important. The customer may perceive your product to be more expensive, more sophisticated or more reliable than that of your competitors, and it is this view which you should consider when drawing up a positioning map.

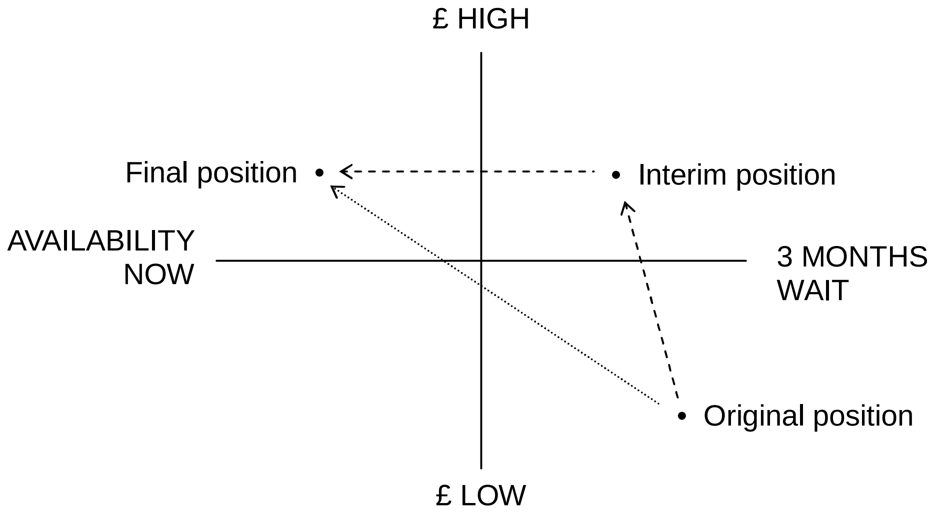
Attitudinal research can be undertaken to establish customer perceptions – but normally you will have done this as part of your marketing audit.

Repositioning as a Marketing Strategy

If the objectives cannot be achieved from the present position then the product may need to be withdrawn or repositioned.

Figure 7.3 shows a repositioning exercise whereby company D from Figure 7.1 moves from being a low cost, long wait supplier to one where it will compete directly with company B as a medium cost supplier with immediate availability. Often, though, it is necessary to phase the repositioning over a period (sometimes over years). Thus, the company may move firstly to increase price and quality and then to increase availability. Both the direct and the phased repositioning are shown.

Figure 7.3: Repositioning



Repositioning may be necessary for a number of reasons:

- Change in customer needs
- Change in organisational objectives
- Environmental change
- New competitors appear
- New technology is developed.

A repositioning should not be contemplated without clear evidence of its benefits to the organisation – an established position is easier to defend than a new one, and a product is highly vulnerable whilst shifting position.

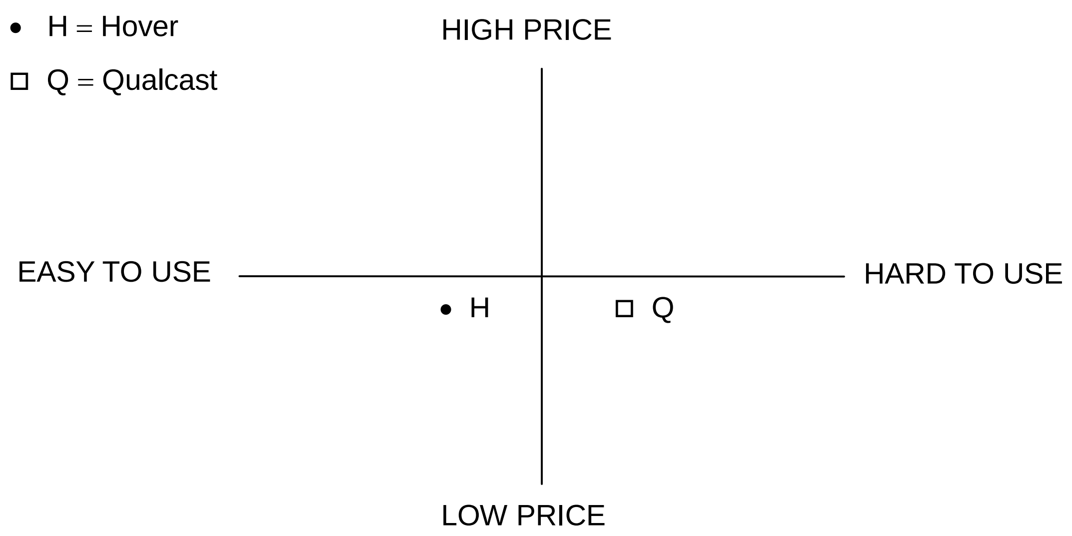
Repositioning is always a demanding challenge – it requires a change of customers' opinion, which must be undertaken gradually and in a coordinated and believable way. (There is often a need to phase the repositioning as shown in Figure 7.3.) It requires a considerable commitment of marketing resources and may need a new or revamped corporate or brand image and identity. Success stories in this area include British Airways and BP, but British Home Stores has been less successful in its attempt to convince customers of its repositioned identity. Following the double whammy of Bird flu and Jamie Oliver's healthier eating campaign, Bernard Matthews, a UK turkey producer, is currently (2007) seeking to reposition its brand from its "bootiful" advertising theme to a focus on Norfolk Heritage and a healthier brand. It will be interesting to see if this is successful!

The following example illustrates the repositioning process in more detail.

In the early 1980s there was a battle in the lawnmower market, between the Hover machines and the more traditional cylinder mowers manufactured by the Qualcast Company. Although both types of machine were priced in the same band, promotion of the Hovers had successfully positioned them in the customers' minds as "easier" to use.

This position is illustrated on the map in Figure 7.4.

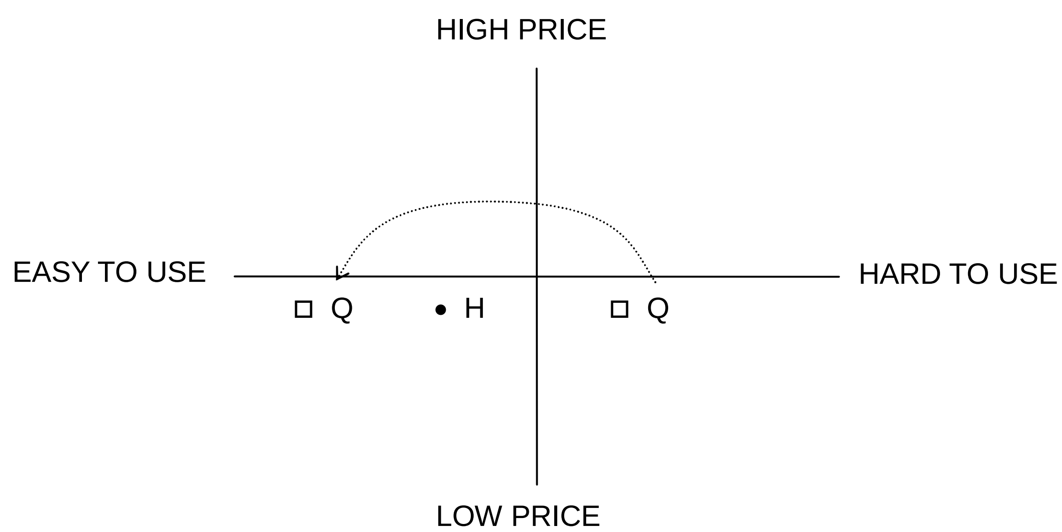
Figure 7.4: Lawnmowers Position Map – 1



Qualcast managers disputed this claim about ease of use and, reinforced by customer trials, it was clearly demonstrated that their cylinder machines, with their grass-collecting facility, in fact had a significant competitive advantage over the Hovers.

Qualcast management set about the task of "repositioning" their product. The now famous "a lot less bovver than a hover" campaign was launched. By the end of the first year research indicated that customers were aware of the product's benefits offered by grass collection.

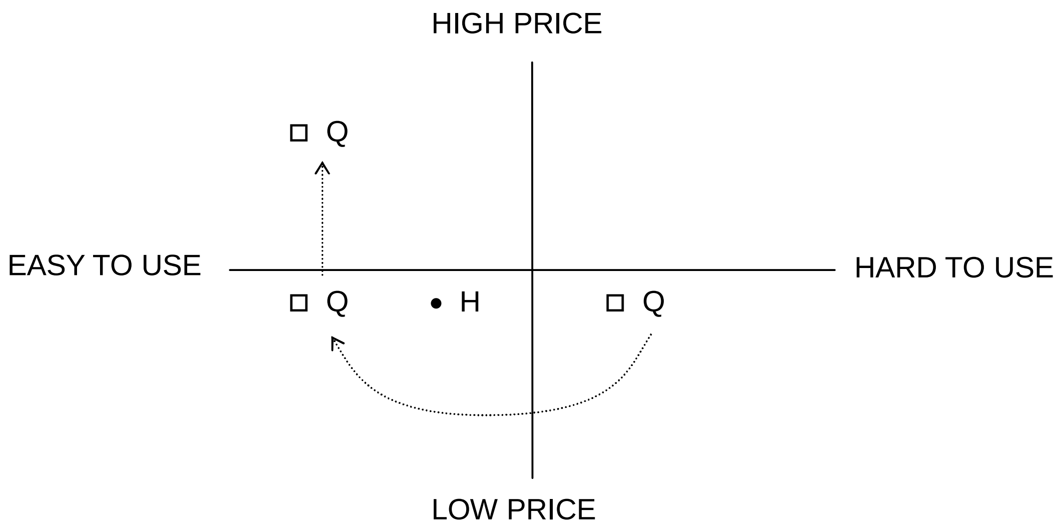
Figure 7.5: Lawnmowers Position Map – 2



The promotional campaign demonstrated that the Qualcast machine was easier to use.

The second stage of the repositioning strategy took place the following year. The advertising campaign was continued, but now the Qualcast superiority was reinforced by a substantial price change.

Figure 7.6: Lawnmowers Position Map – 3



By taking it in two stages, Qualcast management successfully repositioned the product over two years from being perceived as harder to use than the competition to being seen as more convenient and thus attracting a higher price.

Remember that in many cases customers will judge product quality by price. Higher prices tend to reinforce the image of "better" products.

You can see how a positioning map would allow you to chart and communicate this repositioning strategy easily, but remember that it is the consumer's perception of the product and the product's position which is important. Companies who simply say that their product is best, but cannot understand why market share does not reflect this, need to look at image and positioning.

E. THE BUYING PROCESS

The buying process is not just "the purchase". The process covers all the stages that a buyer goes through when making a purchase.

As marketers we need to understand the process fully so that we can help the buyer through every stage. If we can do this, we are more likely to get a successful sale and the buyer is more likely to be satisfied at the eventual outcome.

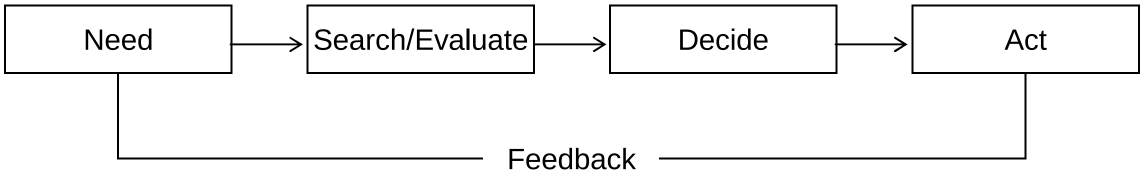
The process itself involves the following stages:

- A ***need*** is felt which creates a ***problem*** to be solved.
- A ***solution*** is sought for that problem.
- Alternative solutions are ***analysed*** and ***assessed***.
- A ***decision*** is made as to which is the best solution to the problem.
- The decision is ***implemented***.
- A ***review*** is made of the decision.

At any stage it may be necessary to go back to a previous stage and review earlier thinking. This is known as a ***feedback loop***.

The basic process can be shown as a very simple model as follows.

Figure 7.7: The buying process



Never forget that we are talking about a process which involves a sequence of stages. As marketers we need to be able to understand the processes our customers go through so that we can overcome any barriers that may make them decide ***not*** to buy, or to buy ***from the competition***.

At each stage, whether consciously or not, all decisions are "checked and verified" before moving into the next phase. Resources are monitored to see if the decision is viable, etc. The process will be the same, whether it is for an expensive item or for something which costs very little money.

What ***can*** vary is:

- The strength of the initial problem
- The nature of the product being bought
- The value of the item being bought
- Who is involved in the buying process
- Who will use the item being bought
- The length of time that will be taken in the search process
- The ease of the actual decision making
- The convenience of the actual purchase
- The after sales confidence of the buyer and the user.

If you consider these possible differences, you will see that some of them will be a direct outcome of another. For example, for a high value purchase it is likely that more time will be spent in the searching stage. The level of reassurance necessary after the sale will also be greater. It is also possible that more than one person will be involved in the process. This brings us, as marketers, to a very important question – who is buying?

Who Buys?

The ***customer*** buys. The user is the ***consumer***.

A person can, of course, be both at the same time, but we should never forget that we may be dealing with multiple levels in the buying process and we have to cater for **all** needs. To simply make it easy for an intermediary to buy without thinking of the impact on the user is most unwise. Conversely, to concentrate on the needs of the user at the expense of the intermediary is equally unwise.

We should be looking for a balance which most closely matches everyone's needs. This matching can be easy or it can create a number of problems. Problems often increase in direct ratio to the length and complexity of the distribution channel and the nature of the item being bought.

Buying can be done by an individual or by a group of people. We call the individual(s), involved in buying, the ***decision-making unit (DMU)***.

The decision making unit

We have to accept that often purchasing is carried out to meet the requirements of more than one person, which can mean that more than one person will be involved in the purchasing decision processes. This applies equally in consumer and industrial purchasing.

When more than one person is involved, the individuals may have a definite "role" to play in the process. The roles have been identified as follows:

- The ***initiator*** – the person who comes up with the idea of buying an item
- The ***influencer*** – the person, or people, who will shape the outcome of the decision
- The ***decider*** – the person with the power or authority to make the decision
- The ***buyer*** – the person who makes the actual purchase
- The ***user*** – the person who will eventually use the product.

And, of course, in many purchases there will also be:

- The **gatekeeper** – the person who can ***prevent*** the decision from being made or make it more difficult. This may be a receptionist who prevents a salesperson from seeing a buyer, or a friend who tells someone that a product is a waste of money – simply because they do not see the need for it themselves.

Although these descriptions are more often used to describe group purchases, the individual purchaser can also be playing a lot of the "roles". For example:

- A father might think of the idea of buying some painting materials which would keep his children occupied while he is busy (***initiator***)
- He allows his own tastes to influence his decision as he enjoys painting (***influencer***)
- He goes ahead and decides to buy a set of water-colour paints (***decider***)
- He goes to an outlet and buys (***buyer***)
- Of course, he may decide that his children don't deserve the present and not buy (***gatekeeper***).

The only "role" not being covered in this example is that of the ***user***.

The Type of Purchasing

The type, or nature, of purchasing is affected by two variables:

- The involvement of the buyer with the product, and
- The differences available (between products/brands).

Most marketing text books use a model which was originally introduced by Assael (1987) to demonstrate these variables as follows.

Figure 7.8: Four Types of Buying Behaviour (Assael)

Significant Differences Between Brands	Degree of Buyer Involvement in the Purchase: *Low*	*High*
Few	Habitual buying behaviour (e.g. basic foods)	Dissonance reducing behaviour (e.g. furniture)
Many	Variety seeking behaviour (e.g. chocolate bars)	Complex buying behaviour (e.g. computers)

(a) Habitual buying

This is repetitive buying which takes little thinking about. Few differences are apparent between products and brands and the customer allocates little, or low, importance to the purchase. It may be that the customer has, in the past, considered alternatives and has found "the ideal". The customer is happy to stick with their decision and has, in fact, become "loyal".

(b) Variety seeking

This type of purchase will still involve relatively low importance in the mind of the purchaser, but there will be lots of choice and variety – as, for example, in biscuits, sweets, newspapers, magazines. If a product is tried and found to be lacking in some aspect, the buyer will simply try another one the next time they buy, or they may actively decide to keep trying different brands to see which is best – for example, people who drink beer often try different types just as an experiment.

(c) Dissonance reducing

Dissonance reducing purchasing is the kind of purchasing which is designed to reduce post-purchase "doubt". Because the degree of involvement is high, usually because of value and the item being something which is only bought rarely (such as an electric bed), the buyer may have no previous experience to use as a base for comparison in the search process.

If you add this lack of experience to the fact that there are only minor differences between the types of product available, it is easy to see why the buyer needs to ensure that the item they buy is good. The search process may therefore be extended. This type of purchasing can also mean that, because there are so few differences in the models or brands available in the market, the actual purchase itself may be made relatively quickly.

(d) Complex Buying

High product involvement and lots of choice make this an extremely hazardous type of purchase for a buyer. If we take buying a computer for home use as an example, you can understand the problems. You may have already had one make of computer and been quite happy with it, but now you have outgrown your machine and need another. It is going to be expensive so you have to make sure you get good value for money.

There is such a wide range of computers on the market that your choice will not be easy. You have to consider machine capabilities, software, compatibility with your existing storage and printer, etc. This type of decision can take a lot of time in the search for information and assessment of alternatives before a purchase is made.

We must also consider one further type of buying which is not mentioned in the Assael model, but which certainly happens.

(e) Impulse buying

Producers are very aware of the existence of impulse, or non-rational, purchasing which is why so much money is spent on promotional literature and point of sale displays.

There is really no accounting for this type of purchase and yet we all do it from time to time. We are attracted by an advertisement, or a point of sale display and we leap in and buy without thinking about it. Sometimes impulse buying works and sometimes it doesn't.

If it works that is OK. We acquire confidence in the manufacturer, or the outlet, and feel quite happy. If it doesn't we have all the time in the world to regret what we have done. We may think "never again" and blame the manufacturer, or the outlet, for our own error.

The effects of this "blame" can last for a considerable time and can actually influence our more rational purchasing – with the organisation which was blamed losing custom.

You may think that impulse purchasing does not meet the recognised stages in the buying process. However, it can be argued that it does. All that has happened is that the process has been gone through very quickly or some stages have been more or less by-passed.

- When you buy something on impulse you will be thinking it is a good idea as it will be useful for some purpose or another – you are solving a ***problem***.
  You may not have been aware until then that the problem existed, but some factor makes you recognise it.
- Circumstances shorten the ***search*** phase – maybe it is because you know you can't get back to the outlet, or there are only a few of the items available.
- You still make the purchase ***decision*** and complete the purchase.
- You still carry out the ***post-purchase evaluation***.

Therefore, you have still gone through the purchasing process.

Industrial Purchasing

Up to this point in this study unit, we have been looking at general factors in the purchasing process. The process applies equally in both consumer and industrial markets, but we have to accept that there are differences between the two markets. Organisations buy differently from individual consumers for a number of reasons:

- Purchases tend to be of higher value
- Purchasing tends to be for higher quantities
- Purchasing will tend to be better documented
- Buying will tend to be done in a logical manner, etc.

The main difference between industrial purchasing and consumer purchasing is that industrial purchasing is predominantly done by people on behalf of others and that, apart from the one-man business, there is nearly always more than one person involved in the buying process.

(a) Types of industrial purchases

Industrial purchases have been well documented as being one of three types:

- ***Straight re-buy*** – simply repeat purchasing without changes of any kind
- ***Modified re-buy*** – where some aspect is changed, e.g. specification or supplier
- ***New buy*** – involving new specifications, new supplier, etc.

As the degree of change increases, so does the complexity of the buying process and the time taken.

More people may need to be involved in a new buy than for a modified re-buy – for example, it may be a purchase of new plant for an entirely new production purpose which will involve a great deal of technical input from design engineers.

On the other hand, a modified re-buy may simply involve a change of supplier which the Purchasing Department can deal with quite effectively on their own.

Needless to say, straight re-buys are the easiest of all and need no specialist input; all they need is a repeat order to be raised.

(b) Common factors with consumer purchases

We have looked at the stages that buyers go through when they are undertaking the buying process. It is obvious that there are ***differences*** between industrial and consumer purchasing, but we can also say that there are certain ***common factors*** across all markets – i.e. the marketer needs to know:

- Who the buyers are
- Where they are
- How they may be reached
- What they really want
- Why they buy.

We can find out all this information by research, but the last point – ***why*** they buy – comes from understanding the motivational and influencing factors which affect the buying process.

Technology

Technology is impacting on almost every aspects of marketing and the buying process is no different. An organisation's ability to source product information and acquire products globally via the Internet has led to greater price transparency and in many cases has reduced costs. Many organisations are now using online procurement and e-collaboration to achieve better buying power and lower costs.

Online systems now provide improved stock management systems, automated ordering and "just in time" systems. Such systems improve efficiency and reduce cash flow requirements.

Online search engines and databases provide organisations with substantial information and are slowly replacing the traditional paper based directories.

F. UNDERSTANDING BUYING BEHAVIOUR

Marketing managers are in the "people" business. Even though they may be trying to make profits, they must understand individual and group behaviour both from the internal (supply) and external (demand) points of view.

Behaviour, in general, stems from:

- ***Needs*** (requirements) – which may be ***basic*** (physical) or ***higher*** (psychological), and
- ***Wants*** (desires).

It has been said that today's wants are tomorrow's needs and a great deal of marketing effort is put into trying to make this the case where buyers are concerned.

Internally, within the organisation itself, managers need to ensure that basic needs are met and that personnel are satisfied with pay, conditions of work, involvement, style of leadership, etc. ***and*** that the personnel are not demotivated by any activities taking place. They should also take into consideration the wants of the staff as a means of motivation. Knowing the aspirations of a member of staff, or what will motivate them, can be of considerable help when trying to achieve their co-operation.

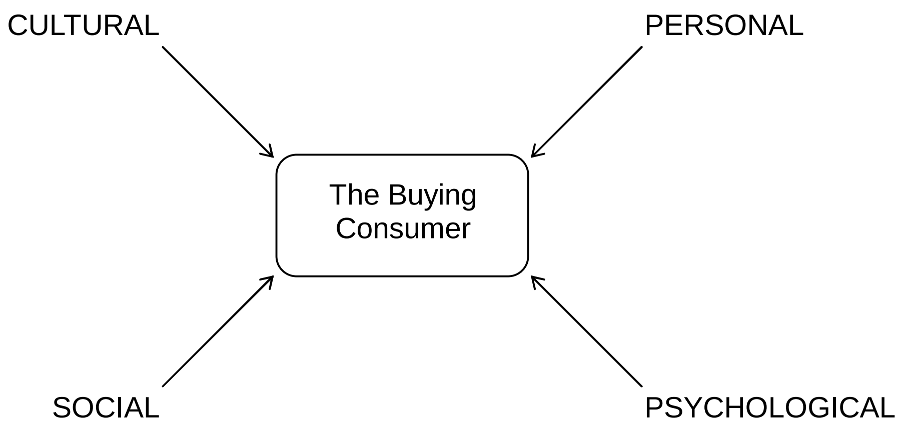
It could be said that if behaviour is not understood, marketers are unlikely to be successful in obtaining their objectives and in overcoming conflict.

Influences on Individual Buying Behaviour

It would be every manufacturer's dream to produce products that every buyer in the world wanted to buy, but we know that is impossible simply because buyers are people, and people differ in many ways. Marketers therefore have to understand what makes people different from one another, if they want to help the customers to satisfy their needs.

These differences are caused by various influencing factors, as the following model shows.

Figure 7.9: Influences on Consumer Buying Behaviour



This model provides us with a framework for understanding the types of influence.

(a) Cultural influences

The influences under this heading can be sub-divided into three sections:

- ***Culture***

  Culture includes abstract ideas and beliefs, as well as physical artefacts, which are important to a society. It summarises the learned values and attitudes of a society as a whole. It is while we are growing up that we acquire expectations and standards that fit with the society in which we live, and these acquired values and expectations stay with us throughout our lives. For example, the different standards between the Muslim and Christian religions impose different levels of acceptance on certain behaviour and, therefore, on purchasing habits.

  As individuals grow, they will absorb and acquire behavioural norms which are acceptable to their particular society; these inbred beliefs will be very strong. It is an accepted fact that the society in which a person lives and has been reared is one of the greatest influences on the final character of that individual.

  It is relatively easy for any marketers to understand the culture in their own country as they will be part of it, but understanding cultural influences in foreign markets takes a little more care. It is therefore particularly important that, when dealing with markets different to the home market, time is taken to identify and understand the cultural norms of acceptability in the foreign market, as they may vary dramatically from those in the home country.

- ***Sub-culture***

  Cultures of all kinds will contain smaller groups or subsections. The differences may be based on life style, religion or on belief in some ideal, e.g. in Spain you will find the Basque separatists, who are part of the overall culture of Spain but can be regarded in their own right as a sub-culture.

- ***Social class***

  Despite the claims for "classless societies" which we hear from politicians, class systems still exist around the world. Social classes are the "divisions" which a society accepts and they may be based on status, money or education. In the UK the social class system (A, B, C1, C2, D and E), which is still widely used, is defined on the job of the head of the household but, because of the changes which have taken place in the UK society, this method may not always be an appropriate measure.

(b) Social influences

Influences under this heading can come from family and friends or other reference groups, such as clubs, interest societies and work groups. (Note that group attitudes may be acquired from formal (structured) or informal groups.)

The influence from peer groups and opinion leaders is very strong indeed – particularly so in the young. In any kind of marketing these influences must be considered by the planner as they can, ultimately, have an effect on the outcome of the entire marketing effort. If opinion leaders can be captured, the "followers" will also adopt the product on sale.

The individual role and status of the buyer is also another influence – how we want other people to see us!

For example, if your father has always bought Ford cars, you may be influenced into buying a Ford when you make your first car purchase. However, should you be part of a group that has adopted another make of car – for example, university students who buy Renault Clio cars as a status symbol or statement – you could be influenced by that attitude in your wish to conform to the "norm" of the group. Once you get your first major job as a manager, though, you may realise that a BMW car would fit your status better than a Cleo and you will make another change.

(c) Personal influences

Personal factors relate to the individual – for example, age, life style, education, occupation, wealth, likes/dislikes and character.

For example, a young man of 21 who enjoys danger is more likely to be attracted to a motor cycle, with flames painted on its side, than another wealthy young man, of the same age, who enjoys the theatre. A lady of 45 will want different clothes from a lady of 25. A company director will have different purchasing expectations from those of a mechanic in a garage. As we move through our lives, we change our purchasing habits according to the prevailing conditions.

(d) Psychological

Wilson, Gilligan and Pearson (1992) identify four psychological characteristics as being important – motivation; perception; learning; and beliefs and attitudes.

- ***Motivation***

  This is what drives us to do or want something. It stems from a range of human needs, from basic to higher, as identified by Maslow in his "Hierarchy of Needs" model (see later in this study unit).

- ***Perception***

  This is how we "see" things. We are conditioned to expect certain things and this conditioning means that we take in images but convert them to what is acceptable to our minds. It is our own way of organising the information we take in each day. Two people who are subjected to the same advertising message, at the same time, may "see" the message in completely different ways. For example, one person at a holiday time-share demonstration may see the salesperson as being very good and knowledgeable on the subject, but another person at the same demonstration may see the same salesperson as being a "slick fast-talker", who is just interested in taking money.

- ***Learning***

  This comes from experience. As we learn, we change our expectations to meet with the newly acquired knowledge. For example, if you enjoy working or playing with computers, you gradually build up your knowledge until such time as your present machine is not good enough for you. You then move up into another category and begin the cycle all over again.

- ***Beliefs and attitudes***

  The dictionary definition of "belief" is *"principle, proposition or idea accepted as being true without positive proof"*. From this you can see that "belief" will be personal to each individual. If we are convinced through our socialisation, learning, etc. that one particular brand is better than another, we will buy that brand until something happens to change our belief.

  "Attitude" is defined as being *"the way a person views something or behaves towards it, often in an evaluative way"*. Therefore we will be influenced in our buying by how we regard the item being purchased. For example, you may see an item as being *"good value for money"* or *"cheap and nasty"*.

Models of Consumer Buying Behaviour

There have been many attempts, by academics and marketing writers, to depict behaviour in accordance with the various influencing factors. What these efforts have achieved is a range of ways in which we can classify buyers into recognisable groups. Explanations of some of the most quoted are given below.

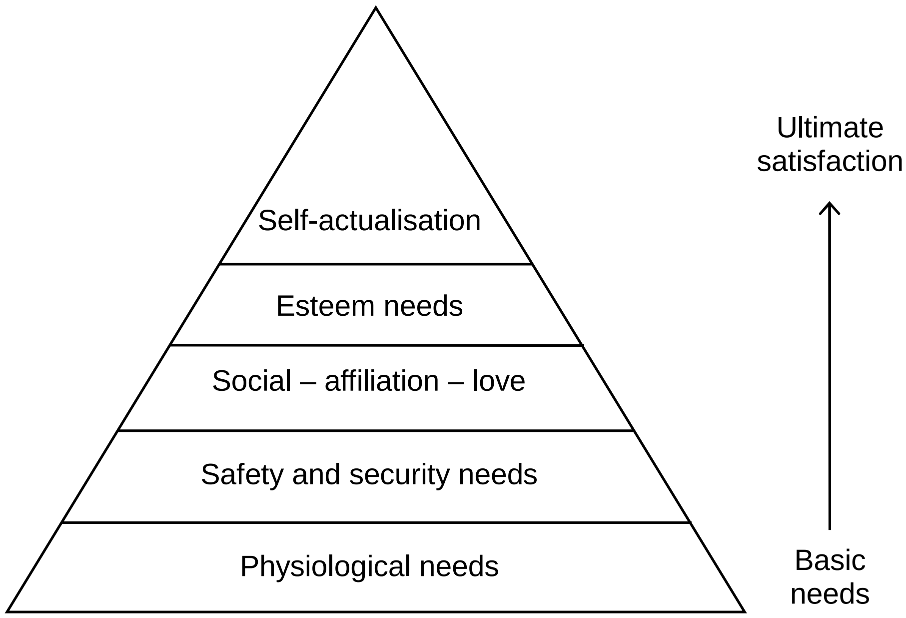
(a) Maslow's Hierarchy of Needs

This famous model of the motivating impact of needs has applications in all the social sciences.

Maslow suggested that each individual has certain needs, basic and higher, and that only when one level of need has been satisfied will the individual move up into the next level.

This model can be very useful for marketing purposes as marketers can target activities at people who are seen to be at one "level" and help them to reach the next "level".

Figure 7.10: Maslow's Hierarchy of Needs



The problem with this model is that it is very difficult to know exactly at which level someone is at any given time. People may be at several levels at the same time for different reasons. For example, someone who has a high powered car, to impress people, may not have a permanent and secure home base; someone who is held in high esteem as being an expert in a certain topic or skill may not have enough money to go on the holiday they want to.

All that marketers can do is to accept the overall meaning of the model and use Maslow as a guideline for general targeting purposes.

(b) The Family as a Consumer Unit

The "family" is arguably the most important purchasing unit in any particular country because of the total value of sales which are generated in the domestic markets. The theory of the ***family life cycle (FLC)*** is meant to show that purchasing motivations can be predicted and that they will change over time.

The basic concept makes an assumption that every adult, as they age, will move through various stages of life, demonstrating certain purchasing preferences at each stage.

Figure 7.11: The Family Life Cycle

Stage	Description and Purchase Preferences
Bachelor	Single young people not living at home. At start of career. Low income – main aim to find house/have good time. Leisure interests/clothing/alcohol/ eating out/holidays/stereos/cars/cheap accommodation.
Newly married couples	Young, no children, financially OK if both working. Domestic appliances/furniture/durables/holidays/financial services.
Full nest 1	Mother at home with one child while father works. Reduction in income.
Full nest 2	Now with two children under five. Father improved salary but costs of family higher.
Full nest 3	Family growing up. Mother returns to work. Increased income but also increased costs for household.
Empty nest 1	Some of family have moved away from home. Parents now "help out" on living costs for children living away.
Empty nest 2	All children left home. Parents back to "new married" stage. Home will be fully furnished and group interests formed.
Solitary survivor 1	One partner dies but other is still active and working. House is now paid for.
Solitary survivor 2	Last one living – not working.

Problems with using the FLC

In many areas of the world it is accepted that it is usually the woman of the house who will make the purchase decision in low cost/often repeated purchases. For more expensive items, (e.g. consumer durables) it will be either a joint decision or a decision made by the controller of the finances within the family – often still the woman! For major purchases it is likely to be the male in the family who will be the ultimate decider, (e.g. new car).

However, this attitude is changing, particularly in industrialised nations, as more and more women either remain in, or return to, work after having children. Not only are women more likely to have money of their own, but they also have more self-assurance and power to influence family buying decisions.

This, and other changes that have taken place in society, has led to the opinion that the "accepted" version of the family does not cover everything in the modern world. For example, many young people choose not to marry at all, or to wait until such time as they have amassed enough money to be secure. Their purchasing behaviour will be changed because of these decisions.

There are also many young people who take a conscious decision not to have children, which means that as they become more established and have more disposable income they may retain their initial purchasing characteristics or be in the market for high status purchases.

The increase in the divorce rate, world-wide, as well as in the number of non-married people living together as couples has meant that there can be "double families" with two sets of parents, and grandparents, buying for children.

Despite this changing aspect, the "reasons for buying" are unlikely to change in the normal type of nuclear family of parents and children, and the marketer is still largely able to design campaigns accordingly. But you should remember that, as with Maslow's model, although this model can be used as a guideline it does not give a perfect picture.

(c) Life-style Analysis

The changes which have taken place in levels of affluence and consumer awareness overall, coupled with increased competition for markets, has led to an increasing interest in analysing and understanding individual life styles. These include:

- ***AIO – Activities, Interests and Opinions***

  Customers are tested by questionnaires which are analysed and the customer is then "categorised".

- ***VALS – Value and Life Style***

  Arnold Mitchell produced this model of understanding individual behaviour. He suggested that people can be classified as one of four types:

  (i) Need-driven – "survivors" and "sustainers"

  (ii) Outer-directed people – "belongers", "emulators" and "achievers"

  (iii) Inner-driven people – "I am me", "experientials", "societally conscious"

  (iv) Combined (outer/inner) – "integrated".

  In much the same way as Maslow suggested people move through a hierarchy, Mitchell suggested that people move through the four stages, from being a "survivor" until they become "integrated". Mitchell, however, added the possibility that people can achieve "integrated status" by two possible routes.

  All people are survivors, then sustainers, and then become belongers. At this point Mitchell suggested that, depending on the basic nature of the person, one of two routes could be taken:

  - Outer-directed people will become either emulators, or achievers
  - Inner-directed people will become I am me, experientials, or societally conscious.

  Following from this each individual will become "integrated".

  The "emulators and achievers" route is more akin to the traditional path through Maslow's hierarchy, but the greater awareness of individual rights and choices, together with increased awareness of environmental issues has, in fact, meant much more "individualism" on the part of the buying public. Marketers can capitalise on this and target very precisely.

- ***Cross-cultural Consumer Characteristics (4Cs)***

  This classification was devised by the **Young and Rubican advertising agency** and classified people into one of three overall groups which could then be sub-divided:

The Constrained	The Middle Majority	The Innovators
Resigned poor Struggling poor	Mainstreamers Aspirers Succeeders	Transitionalists Reformers

- ***Diffusion of Innovation***

  This classification, which is primarily used to assess the rate of adoption of products in the marketplace, is one which is used quite considerably in marketing. It identifies people according to their ***buying habits***, which is why it is included here.

  The underlying concept is based on the normal distribution curve of a sample. This states that the spread of sample populations will tend to follow a similar pattern. The majority of the sample will be grouped around the mean, or average, with numbers decreasing as you move further from the mid-point.

(d) Kollett and Blackwell Consumer Buying Model

This model identifies five steps in consumer decision making (and is a variation on the basic buying model introduced earlier).

- ***Problem recognition***

  Recognition can be caused by internal (to the self) factors or by external stimuli. It is a recognition of a "gap" between the actual and "ideal" state of the consumer which prompts further action.

- ***Search***

  The search may begin internally from memory and then externally from knowledge sources/advertising, etc.

- ***Evaluation of alternatives***

  Several possibilities will be considered in relation to pre-set (or formative) criteria against which products/brands can be assessed and compared.

- ***Choice***

  The choice will be based on the results of the three previous stages.

- ***Outcome***

  This may be satisfaction or dissonance, where the result appears to "jar" with beliefs, etc. In these cases consumers need support to reinforce their choice.

Influences on Organisational Buying

Organisations buy differently from individual consumers, for a number of reasons.

- **They have multiple objectives/needs**

  For example, they may pursue profits and reduced costs, as well as meeting the needs of employees. In addition, they must operate under a variety of legal and social restraints.

- **A lot of people may be involved in the purchasing decision**

  The "roles" of the DMU may be fragmented around the organisation, which adds to the time taken to reach any decision. Some people may think they have power when, in reality, the power lies with someone else. There may also be internal organisational politics which influence the operation of the DMU.

- **Buying patterns may be formally set by the organisation**

  The buyer may have to buy in bulk, or buy from only one source, or buy at the lowest price, etc.

- **The value of the purchase is often high**

  The buyer is spending money on behalf of the organisation. They need to be sure that they do not waste it or their job could be in danger.

The influencing factors on buying will vary from organisation to organisation and it would be an impossible task to produce a comprehensive list of all of the variables that might influence industrial purchasing. However, factors might include:

(a) Market influences

- Availability and choice of products
- Legal aspects
- Competitive position
- Recession or boom.

(b) Organisational

- The attitude to risk
- The availability of resources
- The policies regarding trading/not trading with other parties
- The nature of the DMU (few or many people).

(c) Personal

- Status and power
- Internal conflicts and politics
- Individual morality and ethics
- Knowledge or lack of it.

If we say that influences on organisational buying behaviour are a combination of influences from both the internal and external environments, you will realise just how difficult it can be to understand organisational buyers. Add to this the fact that these buyers are also "people" who are subject to all the individual consumer influences, and it gets even more complex.

It is often said that industrial buyers are difficult to approach because they are very loyal to their suppliers. Marketers or, to be more specific, salesmen, should always be aware that this "loyalty" may simply be because the buyer is complacent and has not investigated other sources of supply, or even that salesmen have not tried an approach because they have been put off by the response *"...... we are happy with our present suppliers ....."*.

Good industrial marketers or salesmen will know that industrial buyers are prey to the same human pressures and motivating factors as the individual consumer, in addition to the constraints and motivating factors imposed upon them by the organisation (availability, quality, time, price, storage costs, etc.).

Models of Organisational Buying Behaviour

Organisational buying models have been grouped into four categories:

- Task
- Non-task
- Decision process
- Complex.

We shall briefly introduce two of those which come under the general category of complex and are characterised by the attempt to show ***both*** the organisational and the personal influences on the buyer.

(a) Webster and Wind

This is a truly comprehensive model in that it considers influences from individual, organisational, social, economic, management, sociological and political aspects.

It recognises the role of the individual as the real decision-maker in an organisation, but also recognises "the buying centre" which will mean that the decision process can be a multi-person process affected by a variety of factors which may be related to the buying task (rational and economic motives) or to non-tasks (emotional and non-rational motives).

The model suggests that final decisions are mainly affected by influences from four areas:

- The general environment
- The organisation itself
- Interpersonal influences
- The individuals concerned.

The theory attached to this model goes further than others, in that it suggests that those involved in the buying process can be classified under one or more of the buying "roles" – user, influencer, order-placer, decider, gatekeeper (as we have already noted).

Whilst you could assume that a buying centre should have common expectations, it is also possible that some of these "roles" may have conflicting perceptions and, because all behaviour is ultimately carried out at the personal level, there may be conflict between parties within the buying centre.

(b) Sheth

This is a more dynamic model than that of Webster and Wind in that it takes time into consideration and accepts that decisions may change over time.

It suggests four categories of variables:

- The psychological world of the decision-makers
- Product and company variables
- Structure and methods for problem solving

- Situational factors.

However, it does not give full consideration to the chain of activities involved in organisational buying.

Review Questions

1. Define market segmentation.
2. Why is it important to segment markets?
3. What is ACORN?
4. Define targeting
5. What are the three targeting strategies?
6. Define positioning.
7. What are the four components of the buying process?

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> "…researchers are anxious to find a magic formula that will profitability segment the market in all cases and under all circumstances. As with a medieval alchemist looking for the philosopher's stone this search is bound to end in vain." Discuss, using appropriate examples from an industry of your choice to illustrate your answer.

ANSWERS TO REVIEW QUESTIONS

1. Market segmentation can be viewed as the art of discerning and defining meaningful differences between groups of customers to form the foundations of a more focused effort. It is the way of "splitting up" a market into smaller, more manageable portions.

2. To focus activity, to reduce risk, to defeat competition, to understand the customers and to assist in planning.

3. ACORN stands for a Classification of Residential Neighbourhoods. It is a geodemographic segmentation model based on the probability that like people live together and behave in similar fashion. There are 11 ACORN groups, subdivided into 38 neighbourhood types. It is available wherever there are post or zip codes.

4. Targeting is the decision about which market segment(s) a business decides to prioritise for its sales and marketing effort.

5. There are three:
   - Undifferentiated
   - Concentrated
   - Differentiated.

6. Positioning is the process of creating an image for a product in the minds of target customers.

7. They are:
   - Need
   - Search/Evaluate
   - Decide
   - Act
   - And don't forget the feedback process!

Study Unit 8

Marketing Planning

Contents ***Page***

INTRODUCTION

In this study unit we shall consider the role of an organisation's marketing plan – both as the embodiment of corporate and marketing strategy, and as a tactical blueprint for marketing activities. Thus, we shall consider the structure and content of the general marketing plan as well as reviewing its role in respect of the key elements of the marketing mix – promotional plans, product planning, pricing and distribution.

A. THE MARKETING PLAN

The growth of competition and pressures on finance over recent years has resulted in a much greater emphasis on formal planning for every area of business, not the least of which is marketing.

These formal plans tend to be for the longer term and take in the general direction which the company and its various sections are heading towards. More detailed plans are developed to cover the shorter term and the activities which are necessary on a day-to-day basis. The annual marketing plan is one of the latter type. It gives details of responsibilities and programming of schedules, etc. which, when all put together in one document, give cohesion to the marketing effort. However, don't forget, that plans are not set in concrete. They must be flexible and regularly reviewed in the light of changing circumstances.

Purpose and Role of the Marketing Plan

The marketing plan is the responsibility of the marketing manager or director, or the owner if a very small business, and it has a specific and important role within the planning hierarchy – it links the corporate/business plan with the tactical/operational plans which form the basis for action and implementation.

Thus, the marketing plan can be described as being both the "output" and the "input" of the marketing effort.

- It is the output because it is the culmination of all the planning and analysis which is undertaken by the marketers
- It is the input because it gives guidance and direction for all the activities which are needed in the marketing function.

Accepting this viewpoint, we can see how the main purpose of the plan is to integrate marketing activities – planning, implementation, measurement and control. (This is, of course, underpinned by the requirement to achieve the corporate objectives.) If integration of activities does not take place, the plan is unlikely to succeed.

Many marketing managers have difficulty in accepting the word "integration" because they think it takes away some of the specific planning aspects required for each section of the marketing function. They prefer to do piecemeal plans and then try to match them together – all of which can waste a lot of time and effort. This approach to planning is not to be recommended.

It is far better to plan ***overall*** and then to expand on the various parts of the plan which need fine-tuning for specialist actions. At the very least, this will mean that the main sections of the plan are all in line with each other and objectives are more likely to be met. The main benefit of planning overall is that everyone knows what is happening and what is being aimed for – it helps to remove the risk of "mavericks" who try to work outside the agreed parameters – for example, the advertising manager who wants to advertise in a prestigious pan-European publication every month – when the main target market, for the next six months, is in Italy only.

Remember, the role of marketing is to meet consumers' needs in order to help drive shareholder value. Identification of need and planning to meet it, are standard practices that can be used in any market. In many markets there is no "sale" as such – no cash changes hands – yet there is always a purchase! As soon as someone accepts a proposition they have bought the product or service – it has been sold to them.

Taking the proposition that buying and selling exist, but with a range of different descriptions, you can see that:

- Teachers are selling, pupils are buying
- Librarians are selling, lenders are buying
- Health visitors are selling, mothers are buying
- A nurse is selling, a patient is buying.

Marketing plans are, therefore, appropriate to all types of organisation and markets in which transactions of some form take place. They are not the sole preserve of profit-making companies, but apply to public services and not-for-profit organisations such as charities.

Structure and Contents of the Marketing Plan

You could argue that the contents of the marketing plan are essentially objectives, strategies and tactics – the same as any other plan. But simply saying that does not really do justice to what the plan covers.

A marketing plan is much more complex and contains a range of "sub" or "mini" plans which all join together to form the whole document. These subplans may well be very complex in their own right.

Basically, the marketing plan sets out:

- Where we are now
- Where we want to be
- How we could get there
- Which way is best
- How to know when we have arrived.

Taking this as the basic framework, the key parts/headings that you would expect to find in a marketing plan are as set out in Figure 8.1.

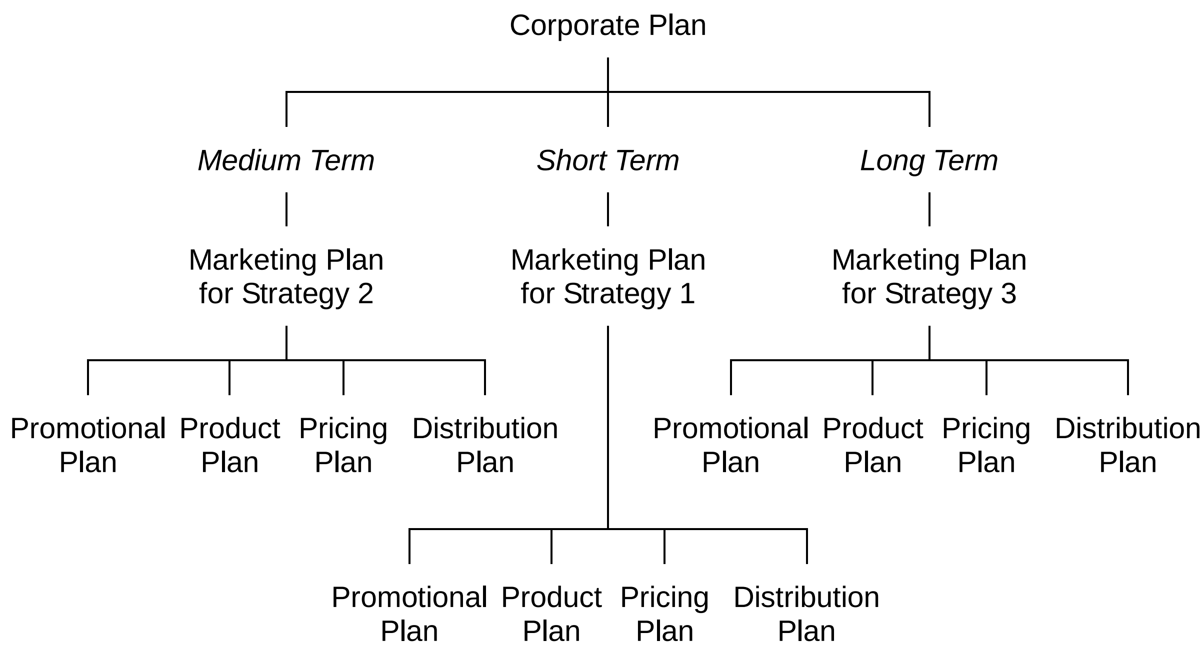
Figure 8.1: Outline Structure of Corporate Marketing Plan

Background	Evaluation of the current position and marketing strengths and weaknesses – derived from the situational analysis and marketing audit and possibly including an outline of the SWOT profile.
Marketing Objectives	Statement of where we are going, quantified over time and developed from the corporate objectives in terms which have meaning for the marketing team – for example: ● Occupancy levels ● Market share ● Revenue ● Sales.
Marketing Strategy	Broad statement of how we intend to achieve our objectives, including: ● Segmentation ● Targeting ● Positioning.
Marketing Tactics	The detail of the strategy in terms of the marketing mix and how it will be used to achieve the desired positioning and meet the needs of the target segment.
Control	How will all this be achieved in terms of resource allocation and time? How will we know it is being achieved and when things are going wrong? ● Budget ● Timetable ● Management information and feedback.

These five stages or parts make up the framework of the marketing plan. The plan needs to be developed on the basis of a sound analysis of the situation and should contain recommendations which are specific and commercially credible.

The detail of the plan – in terms of its role in framing implementation – lies in the specification of the marketing mix activities in a way which will achieve the established objectives. Central to this is the co-ordination of tactical plans, as shown in Figure 8.2.

Figure 8.2: Co-ordination of Tactical Plans



Thus, we may see that the plan may be communicated in a number of ways:

- As part of the overall business plan – in this context the marketing objectives and strategy may be included in summary as part of the tactical detail of the whole corporate picture (and note that every strategy requires a distinctive marketing plan)
- As a single, complete document, in which case the corporate background would be included as an introduction or summary and the tactical plans included in outline only, making up the marketing tactics
- As separate tactical plans – covering promotion or product etc. – where the marketing plan would be included as a summary only, as part of the background or introduction.

We have to accept that the complexity and depth of any plan will be determined by the size of the company and the enormity, or otherwise, of the task being undertaken. The marketing plan is no exception. Figures 8.3 and 8.4 show how marketing plans can change as an organisation becomes more complex.

Figure 8.3: Marketing Plan –
Small Company, Single Base, Serving Domestic Markets

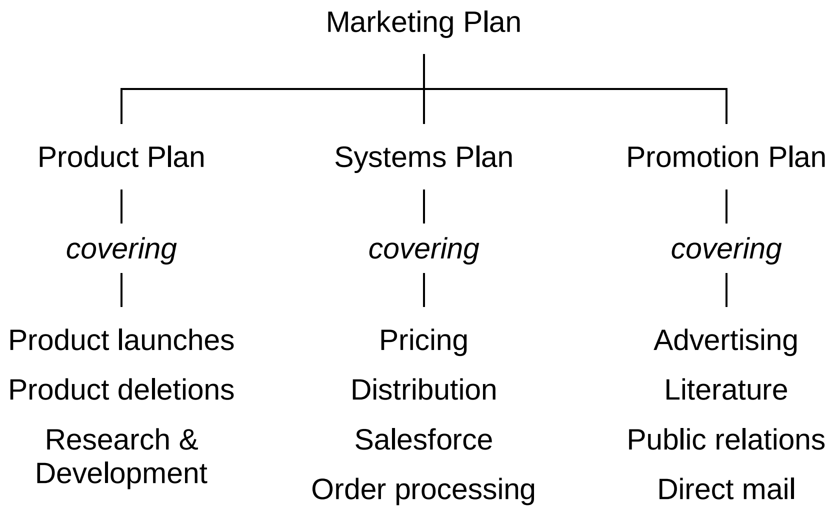
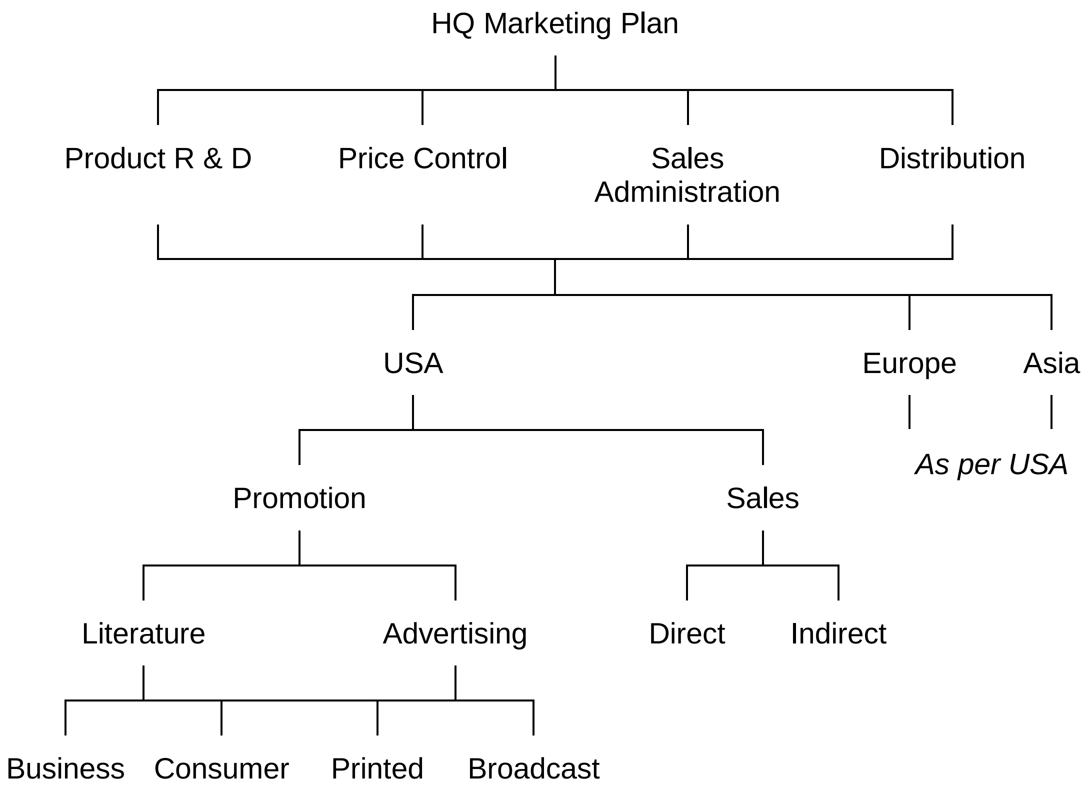


Figure 8.4: Marketing Plan –
Large Company With US Headquarters and European and Asian Subsidiaries



You can see that as the organisation becomes more complex and employs more people, more plans are needed but they all relate back to the original marketing plan. What we have is a hierarchy of plans for marketing in much the same way as we have a hierarchy of plans for the organisation – but now we are dealing ***only*** with marketing activities which, in turn, are related to the marketing mix elements.

B. PROMOTIONAL PLANS

Marketing is not the same as promotion and the marketing plan is not the same as the promotional plan. There are three other Ps in the marketing mix which must be featured in the overall marketing plan, although promotion does consume the lion's share of marketing spend and will be the largest of the subplans.

Promotion is a critical area and promotional planning is therefore essential. It is essentially concerned with the ***tactical level***, but there is also a strong emphasis on ***strategy*** and the ***strategic implications*** of promotional activities – for example, long-term promotional issues related to the strategy for brand management over 10 years.

Promotional Objectives

Promotion exists to modify behaviour. Whatever an organisation is attempting to promote, it is **always** to individuals, and so human behaviour is an important area of study for marketers. We considered buying behaviour in the last unit. The overall aim of promotion is to change that behaviour, so the starting point for setting promotion objectives is to consider the process inherent in that aim.

(a) The overall aim – changing consumer behaviour

The processes underlying every purchase, on the part of the consumer, have been analysed very closely. The processes which should underpin promotion have been developed from this. Two models describe this:

- The classic AIDA model, from Strong in 1925, identifies the process as:

  get ***Attention***

  develop ***Interest***

  build ***Desire***

  stimulate ***Action***.

- The Dagmar model, from Colley in 1961, was essentially concerned with advertising and identifies the process as moving purchasers through a series of stages as follows:

Unawareness
↓
Awareness
↓
Comprehension
↓
Conviction
↓
Action

Dagmar has been the underlying theory that has guided promotion and advertising for over 30 years, and is still a powerful influence. Now, however, we can work with a much more detailed understanding of what is happening in ***our*** market to ***our*** customers (and potential customers). As a result, the Dagmar model has been both amplified, and simplified – amplified into a more detailed breakdown of the mental steps through which purchasers pass, and simplified because it is possible to group the promotional these steps into ***three*** main stages.

We have to take our targets through

- Awareness
- Attitude
- Action.

In promotional planning, the aim is to take targets through this continuum of behaviour. All actual or potential customers will be mentally somewhere on the continuum. Potential customers have to be brought in at the ***awareness stage***. Without awareness of a package there is no way to affect attitude, so awareness has to be achieved first. From a positive attitude it is possible to move to a sale and from one sale to a succession of sales.

We are not born aware. Awareness comes to us, usually in line with need. Therefore, we are unlikely to take much notice of something we do not need – or at least want. Only when we want or need something do we become aware.

As we progress through life, our needs change and so does our awareness. Packages that are of little interest at age 12 become vitally important at age 22 and less important again at age 50. It follows that organisations therefore have a constant change of customer – those coming ***into*** the target market, those established ***within*** it, and those ***leaving***. We thus have to refresh and renew our message constantly. We must always make new converts, and leave a good impression with those who are past customers but may still be advisers and influencers to others.

Note that it is also possible that recommendations (for or against) will be achieved from ***perceived*** attitude and/or from actual purchase or use. (Remember that purchase and use are ***not*** the same though. Items can be bought but never used; bought for someone else; or they can belong to somebody else, but be both used and evaluated.)

Various members of the target market will be at different stages of awareness, hold different attitudes towards the product/service and perhaps already have taken purchase action. Thus any campaign must take into account that it will reach existing, lapsed, new and potential users. Consequently the message has to be consistent across all promotion. An ad targeted on young housewives will, for example, be noticed by older women and they must not be alienated by the message it carries.

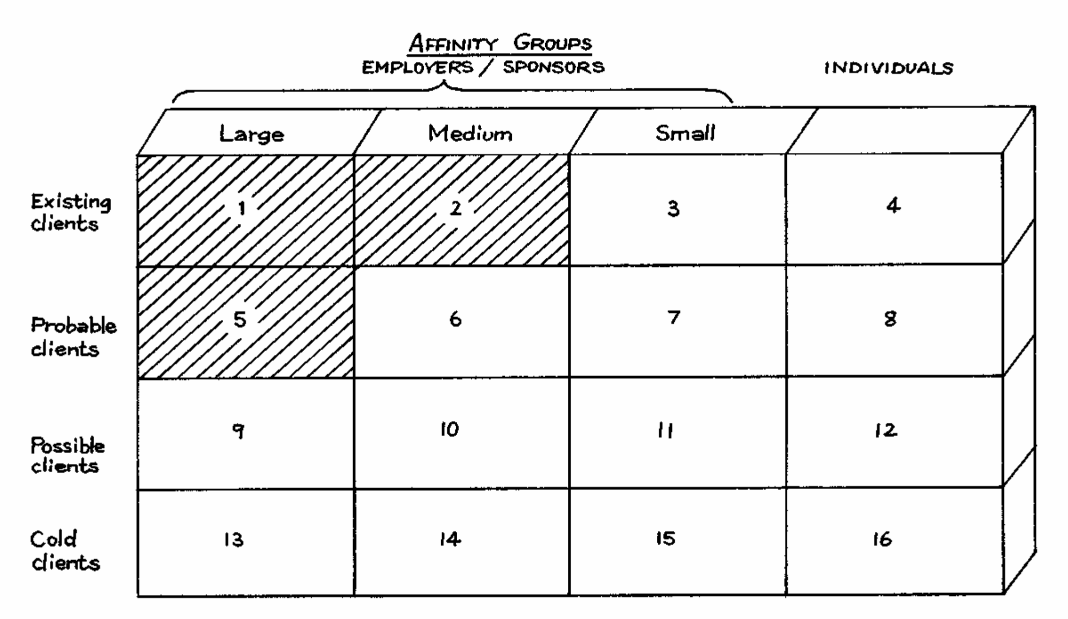
If PR and advertising do their job we should expect a high percentage of our targets to enter the purchase area with at least a positive attitude towards our product. Many will arrive with an intention to buy. Research shows, however, that purchase decisions often differ from purchase intentions. At point-of-decision there is need for some reminder, reassurance, inducement. With the dominance of self-service outlets the need for sales promotion was created, but even with a live salesperson involved at point-of-decision there is need for inducement to purchase ***now***. The amount spent in the UK on sales promotion has exceeded that on advertising for some years, and the trend shows no sign of reversing.

Finally, note that it is more expensive to increase awareness than to increase the conversion rate of those with a positive attitude to your product into regular users, and it is up to five times as expensive to win new business as to retain existing business. Also don't forget the important role that the Internet, especially the web site, plays in the buying process.

(b) Relating the overall aim to segmentation

We have already seen that segmentation is fundamental to good marketing and with use it becomes routine. In Figure 8.5, segmentation has been combined with the continuum of "awareness, attitude, action" so that you can see different target groups.

Figure 8.5: Planning target groups



From this type of analysis of the market, it is possible to plan promotional activities to target specific groups according to their position on the awareness continuum. Here, we would recommend that targets groups 1, 2 and 5 be hit first, and go on to develop specific objectives to reach them.

(c) Setting specific objectives

Setting promotional objectives is not difficult if you have followed basic segmentation practices. Once it has been determined that a segment exists, we must know its size – this allows us to either research, or estimate, the number in it who are at different stages on the awareness continuum. It is even possible to break the basic three elements down into further stages to make them more specific – for example:

- unaware
- aware
- aware and with a positive attitude
- aware and with a negative attitude
- about to buy
- buying and liking
- have bought and didn't like.

We can now set about making the changes desired.

Objectives should always be written in terms of achievement and timescale – for example:

In Period One to:

- Generate awareness in 35% of the target segment
- Develop a positive attitude in 25%
- Convert 12.5% to regular users.

Converting between percentages and real numbers is essential – you need hard numbers in order to calculate the finance, etc., but percentages are easier to work with in general planning.

When you know what you need to achieve, you can set about the practical problem of how to do it:

- What advertising campaign, based upon your positioning statement, and placed in which media?
- What PR is needed?
- What sales promotion?
- What personal selling?
- Do the totals you need to spend make sense?
- Do they fit within your budget?

Planning the Promotional Mix

Promotional plans, as with the overall marketing plan, comprise a series of sub-plans, each designed to identify the activities of the various elements of the promotional mix.

(a) Advertising

Advertising works at the top of the continuum as an ***awareness raiser***, and lower down as a ***reinforcer***, a reminder of the total message – you do not normally expect to generate sales with advertising alone. Retail marketing is an exception. Retail advertising is local, immediate, and can generate a fast response.

(b) Public relations

PR works much as does advertising – as an awareness raiser and a reinforcer. As such, it is an important tool when trying to change attitudes, influence opinion formers, etc.

In planning terms, PR activities can be scheduled, but there is also the element of the unforeseen here – the need to react quickly to circumstances as and when they arise.

It is also the job of PR to minimise damage as well as to maximise success. This makes it very expensive because it is far harder to keep news secret than to make it public.

Note that public relations is not free; there is a cost even though you do not pay for the media space. You pay for the consultancy, or for the in-house department, or for the event(s) that are scheduled, or for the press packs.

For example, when the Ford Capri was launched in the 1970s, specialist journalists from all over Europe were flown to the island of Capri for a weekend and accommodated at five-star hotels. They were free to drive all the Capri models exactly as they wished, and to have their questions answered by a battery of specialist Ford technicians, also flown in for the occasion. The cost was high – but not when measured against the incredible number of column centimetres that appeared in all the influential (in Ford terms) newspapers and magazines across Europe.

(c) Sales promotion

Sales promotion operates at the point of sale. Its role is to trigger the final decision to buy. It "adds urgency" to the purchase decision.

Through reliable research, we know that the intention to buy a specific brand cannot be relied upon. There also has to be a "trigger" – some device to motivate purchase NOW.

Shoppers going into a store with an expressed intention to buy a brand have a tendency to come out with the same product, but a different brand. As many as 40% swing between brands in some market categories! When the obvious reasons for brand switch are excluded, such as an out-of-stock position, there is still a large, residual percentage of brand switching.

Something obviously happens at point of sale, at point of actual purchase decision, and the decision is markedly different from the intention. Traditional promotional techniques are very good at establishing intention to buy, especially where goods are sold individually by a salesperson. With the advent of self-service the personal contact has been lost and a new marketing tool invented – sales promotion.

The range and variety of sales promotion is vast, with many different forms to meet different objectives – for example:

- ***Coupons*** effect a temporary price reduction, and can be carried in a variety of media
- ***Incentives*** linked with proof of purchase (such as a "free bottle of Mateus Rosé wine on presentation of a special offer coupon plus three Mateus corks") encourage repeat purchases
- ***Samples*** enclosed with magazines (such as shampoo with Woman's Own) encourage trial ***and*** add value to the magazine.

There is no need for sales promotion to be blatant or gimmicky – it should only provide an inducement to action. Thus a library with a problem of unreturned books may offer an amnesty, with no fines on books returned within a period. (A sales promotion must be close ended, otherwise it becomes part of the normal product offering.) A nurse may offer a health promotion workshop, and so on.

(d) Personal selling

Personal selling is the only form of personal promotion. It takes place where a representative of the organisation marketing the package is able to speak on a one-to-one basis with prospective purchasers. This may be face-to-face or, increasingly, by telephone.

The aspects which need to be included in personal selling plans include.

- ***Sales force strategy***

  Sales force strategy is concerned with achievement, not determination of sales volume. As always, it is from the promotional objectives that everything else will flow:

  (i) Sales force size can be calculated

  (ii) A sales expense budget can be set

  (iii) Sales territories can be established

  (iv) Control mechanisms determined

  (v) Resource effort allocated

  (vi) Call strategy developed

  (vii) Results evaluated

  (viii) Training plan established.

- ***Sales force size***

  Sales force size can be calculated in a variety of ways, the most effective being by workload – for example:

  (i) Determine the number of effective calls to be expected from each salesperson (allow for "notional" calls to take into account travelling, etc.)

  (ii) Determine how many calls will have to be made (grading customers on a scale of importance so key accounts receive more calls than those of lesser importance)

  (iii) Divide salesperson's calls per day into total calls

  (iv) Result – the minimum number of salespeople needed.

In theory, the personal selling effort can be closely controlled by the organisation – through direct training, motivation and supervision. Very often, however, promotional work in this area is conducted through a sales force that is managed by others – for example, an agent or wholesaler who may distribute your goods – and thus there is no direct control. Alternative means of control need, therefore, to be applied – typically to the organisation responsible for the sales force. These control techniques involve many of the tools used in sales promotion – incentives to promote, to report and to secure sales, as well as the provision of good back-up. These all need to be considered in the planning process.

(e) New developments

As with all aspects of marketing today, technology has important implications for promotion.

Marketers have been quick to identify the Internet as an additional promotional medium that provides existing and potential customers with company, product and brand information. It is now almost mandatory for companies to have their own web site and many of those have e-commerce capabilities. The use of the Internet has rapidly expanded globally and across all parts of society. So much so that most people today have access to the web. Improvements in technology and the ability to scramble confidential information have lead to an explosion in the number of purchases made on line.

The Internet is increasingly part of the promotional mix. It provides a tool that can be updated or modified quickly, can be aimed at a very tightly targeted group or individuals and for direct marketers can act as the point of sale. Many traditional advertisements now direct their target audience to the associated website for additional information.

Wireless marketing (m marketing) and Interactive television (iTV) are also growing rapidly as ways of targeting existing and potential customers more closely.

You should also be aware of Viral marketing or "e-mail a friend." This is electronic word of mouth. It is often deliberately stimulated by marketers who send a viral message, often with a fun theme, hoping that it will be passed on from friend to friend. Budweiser, Levi's and Comic Relief have all used viral marketing successfully. Hotmail is another good example of viral marketing

(f) Testing and control

Consider the following example.

A large department store in a London borough runs regular advertisements in the local newspaper which is published on Fridays – very good. Each department manager in turn is given the opportunity to feature a product appropriate to the season – even better. Sales are definitely made as a direct result. The trouble is there is no control, no physical count of sales made, and no measure of the effect.

Control should be a routine exercise and feedback can help you to sharpen your promotional activities. (We shall consider control techniques in more detail in the next study unit.)

Control may also be by a process known as ***feed-forward***. The best example of this is the testing of promotional campaigns. For example, one area can be exposed to the campaign whilst another is not, and the effect measured. (It is not necessary to segment geographically – local radio listeners can be compared to non-listeners, for example.) This approach requires that marketing areas can be matched perfectly and the degree of variation in success factors can be measured.

There are two problems when using this technique:

- Competitors receive advance warning of future plans
- Time moves on, and when the full campaign is launched, the very successful test campaign may well be dated or even superseded, or a competitor may have jumped in ahead of you.

Establishing the Promotional Budget

A promotional budget may be established in several ways, as follows.

(a) Percentage of sales

This is a crude method relying very much on past precedent, with little to justify it save its simplicity. However, it is widely used – in 1981 a survey showed that 55 of the leading 100 US consumer advertisers used this method in some form, as did 92 leading British companies.

Sales results should surely be the ***result*** of promotion, yet this method uses sales results as the ***basis*** for promotion! Further, a well established brand will have more spent upon it than a new brand which needs support desperately!

It can be useful as a check on a budget derived from another method, but it should certainly not be used as the only method, or as a veto. No ceiling should be placed arbitrarily on a budget.

(b) All you can afford

This is the only choice if resources are limited. A firm may allocate all it can afford providing that this is sufficient to do the job. If it is not, then it is money wasted.

It is simple to determine the maximum that may be spent on promotion by reference to the required level of profit. In effect, instead of charging promotion as a variable overhead; then the bottom line of the forecast profit and loss account becomes promotion, not profit. Obviously you can then adjust the figures in the light of need.

As an example, consider the following simplified profit and loss accounts.

Conventional Profit and Loss Account

	£
Sales	100,000
Cost of sales	75,000
Gross profit	25,000
Promotion	10,000
All other items	18,000
Net profit/loss	(3,000)

Re-presented Profit and Loss Account to Show Maximum Promotion Budget

	£
Sales	100,000
Cost of sales	75,000
Gross profit	25,000
Profit required	5,000
All other items	18,000
Maximum Promotional Budget	2,000

It is unlikely that the project will succeed with this promotional budget and some revisions to the plan are obviously necessary! However, it illustrates the basic approach.

(c) Objective and task

By far the most difficult to introduce, this method is the most valuable. It depends upon clear communication objectives being set and specific plans being made to meet those objectives. These would then be costed and appropriate budgets drawn up.

For example, personal selling budgets must include all the expenses involved in the activities necessary to achieve the sales objectives set out in the marketing plan. This will include obvious items such as salaries and expenses, as well as car use and depreciation. All sales support staff should also be included, together with overhead apportionment. Allowances for entertaining, etc. will also be included – but they, more properly, should be shown within the overall promotional budget along with the costs of sales attendance at exhibitions, etc. (unless these are specifically the responsibility of sales force management).

The budget should show the headings where sales have a degree of control. No functional manager should be held responsible for decisions outside his control. (For example, if the firm decides upon a fleet of cars that are inefficient in use, it is not the fault of the sales manager and no blame should attach. If good cars are used inefficiently, then that is his or her fault. This distinction must be identified, and control data presented in an appropriate way.)

This method is difficult to introduce because:

- It requires detailed data about all the activities involved and the level of activity required
- It requires management that is willing to accept control and is capable of using it correctly
- It requires management that is willing to take the time to establish the database.

Unfortunately, too many managers take the easy route and apply a budget in a time-honoured way.

Effective controls are paramount to ensure that the effectiveness of any spend is known. Thus, a firm may decide it will increase awareness of Brand A from 40% to 50%, at the latest by 1st July next. It follows that it has to know the ***level of awareness now*** and be able to ***monitor change***. It has to have an effective research operation.

One interesting example of this is Budweiser Beer which ran a series of field trials in the USA using seven different levels of advertising budget. Each ran in six distinct marketing areas for one year, and careful controls were exercised. The budgets were, by comparison with the previous year, set at levels of −100% (i.e. no advertising), −50%, 0%, +50%, +100% (i.e. double the previous year), +150% and +200%. The remarkable result was that "no advertising" had no impact on sales levels and the −50% spend resulted in a sales increase! Whilst this is not to support doing no advertising, it does demonstrate that the level of spend – year on year – is not necessarily reflected in achievements as represented by sales. Budweiser's advertising policy changed considerably as a result of their detailed study of the results, and it underlines the need to be clear about the objectives of promotion and the need to monitor progress towards their achievement.

C. PRODUCT PLANNING

Products are the raw material with which the company has to work.

They can be moulded, modified and represented to the market in a variety of guises, but at the end of the day the company achieves its objectives by selling products or services. The capacity you have today is finite. Tomorrow you may be able to expand or introduce a new range, but today you have to do your best with your current product range or mix.

Key Issues

Planning is a critical and fundamental task of product management and there are three fundamental issues to be addressed:

- ***which*** products to produce
- ***when*** to produce them
- ***how many*** to produce.

As the product itself represents a significant "P" in the 4Ps, the marketing manager's views and opinions on product planning issues are paramount, but other function specialists, particularly those involved in production, and research and development operations, will also have views. A balance has to be struck between the different, and often competing, needs of each.

(a) Which products to produce

This will be determined by the company's experience, resources and assessment of the market, both historically and currently. Remember that the position in which a company currently finds itself has been determined by the quality of the decisions made in the past.

Most companies and organisations produce more than one product or service. The term ***product mix*** refers to the combination of products offered by the company. Managers must decide what proportion of their resources will be dedicated to each product or product range.

The skill in getting this balance of products right is about assessing ***current*** demand and supply, but ***future*** assessments of demand and competitors' activity also have to be taken into account.

Most companies would expect to have a portfolio of products which are made up of goods and services at different stages of their life cycles. This way they can provide the balance of today's and tomorrow's breadwinners and, by spreading their resources over a range of products, they can reduce the business risk of unexpected changes in demand.

(b) Timing of product offerings

At the ***strategic*** level this refers to the decision about when, in general terms, to launch a new product or stop producing an old one. At the ***tactical*** level, it relates to the decision about specific dates which will optimise the sales potential – for example, launching a summer swimwear range in March or in April.

Remember, for many companies the launching of a new product means the death sentence for sales of an existing model. The car companies are a particularly good example of this.

The skill of management, then, lies in the timing – to maximise potential earnings from the old range, but to launch the new one in order to maximise impact on the market. Managers do not want to hang back from launching an innovative new product, only to find that their competitors have reached the market first.

(c) Volume

How much to produce is obviously a critical decision, both in total terms and for each product. What, though, is the optimum production volume?

Before answering that, think for a moment about the real function of marketing.
Is it to:

- Increase sales?
- Increase profits?
- Match demand with supply?
- Make people want things they do not need?

Marketing's role, of course, is to ***match demand and supply***. The marketing manager's job is to develop enough demand to keep the business operating at capacity. Generating too much demand achieves little – it probably just indicates that a higher price could have been received for the current output, or less could have been spent on the promotional campaign.

There are many variations and permutations between the extremes of:

- Being a high volume product aiming to maximise sales at a reasonable price
- Being a quality product limiting output and maximising profit per unit of sale.

The skill in product planning lies in getting the demand and supply balance right for each product/market opportunity.

New Product Development

The process of new product development (NPD) involves a number of stages, as follows:

Idea Generation
↓
Screening
↓
Business Analysis
↓
Physical Development
↓
Test Marketing
↓
Launch

This process requires careful management, since it is expensive and risky, but also often critical to the organisation's future success. At each stage there is a need for clear information on which decisions may be taken as to whether to continue – based on marketing research, and taking account of organisational and production implications.

The Product Plan

Both existing and new products will involve managing aspects such as timing of launches and promotional activities, scheduling sales effort in liaison with production departments, etc. which means that activities need to be planned.

As we have seen before, a product plan is a mini-version of a full marketing plan. While concentrating on aspects relating to the product, it must fit with the plans for other elements of the marketing mix. Indeed, many brand and product managers will have responsibility for, or be involved with, decisions on pricing, distribution, etc. At the very least there must be liaison or all plans will be reduced in effectiveness.

Accepting that the product plan can be a plan in its own right, we can see that there must be strategies, tactics and programmes as well as controls. The ***level*** of the product plan can be either strategic or operational.

- ***Strategic product plans*** can include the type of branding to be used, the levels of quality to be given, whether or not (and how often) new products will be introduced, etc.
- ***Operational product plans*** will be much the same as with any other operational plan – they will identify timing, costs, responsibilities and measurement techniques. They are more detailed than the strategic level plans.

A well-structured product plan helps to identify opportunities and to ensure that there is a good mix of products in the overall range, as well as giving the capability of assessing the performance of range items in order to see which need support, deletion or adaptation.

Lack of formal planning for the product is likely to result in failure in the marketplace, with the obvious outcomes for the company.

D. PRICING PLANS

The price element of the marketing mix generates strategic issues which need to be tackled in the form of a pricing plan, as well as being an issue in its own right.

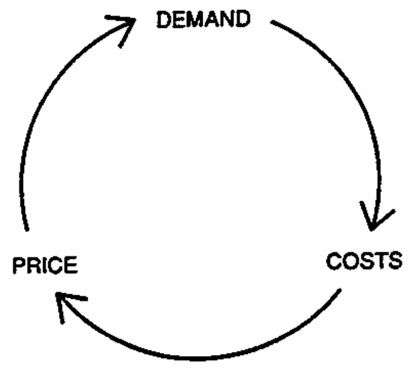
This plan has a dual purpose in that it must maintain a balance between:

- The ***organisational aspect*** of ensuring that revenue is kept flowing and that costs are met; and
- The ***marketing aspect*** of satisfying the customer.

There are so many influencing factors that pricing can become a minefield if it is allowed to. It is only by following laid down pricing policies and strategies, and adding value judgment, which is a result of knowing the market and the customer, that a manager can be sure of any degree of success. In other words, pricing needs to be structured, creative and based upon knowledge.

Pricing Decisions

The cycle of demand, costs and price is a complex one and difficult to penetrate. Each interacts with the others and this underlies the problem of simple price-setting formulae based on cost or on demand alone.

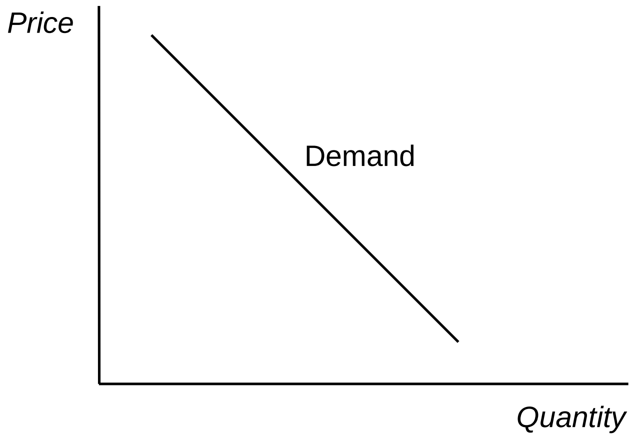


Historically, pricing decisions have been made on the basis of the straightforward formula of "cost plus". This has much to commend it – it is clear, simple to put into operation and easily understood – everyone can appreciate its basis. However, in ignoring the implications of demand, such an approach risks failing to fully develop market opportunities.

Similarly, price setting based solely on demand can be clearly seen to be inadequate. The risk then is of a failure to maximise margins.

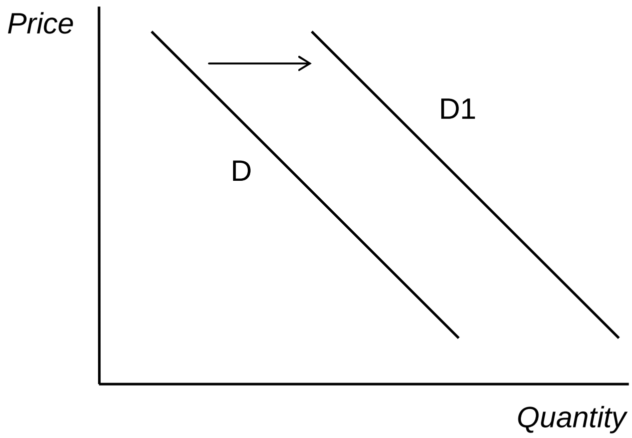
In very simple economic terms, we know that for many products raising prices reduces demand and vice versa – this gives us the classic demand curve shown in Figure 8.6.

Figure 8.6: Simple demand curve



We can say that the role of marketing is to change the pattern of demand. Obviously price is one of the variables which can be applied to achieve this, as is shown by the demand curve model above. However, using other elements of the marketing mix to add value – for example, increasing availability or increasing (perceptions of) quality – we can attempt to affect demand in such a way that more is demanded at all prices. The effect of this is that the demand curve shifts to the right, as shown in Figure 8.7.

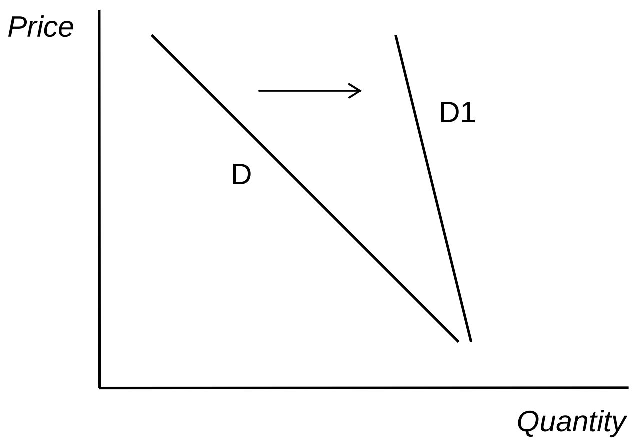
Figure 8.7: Shifting the demand curve



Note that there are many situations where customers judge quality by reference to price – they do not necessarily behave rationally when faced with lower prices.

Other approaches – such as product differentiation through branding/packaging and advertising – can make demand for the product less price sensitive (or, in economics terms, price inelastic). This has the effect of changing the shape of the demand curve as shown in Figure 8.8.

Figure 8.8: Price inelastic demand curve



The steeper curve, shown here as D1, indicates that demand is less sensitive to price.

Thus, in both situations (Figures 8.7 and 8.8), the marketer has succeeded in increasing demand without reference to price. Thus, using price as a variable to increase demand (which would mean dropping the price and losing revenue) appears to be a less attractive strategy.

At the heart of the conundrum for the price setter is the concept that it is very hard to ***sustain*** a competitive advantage based solely on price.

In the light of this, it is inappropriate to automatically hand on any cost savings to customers through a price reduction, without a strong case for achieving a strategic or tactical advantage in doing so. In other words, pricing decisions must be made after consideration of their impact on ***all aspects of the business***, not just on demand.

It is in the area of pricing that the decision usually involves direct input from both the finance and production departments, thus making the arena of price-setting a complex one, with many "players" and interests to consider. Much effort may therefore be needed to "market" your views on pricing effectively.

Integration of Pricing into Marketing Activities

Despite the above argument, the classic determinants of price continue to be supply and demand. Supply relates price to the cost of production – since no company can continue to supply goods or services at less than the cost of production. Goods and services cannot be priced higher than the level which customers will pay, or demand for them will disappear. Hence there is a range of price above which there is no demand and below which production is not viable.

Within this range there is an area of pricing discretion, and it is this that allows the flexibility necessary to integrate price into the marketing activities of product, place and promotion.

- Price is associated with product in that the product is seen as good value by prospective customers. Integration may be achieved by cutting production costs and lowering the price, or by improving the product benefits while maintaining the existing price. When price and product combine to increase effective demand, economies of scale are achieved.
- Price is associated with place in respect of effectiveness and efficiency of distribution channels. A higher price may be acceptable if delivery is speedy and safe, or if after-sales service is excellent, or if the sales site is convenient. A lower-cost delivery system for supplies may allow a cut in price which increases customer value.
- Price can be integrated with promotion through special discounts, offers etc. Price can feature strongly in advertising and personal selling.

The integration of price into the marketing effort has to be planned. Firstly the marketing objectives of the organisation have to be specified. For example, is the prime objective to increase market share or to build up customer loyalty? Then marketing strategy can be deployed, which will decide just how price will be integrated into the other elements of marketing.

Pricing policies can be implemented through a number of different strategies, including:

- ***Penetration pricing*** – which uses low prices to enter a new market or increase the share in an existing market
- ***Market skimming*** – where a high price is set for a new or exclusive product and then is lowered by stages as sales are built up
- ***Stimulation pricing*** – where sales can be stimulated by setting an attractive price, aimed at a particular market segment
- ***Loss leaders*** – where certain primary goods are priced below production costs to increase sales of other related products or services. Mobile phones, for instance, are offered at low prices and the profit made up on the revenue from calls.

Price takers or price makers

Organisations tend to be either price takers or price makers. Price takers have only a limited ability or willingness to control prices and so follow the market leader's pricing strategy. They tend to respond reactively to changes in price. Price makers, on the other hand, because of their size, power or competitive advantage are able to set prices.

Price makers can often add value and within reason, recover the costs through higher prices. In contrast, price takers tend to think of making a product that will undercut the market's price by an amount that is attractive to potential purchasers.

The essence of price integration (or the integration of any of the four Ps) into a total marketing effort is that no element of marketing can be seen as an independent activity. Also, the marketing mix cannot be seen as a fixed pattern. The ingredients must be constantly monitored and changed to meet changing conditions of the environment, customer tastes, competitors etc. The yardstick of success of a given integrated marketing mix is the value it delivers, as assessed by the customer.

E. DISTRIBUTION PLANNING

The distribution function deals with the minutiae – in volume and on a continual basis – involved in ensuring that the product is delivered, in good condition, at the right time and to the right place. Its role is supportive, but crucial – for example, errors in invoicing can probably be corrected with minimum problems, but a similar error in distribution can cause a serious loss of revenue both to the customer and the supplier.

Planning is essential to identifying the most appropriate distribution methods to suit the products on offer. The distribution plan will be developed from objectives and strategies in the same way as other plans, and based upon the requirements of the main marketing plan. It is, therefore, tailored to suit the company products, the market segments targeted, and the performance criteria and standards required.

Distribution Channel Decisions

The selection of appropriate channels of distribution begins with an analysis of the alternatives. Channels may be classified initially as tall or flat:

- A ***tall*** channel has a number of stages in the distribution process – for example

  Producer
  ↓
  Wholesaler
  ↓
  Retailer
  ↓
  Customer

- A ***flat*** channel has only a few stages – for example, the minimum would be

  Producer
  ↓
  Customer

The ***use*** of channels may be further classified as broad or narrow:

- A ***broad*** use is one with a number of channels, some tall others flat
- A ***narrow*** use has a single, or very few, channels of distribution.

The criteria for selecting tall or flat, broad or narrow, include:

- The nature of the market or market segment being targeted – for example, a mass or a specialised market
- The market population – is it concentrated or dispersed (geographically or in terms of socio-economic class) in area or in type of customer?

- The nature of the product – is it simple and easy to understand, or complex and requiring support services from suppliers?

The choice of channels should ideally be flexible, which means that as conditions and the environment change, so too should the distribution methods and channels. Organisations should always ensure that the coverage is adequate – i.e. all the customers in the target market have access to the products and services they need. However, costs must also be taken into account by suppliers, so channels should be both effective and efficient.

Technology

- With the benefits of the Internet and e-commerce many organisations are opting for the *flat* channel. The Internet can provide fully automated e-commerce systems that can take orders, receive payments, provide fast communications and in some cases even undertake the physical distribution (e.g. tickets, computer software, insurance policies etc). Many such systems operate globally in real time and have reduced inefficiencies and lowered costs. A good example of this is the airline industry, where historically most tickets were sold through travel agencies – now most are sold, (and delivered electronically), by the airline direct.
- In recent years there has been an enormous interest in Just-in-time (JIT) approaches to inventory control. JIT is the process of arranging for supplies to come into the factory, warehouse or retail business at the rate they are needed. With the development of sophisticated inventory control systems, automated ordering processes and using dependable suppliers, it has been possible to dramatically reduced the stock holding requirement whilst providing an important cash flow benefit.

Figure. 8.9: Who is best to supply the customer?

The manufacture is best placed to supply	Intermediaries are best placed to supply
• Complex products with continuous development • Most made to order products • Where high level of service/support is required • Where there is a small customer base • Where transactions are high volume/value • Where it is easy to cover the geography • Where shipments are large scale, planned and JIT • Where high level of feedback is required.	• Simple product with basic service levels • Standard stocked lines • Large customer base • Smaller customers • Small random deliveries of stock • Geography difficult to cover • Low level of feedback required.

Control over the Distribution Process

Control of distribution channels is crucial in any organisation. The maximum control is found where the chain of distribution is flat. For example, a producer selling direct to customers has strong control over its channel. A tall channel involves weaker control as some of its stages are outside the direct influence of the producer – for example, the producer does not own the wholesalers and retailers which distribute its goods.

Control can be a problem between producer and wholesaler, wholesaler and retailer, and firms and their agents. It can also be difficult when problems arise between various wholesalers or retailers, all selling the producer's goods and services. For example, the quality of service and value for money may not be uniform, consequently some customers get greater satisfaction than others buying the same goods.

In order to gain greater control over their distribution channels, some producers have bought wholesalers and retailers so that strong control can be exerted from producer through to customer. Other organisations seek information and feedback from each stage of the distribution process.

Buying up wholesalers and retailers is an example of vertical integration. Although this provides the strongest control, it can create problems in that the competences required to be successful wholesalers/retailers are different from those of producers. However, integrated marketing techniques set out to smooth the flow of distribution.

In some cases retailers have bought their suppliers (backward integration), again for the purpose of achieving control of stages in the chain of distribution. Other retailers have quality control inputs in their supplier's organisation and seek to achieve control without the costs and problems of ownership. Again, the aim is to achieve an integrated distribution system.

Review Questions

1. List the outline structure of the corporate marketing plan
2. What are the stages of the Dagmar model?
3. List the main components of the promotional mix
4. What is the preferred method for determining the promotional budget?
5. What is the difference between penetration and skimming pricing strategies?
6. When are intermediaries best placed to supply?

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> "Companies fail in the market-place because their strategies are ill conceived, poorly prepared and badly executed in relation to those of their competitors" Barry James (1984). Discuss, using examples from an industry of your choice to illustrate your answer.

ANSWERS TO REVIEW QUESTIONS

1. Background, Marketing objectives, Marketing strategy, Marketing tactics Control.

2. Awareness, Attitude, Action.

3. Advertising, Public relations, Sales Promotion and Personal Selling.

4. The Objective and Task method.

5. Differences are:
   (a) Penetration pricing uses low prices to enter the market or increase the share in an existing market
   (b) Skimming pricing is where a high price is set for a new or exclusive product and then is lowered by stages as sales are built up.

6. Where the following apply
   - Simple product with basic service levels
   - Standard stocked lines
   - Large customer base
   - Smaller customers
   - Small random deliveries of stock
   - Geography difficult to cover
   - Low level feedback required.

Study Unit 9

Marketing Implementation and Control

Contents ***Page***

INTRODUCTION

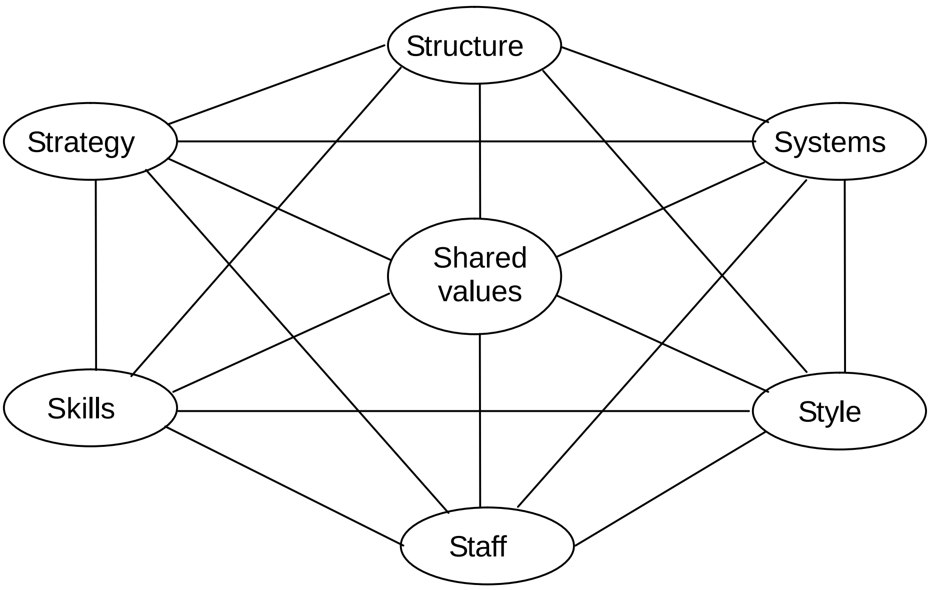
Effective marketing requires the effective implementation of marketing plans. In this unit we shall consider the conditions which should apply in order to facilitate this. We will also briefly look at the importance of marketing education.

The conditions which impact on implementation are those in the environment within which the plans are carried out. Environmental factors, as we have seen, may be divided into internal and external. The external factors will have been taken into account, as far as can be realistically assessed and forecast, in the formulation of the marketing plans, and any changes are likely to result in changes to the plans. Further, they are essentially uncontrollable.

It is, therefore, the internal factors which bring most pressure to bear upon successful implementation – and internal factors are controllable.

McKinsey's Seven Ss model is a very good way of representing the internal factors which are essential in marketing and which can affect the successful implementation of plans. This model (Figure 9.1) shows the links which, when present in a balanced format, will allow a marketing plan to be developed and will aid in its implementation.

Figure 9.1: McKinsey's Seven Ss Framework



The key elements shown here represent the main areas for study in this unit – the management and structures of the organisation through which staff work in the planning and delivery of marketing. Note, though, that whilst we shall consider the different aspects separately here, there needs to be integration among them through support for the strategies and objectives at both the corporate and functional, marketing levels.

A. STRATEGIC ORIENTATION OF BUSINESS

The structures and management of an organisation are largely a reflection of the strategic approach the organisation adopts towards doing business. Not every organisation adopts a marketing stance – there are various different methods of conducting business – and the success of the approach will depend upon a number of factors, including the type of product and the type of market.

It is generally held that there are four ***strategic business concepts*** or types of ***strategic business orientation***:

- Production orientation
- Product orientation
- Sales orientation
- Marketing orientation.

Production Orientation

A company following this concept is operating on the idea that the more you can produce the more you can sell. Managers assume that customers are only interested in the availability of products and of low prices and that marketing is not necessary. This may or may not be true. Consider the following examples:

- A fashion company making exclusive dresses, selling on average at £3,000, produces and sells 12 dresses each month.

  If they were to double their production rate it is unlikely that they could retain their "exclusive" appeal. This would mean prices would have to be reduced and revenue would fall – not to mention the increased costs in materials and labour needed to make more dresses.

- A company making electronic switching gear, on a batch production basis, produces 4,000 units each four-week period. The units are sold at £3.00 each and are recognised as being "superior" products to those of the competition, which sell at £2.50 per unit. The competitor sells more units than the company does.

  If the company were able to increase production and reduce the price slightly they could possibly sell more units and increase their revenue. Of course, calculations need to be made taking into account all costs incurred – for example:

	Current		***Potential***
Level of production	4,000		6,000
Sales @ £3.00	£12,000	@ £2.75	£16,500
Fixed costs	£2,000		£2,000
Variable costs (£0.25 per unit)	£1,000		£1,500
Profit (per four weeks)	£9,000		£13,000

  Assuming that new production plant cost £4,000, and that all units produced were sold, it would take only one month's production to recover the costs. After that the company would be making even more money than they are at present. Even allowing for a price match to that of the competitor this would seem an advantageous move for this company.

However, let us take this one step further with another example:

- Imagine a company that makes a small electrical product which can be used in photography.

  After introducing a small pilot batch, it appears that sales potential for this product is promising. The company has the production capacity to produce 3,000 units per month. Managers fix a target production level of 12,000, which will take four months to complete, and production begins.

  Once the first monthly batch has been completed selling activity takes place and everyone stands back waiting for the orders, but few orders are taken. An investigation is begun after eight weeks as to why the product is not selling – by which time the company has produced a total of 6,000 units.

  The investigations are completed by the end of Week 10 (7,500 units produced). The company discovers, by asking its current customers, that a new digital camera has been launched which has made their product obsolete almost overnight. The company are left holding all the stock, and now have to accept the losses or find other markets for the product which, in turn, will involve them in even more costs for research, marketing and other activities.

In this last example the "production concept" has failed miserably. To simply mass produce any product on the outcome of meagre research is foolish in the extreme. The company might well find a market for their product but it would be a "niche" market rather than a mass market because of the changes in technology. Producing in smaller batches appropriate to the level of demand makes much more sense.

Using these three examples we can see that there are times when a production orientation will work and times when it will not. This concept works when:

- the market is low cost and high turnover
- there is high demand for the product
- buyers are sensitive to price
- the organisation has the capacity to mass produce, and
- the marginal production costs incurred are low.

However, it does not work in the opposite circumstances.

Companies following a production orientation gain from economies of scale and reduced marketing and production costs, and are likely to have a greater market share and strength over the competition. However, they will not have any degree of "exclusive" appeal or close contact with customer needs, and will not receive high levels of customer loyalty.

Product Orientation

This type of orientation is present when managers in the company believe that customers will recognise a good product and buy it when it is made available. The managers have such a firm belief in the quality and appeal of their product that they cannot accept that customers may not readily see the same advantages and they fail to undertake any marketing or even carry out essential research before beginning production. Consequently the managers are dumbfounded when customers are not beating a path to their door to buy up the existing stocks.

Perhaps one of the most quoted examples of this type of orientation concerns the Sinclair C5, a small motorised vehicle which was introduced into the UK by Clive Sinclair. Sinclair thought he had an excellent product which would help alleviate pollution and lower traffic levels on the roads of Britain.

He did carry out product tests – but they were in a gymnasium. When the product was finally launched it proved to be dangerous and frightening when users were faced with large trucks and other vehicles using the public roads. Sinclair had underestimated the fact that his target audience liked their cars and that they were not going to buy something which, in their opinion, was inferior to what they already had. Despite his belief in it, the product failed completely.

Although the C5 is used to demonstrate how product belief by managers can be dangerous it is not the only example in existence. Currently there are many organisations who have excellent products of all kinds but, because they do not market them or tell people about them, they are not selling.

We must not overlook the fact that sometimes a good product ***does*** have a good future and that the belief of a manager can save the product from disappearing. Innovative products spring from creative minds and sometimes creative minds can be far ahead of the majority of the public. It is only after a period of time, and education, that people will appreciate the benefits and begin to buy. The product may then take off and become very successful.
If every new product that did not sell was dropped immediately we would never move forward, but to simply go ahead and produce a product because its creator believes in it is dangerous.

Companies following a product orientation can only be successful if:

- There is a current demand for the product
- There is a potential demand for the product
- Products are given full marketing support
- Products meet customer requirements.

Thus it is obvious that product orientation ***must***, if it is to be successful, be adopted only after research has been carried out.

Sales Orientation

Orientation on selling means that the company sells what it makes – it does not make what it can sell. Managers believe that buyers have to be "coaxed" into buying by aggressive techniques.

This will involve heavy activity on the selling and promotional aspects with perhaps discounted prices being used and incentives to buy being offered. The company is more interested in "moving stock" than in stocking the right goods.

Companies selling goods very similar to those of the competition are often following this type of orientation as they can see no other way to get customers. Consider the following situation.

In a medium-sized town there are four outlets selling carpets. They are all selling very similar products, many actually coming from the same manufacturer. The managers think that the only way they can get customers in is to "attract them". So:

- One outlet offers 10% reduction (a reduction in profit)
- Another offers interest free credit (charges from the finance company)
- Another offers free fitting (labour costs incurred)
- The last offers extended guarantees (insurance costs for potential replacements).

In each case the company is using money to attract money and each gain will only be short term. It is likely that they will have to continue on this round of competitive activity just to stay in the market.

If one of them were to break the cycle and research customer requirements they might well find that customers are prepared to pay a slightly higher price for good quality advice on carpet buying – something which would not cost too much money to provide but which would give the outlet a competitive edge.

Sales orientation usually implies the existence of an aggressive sales-force and this can bring a company into disrepute. If a salesperson is more interested in his/her commission from a sale than in repeat business from a customer they are more likely to use methods which could be, to put it mildly, disreputable. Corporate reputations can be damaged very easily, but can take a long time to be recovered.

In the mid 1990s in the UK the financial services sector was greatly affected by previous sales techniques used by their representatives. Changed government legislation resulted in vast amounts of money being paid to people who had been given bad, or misleading, advice from pensions and insurance salespeople in the past. The result of this has been that salespeople must now be qualified and are strictly controlled. Methods of paying commission have been changed and there is now no advantage for a financial services salesperson to use any aggressive methods.

Despite the above comments there is, and always will be, a place for sales orientation. We have market traders who sell aggressively to move their stock; and there are companies who buy and sell inexpensive products which customers may buy either on impulse or to meet a short-term need. But it is safe to say that if a company wishes to obtain and keep a customer, they must be looking to satisfy customer needs and not simply make a sale.

The sales orientation only works when:

- There is little need for an after-sales service
- Companies are not interested in forming relationships with customers
- Buyers have low expectations of the product or service
- Repeat purchasing is unlikely.

Marketing Orientation

Companies following the marketing concept firmly believe that the customer is the key to successful business. Unlike the three concepts discussed above, the marketing concept actually begins ***with*** the customer and the company is trying to provide what the customer wants rather than making the customer want what the company has.

If an organisation is following the marketing concept it will have three distinct characteristics:

- **Customer orientation**

  The organisation must define customer needs from the point of view of the customer and not its own. It will need to seek information actively from the marketplace in order to assess whether the offerings are meeting customer requirements and, if not, why not.

- **Organisational integration**

  All functions, sections or departments of the organisation must work together to meet the overall objectives of the organisation – which must be to satisfy customer requirements. When individual sections of a company do not fit in with the total effort there may be friction or problems which can result in lost opportunities or dissatisfied customers.

- **Mutually profitable exchange**

  The organisation is entitled to a reasonable profit for a reasonable product.
  The customer is entitled to a reasonable product for a reasonable price. In other words – both should be satisfied. This satisfaction may well be the result of negotiation where the customer has accepted an alternative product or where the organisation has had to

accept a lower profit – but they must be satisfied with the exchange. If it is not a **mutually** accepted exchange, it is **not** marketing.

B. ORGANISATION FOR MARKETING

You will be aware that there are all sizes of organisations in existence, ranging from the one-man operator to the huge multinational conglomerate business group. Despite the differences in size, they all have one common characteristic – they exist to provide something to other parties, and survive by making a profitable return on their output. Regardless of the reason for existence, every organisation needs to be ***structured*** to make it efficient and effective.

Basically the structure is the skeleton, or the back-bone, of the organisation and is generally used as a means of grouping the necessary activities together in some way that makes sense.

Alternative Organisational Structures

A business, of any kind, may be organised in several ways. The most common structures are as described below.

- **Regional/geographic**

  This is a very simple way of splitting up responsibilities. The region can be small (local towns) to very large (Africa, Indonesia, United States, etc.). As the business develops each area can then be sub-divided to cope with increased work, e.g. north, south, etc. or perhaps in one of the ways we consider below.

- **Task/function**

  Typical functions to be found in organisations are: Finance, Production, Purchasing, Marketing, Personnel, etc.

  Structuring a company by this method means that, irrespective of the region involved, there are people who are responsible for certain ***activities*** with the resulting benefits of experience and expertise. If a company organises in this way and then subsequently grows in size, it may further sub-divide the activities into regions.

- **Market/customer**

  Depending on what is being offered by the company this may be a very good way of structuring.

  For example, a company which provides diagnostic testing media will have many different types of customers: hospitals, agricultural testing laboratories, food manufacturers, public health laboratories, cosmetic manufacturers. Having personnel who deal with specific customer groups means that expertise can be built up and specialised knowledge is available to deal with any relevant problems.

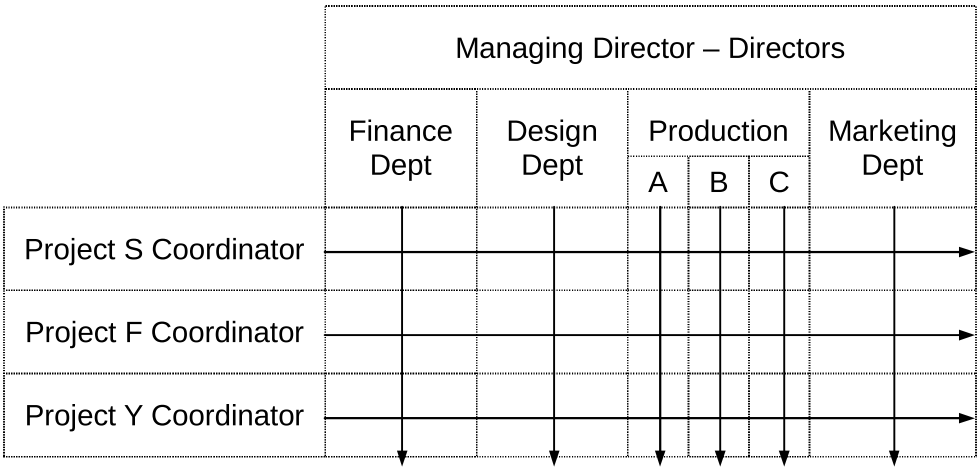
- **Product/technology**

  This type of structure is usually found in the large conglomerates which have a wide range of products, e.g. ICI has paint, chemicals and textiles, which are used by different people for different purposes. The production processes can vary greatly and may have their own requirements which demand that they are regarded separately. Add this to the different customers they are likely to be dealing with and you can see why such a structure might be used.

You can see the influence of the strategic orientation in these forms of structure.

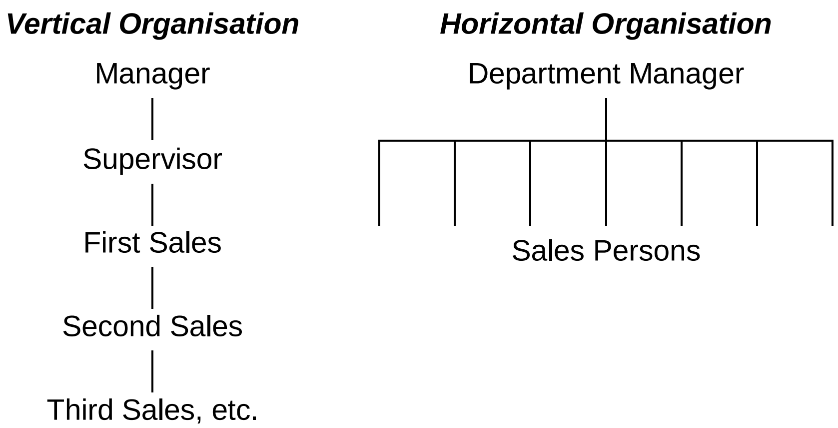
- **Matrix**

  This is a form of management structure which involves bringing personnel from various sections of an organisation together for specific reasons. Predominantly used for a problem-solving exercise, it is most commonly used for managing complex projects and has the benefit of multiple-skilled and experienced people working together. NASA (North American Space Agency) was one of the first organisations to use this type of structure when they wanted to land a man on the moon! Sometimes a member of the team will be acting as a "leader" and sometimes just as a "member", depending on which skills are needed at any given time.



- **Vertical and horizontal**

  Structures can be either **vertical** or **horizontal**:



  Vertical structure can mean a long chain from the top to the bottom of the organisation, with power and authority reducing the further you move down the chain of command.

  Horizontal structure means fewer "lines" of management and that people are nearer to the top. This can create better communication links which add to the overall efficiency and effectiveness levels.

  Many businesses have now moved to a horizontal type of structure as it has been proved that it can be very effective. As people are "moved up" the chain of command they are given more responsibility and greater authority for decision making. This, in turn, helps to motivate them to be more productive. (It can also reduce the numbers of staff.)

- **Strategic business units**

  The evolution of markets and business into the highly complex and competitive state which exists today has led many companies to base their activities on strategic business units (SBUs). This idea was first introduced by McKinsey & Co. (USA) for General Electric in the early 1970s, but it is common practice today.

  The whole concept simply means that companies have identified certain units of their business as being key sections and, as such, these sections are given individual responsibilities.

  An SBU is a separate operating unit within an organisation which is self-contained and can relate to a single product, a product range, a department or even a subsidiary company within a large multiple organisation.

  McKinsey & Co. stated that to be an effective SBU, the unit must meet the following criteria. It should have:

  - A unique purpose in the organisation
  - Its own "manager" (at any level) to make decisions
  - Its own plans which fit into the overall corporate plan
  - Its own customer base
  - Recognised competition.

  The ***benefits*** of operating on the basis of SBUs include:

  - The single-mindedness of the personnel involved
  - No fragmentation of effort
  - Easier processes for purchasing, accounting, etc.
  - Easier monitoring and control of activities.

  The disadvantages can be:

  - Duplication of effort by scattered expertise in the organisation
  - Restrictive practices between SBUs to gain competitive advantage
  - Poor utilisation of resources due to "narrow" planning activities
  - Wasteful purchasing effort due to smaller quantities
  - Self-protection activities on the part of the "manager" and personnel.

Most organisations tend to use a combination of the methods outlined above to form the structure which is best suited to their activities. This is because of changes that have taken place as the organisation and its market have evolved.

Changes which take place and can involve structural reorganisation include the following:

- The day-to-day operations become too much for the personnel employed and more people are required
- The need to increase production to cope with demand
- The need to add different products to the range offered
- Moving from one market area to another
- Changing customer tastes
- Increased competition
- Changing technology

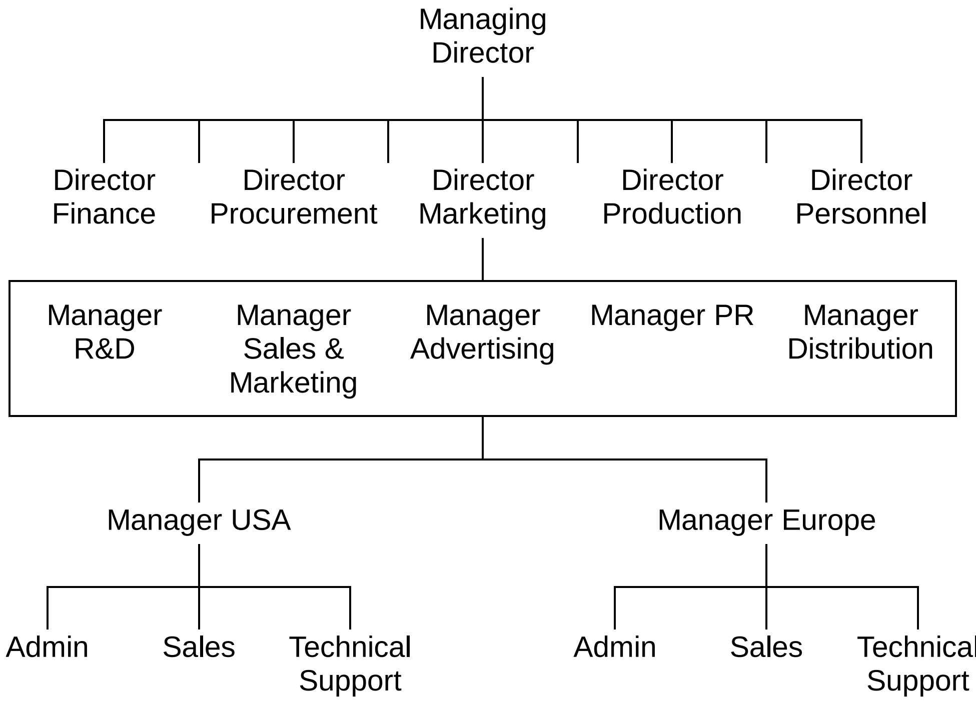
- Government regulations.

Note, though, that reorganisation alone will not change the culture of the organisation. Indeed, you should be aware that structure follows orientation and reorientation takes time and investment in staff training. Reorganisation has often been seen as a way of tackling the ***symptoms***, not the ***fundamental issues***. It also takes time, can cause short-term resentment and confusion, and usually costs both money and goodwill.

Organisation Structures for Marketing

So far we have looked at possible structures for the total organisation. We have seen that a company can be structured in a variety of ways according to its needs and circumstances.

For our present purposes, we will take the following as a "typical" structure for an organisation. The marketing function is expanded to show further detail. Please remember that this is only an example and is not meant to infer that this is the "ideal" structure – each company will have its own priorities.



From this structure you can see that power emanates from the Managing Director and cascades down the hierarchy of command. The structure is based predominantly on a ***functional*** basis in that there are people at senior level who are responsible for defined activities for the company overall, i.e. Finance, Marketing, Purchasing, etc.
With a high level and central control of these activities expertise can be accumulated, cost savings can be made and a much greater degree of control can be achieved.

Marketing itself is also organised on a ***functional***, or task, basis but is then split ***geographically*** into USA and Europe and, within the two geographic areas, a ***task*** structure is used for the operational levels.

The alternatives for grouping marketing activities are exactly the same as for the organisation overall, i.e.

- Functional structures
- Regionally-based structures
- Product structures

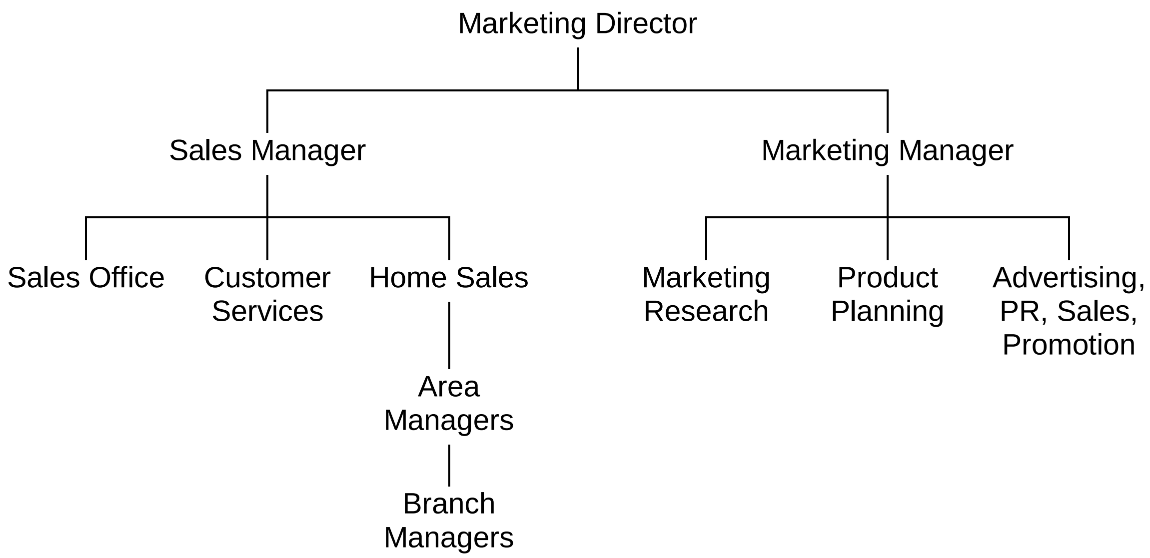
- Customer-based structures
- Product/customer-based structures

Let us look at each of these in turn.

(a) Functional marketing structure

The organisational chart below shows the functional marketing organisation of a medium-sized company.

Under this structure, personnel are grouped by functional specialism and their activities are coordinated by the Marketing Director (or manager). The system benefits from clearly designated areas of responsibility. On the other hand, it has a rather restricted outlook with each department tending to plough its own furrow. Problems can arise if the organisation grows into a top-heavy hierarchy of specialists, with strictly functional interests.

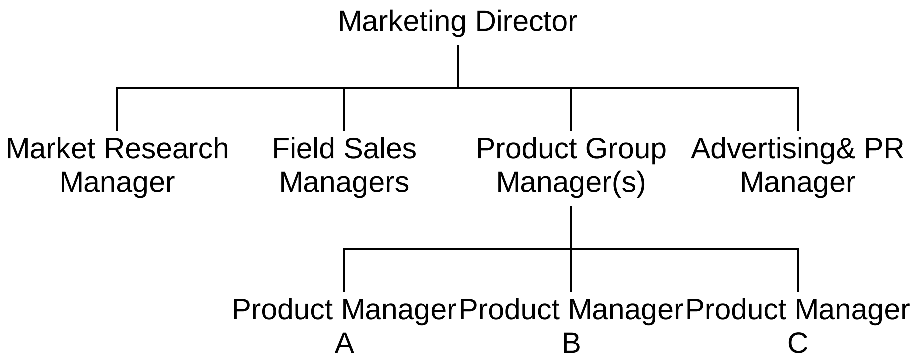


(b) Regional marketing structure

Most organisations will be structured at least in part on a regional or geographical basis. This is particularly true of salesforces operating nationally, where the national sales managers supervise regional managers, each of whom may supervise several area managers or field sales people. The structure is typical in the case of multi-product companies, or companies with large exporting operations.

(c) Product marketing structure

Companies that have broadly differentiated product lines frequently organise their marketing activities on a product or product group basis. The organisation as depicted in the following chart is only viable where each product/product group generates sufficient sales revenue to offset inevitable duplications of effort. Not surprisingly it was first adopted by the large multinational FMCG (fast moving consumer goods) companies, but has later spread to other sectors including industrial manufacturing and financial services.



When a product group structure is used it is normal to appoint product or brand managers with specific responsibility for the performance of a product in a market. The term "product manager" is usually used in industrial marketing and "brand manager" in consumer marketing.

Essentially, the duties of the product or brand manager are to coordinate all activities associated with the marketing of a given product or brand. The product manager prepares a marketing plan for his product and defines the sales volume, market share and profit objectives. Forecasts and budgets are prepared and the resources required for advertising, sales promotion and salesforce efforts determined. In addition, the product manager will make recommendations and changes to the offer in terms of product modifications, pricing and distribution or in terms of deleting or adding new products.

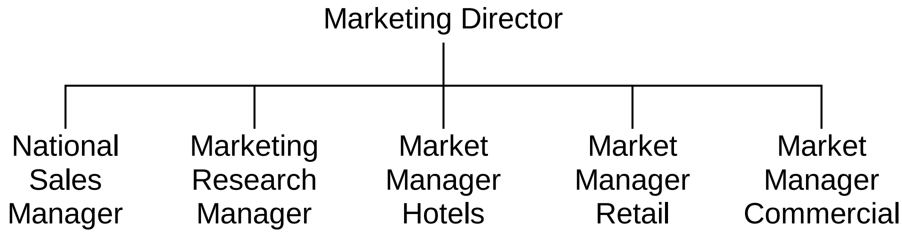
Product managers must compete with other product managers for the company's resources. Although they work to guidelines set by top management, who impose ceilings on their expenditure, they have a right of appeal based on the worthiness of their marketing plans and the objectives they seek to achieve. Once the plans are agreed the product manager is responsible for implementing and coordinating all activities. He must liase with other functional specialists as well as outside agencies in delivering the bottom-line sales and profits included in the plan. As these are the same skills required of top managers, often the product manager's position acts as the proving ground for senior management appointments.

The great advantage of the production management structure is that it guarantees a focus and specialisation of management at the product/brand level, so that all the major profit earners of the company get the benefit of a full-time champion dedicated to their well-being. The potential drawbacks to this structure relate to the product manager having too much responsibility and not enough authority. Problems invariably arise in terms of reporting relationships and decision-making authority, while the healthy rivalry between product managers may develop into unproductive competition and conflict.

(d) Customer-based marketing structure

Market or customer-based structures and the product-based structure are quite similar. In a company like Unilever, which is producing a group of nearly identical products from the same manufacturing facility, all of which are to be sold through the same distribution outlets, the product manager system ensures that the individual brand is given the individual attention it deserves. However, where a company is selling one product or line of products that appeals to different segments of the market, the market or customer approach may make more organisational sense, since it puts appropriate focus on each of the marketing opportunities.

The following organisation chart illustrates a customer-based structure for a hypothetical manufacturer of crockery ware.



You could argue that this structure represents the closest means of implementing the marketing concept, for it is implicit that customer requirements will take precedence over all other activities. It is a recognition that customers often have needs for a series of related products which may be usefully combined with a company's product offer. For example, Toshiba do not just sell computers – they sell computer systems and software tailor-made to end-user specific requirements. Emphasis only on the product could well result in the employment of salespeople specialising in certain products and missing out on such opportunities.

If we were to generalise, then, where a company's product has mass appeal across industry or user categories, then the responsibility for marketing should be vested in product managers. However, where there are marked differences in the needs or buying habits of separate customer groups, then these should be regarded as separate markets and market managers appointed.

(e) Product/customer structure

Where companies have many products being distributed into many markets they could choose to use either a product or customer-based structure. In an effort to resolve this dilemma, a composite to the two structures has been formed. The textile company Du Pont have chosen a composite-style organisation in employing separate managers for yarns, rayon, acetate, nylon and dacron, and separate market managers for its apparel such as men's wear, women's wear, home furnishings and the industrial market. The grid line structure as illustrated below operates across the dimensions.

The **product managers** plan the sales and profits of their respective fibres and seek information or forecasts of fibre usage from the market manager.

The **market managers** are only interested in meeting the needs of their customer markets rather than pushing a particular fibre and, in preparing their market plans, seek information from the product manager on prices and availability of different fibres.

This structure appears to be suited to large, multi-product organisations in terms of greater coordination of activities and faster decision making. Against this is the fact that the system is costly and can lead to interdepartmental conflict.

		Product Managers			
		Rayon	Acetate	Nylon	Dacron
Market Managers	Men's wear				
	Women's wear				
	Home furnishings				
	Industrial markets				

Comparison of Marketing Structures

There are clearly a number of advantages and disadvantages from operating either one or more of the marketing structures we have identified. Piercy provides a succinct summary as follows.

Form	Advantages	Disadvantages	Situational Indicators
Functional	Specialisation in task activities to develop skills. Marketing tasks and responsibilities clearly defined.	Excess levels of hierarchy may reduce unity of control. Direct lines of communication may be ignored. Conflict may emerge.	Simple marketing operators. Single pricing product/market.
Product/ brand	Specialisation in product brands. More management attention to marketing requirements of different products/ brands. Fast reaction to product-related change.	Dual reporting. Too much product emphasis. More management levels and cost. Conflict between product managers.	Wide product lines sold to homogenous groups of customers but sharing production/ marketing systems, i.e. proliferation of brands and diversified products requiring different skills/activities.
Market/ customer/ geographical	Specialisation in a market entity – focus on customer needs. Fast reaction to market-related changes.	Duplication of functions. Coordination problems. More management levels.	Limited, standardised, homogeneous product line sold to customers in different industries, i.e. proliferation of markets each meriting separate efforts.
Product/ matrix	Advantages of functional product and market specialism and integration.	Allocation of responsibilities is difficult. Duplication.	Multiple products and multiple markets.

Organisational Structures in SMEs

Before discussing SMEs it might be appropriate to define the SME sector as it includes a variety of different models. SMEs may range from a family corner shop, to a software house employing a dozen highly skilled specialists, to a manufacturing firm employing 200 semi-skilled people. All are SMEs but they have very little in common in terms of needs or circumstances.

An EU simplified definition of SMEs, and the one generally adopted by the UK, is that SMEs are non-subsidiary independent firms employing less than 250 people. All firms employing more than 250 people are classified as large firms. SMEs are usually sub-divided into three generic groups; these being, micro enterprises (0-9 employees), small firms (10-49 employees) and medium sized enterprises (50-249 employees). It may surprise you that in the UK 94.4% of all the businesses are classified as micro businesses, 4.4% as small businesses, and 0.7% as medium sized businesses and only 0.2% as large businesses.

The above comments clearly show that there is no such thing as a "typical" SME. There is enormous diversity throughout the sector. It is, therefore, difficult to generalise. In the smallest SMEs (micros) marketing activities are often handled by the owner or manager personally as part of his/her overall duties or through a marketing consultancy or a part time marketer. Here resources, particularly, time, people and money, are often very tight. Where a marketer is employed it usually requires a generalist who is able to handle almost anything. "Fire fighting" is often the norm.

With slightly larger SMEs there is more likelihood that a full time marketing person will be employed. Usually, they will report directly to the owner or manager and be responsible for all marketing and possibly sales matters. SME owners have a tendency to prefer experienced marketers as they have little time and maybe the knowledge to train them. Research shows that there is reluctance by many SMEs to employ graduates, who they see as expensive and lacking in practical experience. They usually want people who can "hit the ground running."

With the larger SMEs there is much more of a tendency to adopt the formalised marketing organisational structures appropriate for the type of business as discussed earlier.

Typical characteristics of large and small organisations

As all organisations are individual and have their own particular characteristics it is dangerous to generalise. However, there are a number of ways in which small organisations differ from their larger counterparts. Some of the differences can be summarised below:

Characteristics of SMEs	Characteristics of Large Firms
Usually low turnover and small market share.	High turnover and established / higher market share.
Often managed by one person or a very small management team.	Usually have a large management team, often a Board of Directors and numerous departmental heads.
Often reactive – may lack clear plans. Often practical, tactical, hands on approach. Lack of skills, particularly marketing, is often an issue	Often proactive with clear plans – tend to take a more strategic approach.
Lacks of resources – financial, skills, people and time.	Usually sufficient resources are available.
Often generalist.	Much more specialist.
Large churn – many start-ups / many failures.	Stable – often long history of growth and tradition.
Wide individual responsibilities / much multi-tasking.	Individual tend to have a limited range of responsibilities. Clear roles and responsibilities.

Characteristics of SMEs	Characteristics of Large Firms
Decision making tends to be emergent and flexible.	Decision making can be linear and sometimes bureaucratic
Generally lower salaries and restrictive benefit packages. Often little training undertaken.	Generally higher salaries and wide benefit packages. Substantial training undertaken.
Only about 5% of SMEs grow significantly – the vast majority are lifestyle businesses.	Many achieve significant national / multi-national / global growth.
Have become important wealth creators and employers to the economy. Provide growing employment opportunities.	In recent years many have undergone substantial downsized and restructured. Reducing employment opportunities.
Traditionally have operated in local markets but technology has opened up international (niche) market opportunities.	Can operate in all markets.

Many small organisations do not have the time or opportunity to absorb complex theories, nor do they generally have the resources to implement many of the traditional techniques. Many of the traditional models and frameworks that relate to large companies do not relate well to the SME sector; others need to be to be adjusted. An important characteristic of SMEs is that they tend to be faster on their feet and able to react to change quickly. This is something that many large organisations are now trying to replicate.

It is very important that you are aware of the differences between large and small organisations and that your examination answers reflect this understanding.

C. COORDINATION OF MARKETING WITH OTHER MANAGEMENT FUNCTIONS

The most important single element in the implementation of the marketing concept is that of coordination – or bringing together and reconciling a diversity of conflicting views and attitudes in order to design a uniform customer-orientated plan of action.

It is not a question of marketing dictating policy or operations: it is to do with marketing coordinating and cooperating with the other departments which exist only because there is a market for the products or services of the company. Marketing, like any management function, takes its lead from the policy decisions of senior management. Marketing, however, through its research functions, provides senior management with the information upon which it will make decisions. In effect the marketing department has the responsibility for coping with all the vagaries of the marketplace. It provides the organisation with forecasts and estimates of sales volume, profitability and market potentials, as well as the limitations imposed by the company on resources and policies. Marketing, therefore, has an overriding responsibility which cuts across the entire organisation. Whilst this does not directly set the goals for other management functions, indirectly it provides the information base from which the goals and schedules of all other functions are determined.

Clearly, then, an effective working relationship between marketing and the various other functional areas of the business is vital to success. The task of the marketing department in this process is to represent the interests of the customer to other departments in such a way that customer needs are adequately met. Here we will consider three of the most important interrelationships, namely those between marketing and production, and marketing and finance.

Marketing and Production

The marketing concept requires that products are designed and made to satisfy clearly specified consumer needs. The marketing function, therefore, must provide accurate and timely information to the design and production departments about the nature of these needs. In addition, where possible, this information should be provided in terms which the management of the production function will understand. For example, phrases such as *"we need a better quality product"* are too vague to provide clear guidelines to production staff as to what are the specific requirements of the marketplace. What are required, for example, are sizes, colours, fabrics, flexibility, weight, standards, etc.

Similarly, the marketing function should be responsible for the provision of information which will form the basis of production planning. Sales forecasts and estimates of market demand are essential for efficient production planning and control.

Once the products have been designed and produced in the required quantities, they must be efficiently marketed to identified target markets. After purchase, marketing must monitor customer attitudes to the company's products; any adverse comments or complaints must be noted and, if necessary, passed back to the production department for action.

Marketing, therefore, plays a role both before and after the production effort. An effective working relationship between production and marketing is an essential requirement for efficiency. To illustrate this point, we will examine three aspects of this relationship.

- **Making a new product**

  Before an elaborate marketing plan is implemented, it is essential to ensure that the product will be available when and where it is required. For this reason, a production scheme is needed, and the marketing team must liase with the production team in order to achieve this aim.

  Where an entirely new product is involved, it is usual for the manufacturing department to produce a quantity to be introduced to the customers on a sample basis. Such sampling frequently reveals flaws, either in the production technique or in the quality of materials used, which can be easily rectified before mass production begins. Whilst it is essential to avoid the overproduction of a new line before it is satisfactorily established, it is equally undesirable to accept orders for large quantities of a new product when such quantities will not be available at the time required.

  It is exciting to contemplate the prospect of a successful market research and advertising campaign, culminating in a massive launching of a new product, with the result that very large orders are taken within the first few days and the product continues to sell well over a long period of time. However, the introduction of a new product needs care, with a steady advertising build-up and an order book which begins modestly and develops gradually over a period of months.

  A steady expansion is much easier to deal with from both the marketing and production points of view than an initial onslaught which may or may not be maintained.

- **Maintaining level and standard of production**

  Once the scheme of production has been established and the level of demand has been ascertained, the marketing organisation must ensure that the production department maintains both the level and the standard of production. The standard of production is obviously of vital importance, since the manufacturing department needs to be able to produce homogeneous units of the product for as long as is necessary. The maintaining of standards applies not only to the basic production process, but also to the various subsidiary processes, such as finishing, painting, packaging, etc.

The level of production, once determined, should be maintained in accordance with future demand. It will be necessary for the manufacturing department to produce, initially, a number of units of the product to deal with the first sales. For the most part, however, the production team should be engaged in manufacturing goods ordered for delivery at least several months in the future. This precaution will allow for any unforeseen circumstances such as breakdowns in production flow, whether from strikes or from delays in receiving raw materials or subcontracted components.

It is prudent, therefore, for the company to carry about three months' production of a particular line, as a stock from which orders may be fulfilled and which may be replenished from new production. Obviously this will depend upon the nature of the product, the demand, and storage facilities. Some firms in the fast moving consumer goods markets maintain less than one week's production in store, and companies manufacturing perishable goods such as bread and confectionery must obviously sell their products within a very short time, in order that the consumer may purchase the food whilst it is still fresh.

- **Improving production methods**

  The techniques of production are not the province of the marketing executive, but it is highly desirable that the marketer be aware of the processes involved in making the product which he is selling. The reasons for this are as follows:

  (i) Much of the success in marketing the product will depend upon the marketer's ability to impart to the potential customer its technical merits.

  (ii) Potential customers are likely to wish to discuss certain technical aspects of the product with the marketing executive, and it is therefore necessary that the marketer has a sound grasp of the production technology in order to be able to discuss any queries raised by prospective buyers.

  (iii) The marketer who is sufficiently production-orientated may undertake extensive overseas marketing visits without being accompanied by one of the technical production staff. This will reduce the expenditure involved in the trip, as well as inspiring greater confidence on the part of potential customers.

  Most manufacturing organisations have a ***research unit*** of some kind, which is constantly experimenting with new processes, and even with new materials. It is of vital importance that the marketing department should be fully aware of the progress being made by the experimental unit, for the successful results of experiments will become the selling products of the future. At the same time, however, the marketer, by virtue both of his contact with a wide variety of buyers, perhaps situated in different countries of the world, and of his knowledge of competitors' products, may be able to impart valuable information to the production team for successful incorporation into their own manufacturing techniques.

Marketing and Finance

Many of the decisions which must be taken in marketing a product or service require information from the finance department. Perhaps the most obvious of these is the provision of cost information for pricing decisions. At this point, it is important that you appreciate the need for the finance function to provide accurate information. In turn, the marketing department must provide accurate information to the accountants with regard to, for example, forecast levels of sales, market share objectives and competitors' prices. The important point is that effective coordination and communication is a two-way process.

You should be aware that pricing is only one of the various activities which require that marketing and accountancy work closely together. As we did earlier for production and marketing, we will examine situations which might require effective teamwork between these two departments.

- **Planning and controlling salesforce activities**

  As with any area of business activity, it is important that marketing activities be planned and controlled. In broad terms this means setting clear, realistic objectives, preferably, and where possible, in quantitative terms. Having determined objectives, a company should then measure its performance in terms of the degree to which these objectives are being achieved and at what cost or how efficiently. Take, for example, the planning and control of the efforts of the salesforce. The average company spends thousands of pounds keeping each member of its salesforce on the road. In addition, the difference in performance between an effective and ineffective salesperson can be enormous. Taken together, this means that, ideally, a company should have clear objectives for the activities of its salesforce and, in addition, be able to measure the efficiency of each member of the sales team.

  Setting sales objectives is a matter for the marketing department. The finance function is required to provide information which will enable marketing and sales to assess the cost-effectiveness of the sales team. We might, for example, require information on the following factors:

  (i) Total selling costs

  (ii) Breakdown of total costs by salaries, commissions and expenses

  (iii) Details of costs incurred by each salesperson.

  Together with information provided by marketing and sales, this information enables the following to be calculated:

  (i) Average cost per call

  (ii) Sales costs by territory

  (iii) Trends in direct versus indirect costs.

  Marketing and finance must work together as a team to achieve effective sales control.

- **Credit and discount policies**

  An important aspect of competitive marketing strategy is the issue of policies and procedures for customer credit, and discount policies. For many purchasers the amount of credit which a company is willing to extend is a critical factor in the purchase decision. In many companies decisions on credit and discount are often taken unilaterally by either the marketing department or the accounts department, when what is required is a joint decision on credit and discount which reflects both the competitive needs of the marketplace and the financial resources of the company.

  For example, a decision by the marketing department to allow an extra 30 days' grace between delivery and payment may well be very competitive but may cause severe cash-flow problems for the company. Similarly, a decision by the accounting department to cease offering price discounts for quantity may improve the short-term financial or cash-flow position of the company at the expense of long-term market share. Clearly, such decisions cannot be taken without consultations between marketing and finance.

Marketing and Human Resources

Managing human capital is vital in today's highly competitive and increasingly litigious environment. In order to do this effectively, marketing and HR must work closely together.

With the growing raft of local and international employment legislation it is imperative that all staff matters are handled effectively and within the bounds of the law. Failure to do so may result in substantial fines and adverse publicity. There are a number of important issues that the HR and the marketing department must work closely with in order to ensure that effective outcomes can be achieved. These will include:

- The recruitment process (Advertising / interviewing / offer letters etc.)
- When staff need to be dismissed or made redundant
- All employment contracts and terms and conditions of employment
- The staff appraisals process and identifying training needs
- Manpower planning requirements
- Re-organisations
- Individual personal issues.

Relations with Other Departments

We have examined in some detail why marketing and sales need to have an effective working relationship with production, finance and HR. Although these are three of the most important functional areas with which marketing must work, they are by no means the only ones. In fact, all of the functions of a business need to work together to achieve customer satisfaction at a profit. The marketing concept stresses that customer satisfaction is a function of the total efforts of a company, not just those of the marketing department. Packaging, quality control, transport and distribution, purchasing, even the efforts of the company word processor operator, may all influence the level of customer satisfaction.

Conflict

It is generally assumed that the effectiveness of any individual department or management function and, ultimately, the whole company, will depend upon cooperation among the specialist functions of the business. Although in principle all departments should cooperate, in practice there is often substantial rivalry and conflict between them. This is because department heads may have their own views as to what constitutes the effective management of their particular area of activity. Further, the aims of the marketing department, imposed by a logic of customer satisfaction, may be at odds with the aims of other departments.

The following table summarises a number of conflicting issues that may arise between marketing and other functions.

Functions	Source of Conflict
Production	Production often stress long production runs of standardised items, together with finite sales forecasting for planning processes. Differences occur on issues of lead times, modification changes, minimum ordering, scheduling, stockholding, etc. Marketing, on the other hand, will stress the need for a greater variety of products, shorter production runs, etc.
Research & Development (R&D)	R&D may emphasise a need for pure research, for experimentation and greater accuracy and development time. Marketing's emphasis will be on more applied research and they will become frustrated with overruns on time and budget.

Functions	Source of Conflict
Purchasing	Purchasing specialists will stress the need to choose between suppliers, to focus on price specifications and delivery times. Marketing may stress the need for high quality, higher priced items in line with what customers are demanding.
Design	Engineering design will seek to standardise, while marketing will seek to customise.
Finance	Potential conflict here is often over prices to charge and pricing methods, cost allocation, profitability targets, credit control and marketing budgets.

Interdepartmental conflicts, even at this level, are often attributed to the issue of ownership or territory. This is where departments form views or beliefs as to whose function certain organisation activities belong to.

Marketing research, selling and promotion are widely recognised as the proper reserves of marketing management. However, within marketing operations there are sub-functions such as product planning, customer service, packaging, distribution and pricing which are often fought over between marketing and other functions.

D. ELEMENTS OF AN EFFECTIVE MARKETING ORGANISATION

Success in marketing will only be achieved by an organisation when there exists:

- Clear objectives and strategies
- Interdepartmental co-operation
- An understanding of customer needs, both internal and external
- A desire to achieve customer satisfaction
- Support by senior management for the programme
- Good communication links within the organisation.

In this section, we shall review some of the key features which allow these conditions to be met.

Importance of the Marketing Function

We know that any organisation has multiple problem areas and, as such, it must operate professionally and be structured so that value exchanges taking place both in and out of the company are ultimately of benefit, rather than detriment, to the organisation as a whole.

The marketing personnel, because of their understanding of customer needs, as well as their awareness of events in both external and internal environments, are best placed to act as agents for liaison and change. They should act as facilitators for organisational integration. It is the marketing function which, above all others, assists in the achievement of corporate objectives.

Referring to the marketing function as being "one of many functions" may, at times, detract from the strategic importance of the activity itself and its relationship or "fit" with corporate planning. ***Strategic*** marketing implies that marketing planning is carried out at a high level and is a major influence on corporate planning itself.

This upward shift of emphasis has really developed because of changes which have taken place in the competitive environment. It is no longer possible to simply say: *"We'll do it"*. Competitive forces are severe and markets are being fragmented daily due to ever more sophisticated requirements on the part of customers. Because of the changes, planning needs to be undertaken with great care and every aspect of the environment should be taken into account.

Whereas marketing often used to be regarded as simply "an activity to help selling", it has now been elevated to a position of greater prominence with the result that we are more likely to see a Marketing Director at board level than we were just a few years ago.

This high-level recognition has led to much better planning with the add-on effect of marketing itself becoming increasingly sophisticated. Those organisations who do not give due credence to marketing as a strategic activity are likely to fall behind in the race for market share as they fail to see the long-term picture both in terms of objective setting and achievement. "Short-termism", as the lack of a strategic perspective is known, is one of the main reasons why companies fail to survive. To accept marketing planning as being of strategic importance is one way to overcome this.

Internal Marketing – Building Customer Orientation and Marketing Ethos

Most companies in the world readily accept the idea that they are dealing with "the market". What they really mean is that they are dealing with external factors such as customers, suppliers, distributors, competitors and other environmental aspects. Many often fail to recognise the importance of another, equally important, market – their own "internal market".

The internal market of an organisation consists of every employee from the chairman of the board to the maintenance personnel who change the light fittings. Although some members of the company's personnel may be more "visible" to the buying customers, every employee in his or her own way is important in the process of satisfying the customer.

Therefore, it follows that if the company is to succeed in its search for giving customer satisfaction, it must give due consideration to these internal people, to understanding their needs, their training and their motivation. This can only be done by having effective processes of internal marketing and developing a marketing ethos throughout the organisation.

Suppose, for example, that a marketing department decides to have a promotional push on certain products by giving a price reduction. They go ahead and advertise without giving advance warning of the promotion to internal personnel. What is likely to happen is that telephone staff will give conflicting information to callers, showroom staff may well dispute the fact that there is a price reduction, the production department will be unable to cope with increased demand, distribution may have vehicles off the road for servicing and be unable to meet deliveries, etc. The marketing department simply failed to recognise the needs of the internal market, i.e. information and time to be prepared.

What a difference there would have been if everyone had known about the "plan". Activities could have been co-ordinated and not only would a more professional image have been projected by company personnel, but the personnel themselves would have felt more involved and would have had more job satisfaction.

This could be described as the "core intention" of internal marketing – to keep everyone informed of the "plans" within the company, so that everyone knows what is going on and what is begin aimed for. Underlying this, of course, is the commitment to customer satisfaction – the marketing ethos –which the company is trying to achieve.

At its heart, customer orientation means developing respect and recognition:

- **Respect for the people involved**

  External customers should always be listened to and treated with respect and it is no exaggeration to say that suppliers need to receive clear instructions from a customer. If, internally, everyone respected each other as a "customer" or as a "supplier", there would be immediate benefits in a reduction of internal conflict and rivalry.

- **Recognition of the importance of the customer**

  Everyone has heard the expression, "*The customer is king*", but that implies subservience which, sometimes, is simply not possible. It is much better to say "*the customer is the core of our business*", or "*without the customer we cease to exist*". It is even better to ***believe*** this and act accordingly. If everyone in the company knows and recognises the importance of the customer, both internal and external, the service levels given will be that much higher and customer satisfaction will be achieved.

Developing these qualities is central to internal marketing and Kotler has described the essential processes involved as:

> *"The task of successfully hiring, training and motivating able employees who want to serve the customers well..."*

If we take Kotler's definition in stages, we can see how an internal marketing programme can be implemented.

- **Successful hiring**

  Careful recruitment of people who are capable of doing a job is vital. This means clear job descriptions and good interviewing on the part of managers. If an interviewer is not absolutely clear on the "right" kind of person for a job, there could be problems in store. The "right" person may be someone who, with training, could be ideal. The main requirement is that he or she will fit with the ethos of the company and recognise the importance of customer satisfaction.

- **Successful training**

  A programme needs to be set up whereby on-going training and awareness is established within the organisation. Accepting that training for internal marketing is to create awareness of the need for customer satisfaction, and the importance of following the marketing concept, this training is very often led by the marketing department.

  The training may take the form of meetings within various sectors, or workshops on certain issues – for example, new products being developed, new objectives being set.

  Awareness is achieved by keeping everyone informed of what is going on. This can be done by notices, newsletters, e-mail, etc. Any form of internal communication can be used. The point is that it is really the marketing concept and plan which is being "sold" to the internal customers. Convincing the workforce of the importance of customer satisfaction is one of the first steps in achieving it.

- **Successful motivation**

  Motivation is often linked with "money", and it certainly helps in many cases. If staff are given incentives for their efforts, they will respond accordingly and try harder to achieve their targets. This type of incentive can be a bonus or commission and can be based on any aspect of the job that the company chooses. However, money is not the only type of motivation that can be used and, in some cases, can actually cause problems, e.g. the salesperson who is more interested in his or her commission than actually satisfying customer needs.

  Personal motivation can often be much more effective than money. Motivating factors vary from person to person. For some people a sense of achievement is important, for others it can be recognition, status or authority. But everyone likes to feel involved and important and this type of motivation is easy to achieve.

Organisations who give people responsibility for their own actions, involve them in discussions about future plans and are receptive to comments and ideas brought forward, soon find that the workforce becomes motivated into doing a better job of working together to achieve the desired objectives. This is sometimes referred to as "ownership of the plan" or letting people "buy into" the plan. It is quite simply "involvement".

The real aim is to try to turn the workforce into a united group working together. Simple things like social events, family fun days and so on all help to create unity and to foster a feeling of being proud to work for the company.

Management Style

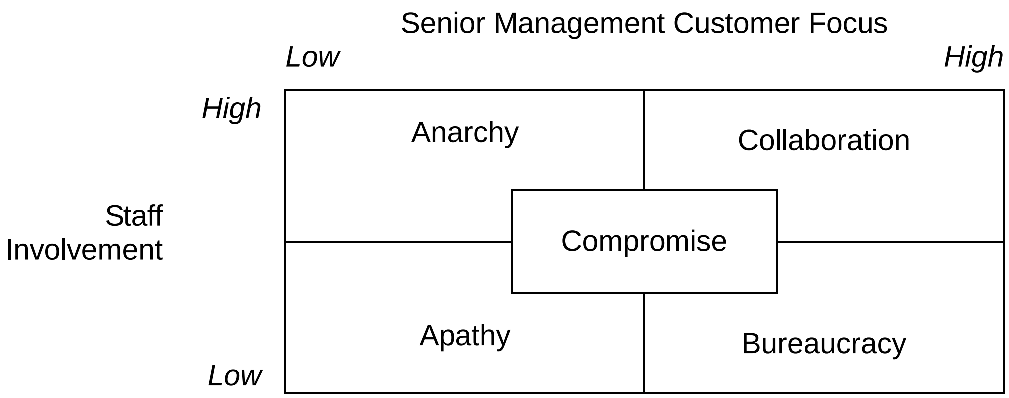
No-one can doubt that the support of top management and the active involvement of staff in the planning and implementation processes are the main keys to successful implementation of any plan. Successful implementation of the plan will vary in accordance with how the two variables are balanced, as you can see in the model in Figure 9.2.

Figure 9.2: Implementation Variables

Staff Involvement \ Senior Management Support	*High*	*Low*
High	Successful implementation will occur.	Staff will struggle. Implementation will be impeded.
Low	Staff are likely to resist the plan. Implementation will be impeded.	Plan resisted in all ways. Implementation stage unlikely to succeed.

Gilligan and Fifield (1996) refer to the same variables of senior management support and staff involvement as being necessary for good implementation of the plan. They have used the variables to produce a matrix which gives an indication of the potential outcomes for a company trying to achieve customer focus – which we know is essential in any marketing organisation.

Figure 9.3: Achieving Customer Focus



(a) Management support

The main difficulties to be found in instilling a marketing ethos into the company may well come from the senior management who do not think it is necessary. Some may see the new way of thinking as being a "threat" to the established systems which have proved relatively efficient. New thinking is often seen as being radical and, especially if the company has been established for a long time, there will always be people who resist it. People fear for their positions and the status they have acquired. They worry that people with new ideas will take over and that they will lose their jobs. If they can see that to accept the validity that the customer is important and that everyone should be working together is so significant they will eventually change their opinions.

(b) Employee involvement – participation and empowerment

One of the key concerns of management is how the human dimension can be brought into harmony with the demands of the formal organisation to improve its functioning. For some, the key is employee involvement through the twin processes of participation and empowerment.

Participation is all about involving people in their work in a more meaningful way, usually through taking part in the decision making process usually reserved for management alone. It is especially appropriate for those decisions which closely affect subordinates, but may be extended to include any form of decision.

Follet identified four principles of participation.

- ***Constructive conflict*** – This is the concept that conflict is neither good nor bad – it is merely the expression of divergent interests – and management must try to synthesise these interests, rather than seeking to impose a view which is contrary to them. It is built upon respect for the opinions of others and upon seeking ways of involving all parties in the resolution of problems.
- ***Giving orders*** – This should be based on analysis of the situation to which the decision is being applied. For example, when the heads of a sales department and a production department are making a decision on a product, the solution is found by studying the market and discovering the solution which meets the needs of the situation. The issue, then, when trying to make others adopt a strategy should not be one of how to persuade people to think as we do, but how to help others to see the solution which exists within the situation.
- ***Group responsibility*** – An undertaking should be so organised that everyone feels responsibility for the whole organisation, not just the achievement of their own area of work. Participation in decision-making, involving members of the organisation at all levels and implementing the law of the situation, will all help to develop collective responsibility. Also, employees need to see the contribution they are making to the organisation as a whole and this demands that there must be good co-ordination of all parts.
- ***Authority and responsibility*** – Authority is rarely one person acting on their own and responsibility is usually the result of a pooling of resources of many individuals. Therefore, there is a need to share responsibility and involve people – for example, "power with" should replace "power over", with consultation taking the place of dictatorship.

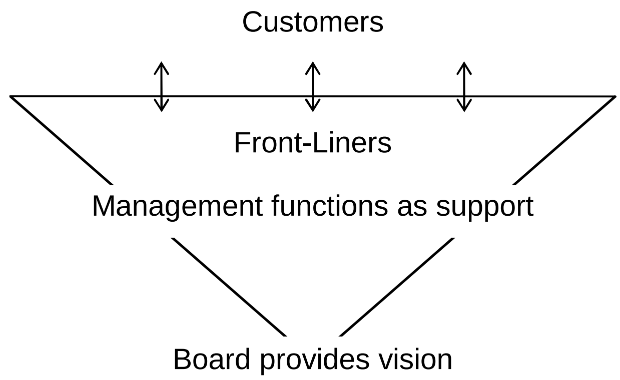
For employee participation to become a reality, management have to believe that participation is a valuable asset in carrying out their role. This involves accepting a change in perception for many from a concern with "how can we make people work harder for us?" to "how can we help people to want to work more productively with us?" This is a necessary underpinning to involving a wider circle of participants in the decision making process.

Effective participation needs good communication – both upwards and downwards, and sideways through the organisational hierarchy. This demands that there are effective formal channels of communication and that all necessary information is made available. Sometimes this requires a degree of openness which both management and managed may find uncomfortable and threatening. It is, though necessary.

Empowerment is a development from delegation. The decision to delegate is made by individual managers, some of whom might be more willing to delegate than others and thus any benefits to be gained from delegating may be variable. When delegation is integrated into the work organisation as a permanent feature of the operating principles and practices, employees are given increased responsibility for their own work and are allowed to work with more independence. They become "empowered" and relieved of detailed instructions and controls. Empowerment gives employees an increased sense of responsibility as they decide on an everyday basis the fitness of their work, rather than their manager. The duty to do a good job is on the employee and they are less able to blame their manager for poor decision-making.

A number of conditions are required for, and implications flow from, the concept of empowerment which are central to developing the concept of the marketing ethos and customer orientation.

- Empowerment offers a way of treating staff with respect and honesty, and offers a way of working for organisations that want to focus on their key criteria for success. This requires clear objectives and proper training and development to ensure that individuals are equipped with the abilities necessary to make sound decisions. The organisation has develop a culture which supports and facilitates innovation, risk and change.
- Successfully empowered organisations are based on ***teams*** that are working well and co-operatively. Self-managed teams which share responsibility and develop their own working practices are part of the empowerment process, but they must obviously still work to the policies and objectives set by management. One feature of such teams is the encouragement to contribute ideas on work methods – often through systems such as ***quality circles*** or regular, formalised meetings. The team members can be encouraged to agree how the work should best be organised and distributed to achieve the team targets and the organisational goals.
- The whole approach requires managers to ***support*** their people and get the most out of them. Organisations need to operate as inverted pyramids. The frontline workforce are the face of the organisation; they are the ones who interact with the customers. The role of management is to manage that process and ensure that it works successfully. In this model, the board is the fulcrum on which the organisation can change direction:



The Contribution of Total Quality Management

Over recent years there has been increased attention amongst all managers on issues associated with ***total quality management*** **(*TQM*)**. TQM evolved from quality control of operations and production lines. By looking at the ***whole*** business and ensuring that systems are in place, which deliver satisfaction to both internal and external customers, the business resources will be used more effectively and efficiently.

There are strong links between the marketing and quality concepts. The implementation of a marketing orientation is dependent on "organisational integration" – all staff working together towards satisfying the needs of the customers. TQM lays a similar emphasis on internal customers – the chain of value added within the organisation leading eventually to satisfied customers.

Organisations wishing to pursue the "quality" path are embarking on a journey which can take a long time and involve a considerable amount of change – organisational change and change in attitude. TQM requires management to accept responsibility for quality standards involved in all business practices.

- **TQM as a philosophy**

  The prevention of defective goods and poor quality service reduces the costs of waste and error, and the redoing of tasks and time spent on checking. Inspection is a high cost alternative to getting the job right first time. TQM is management led, emanating from top to middle to staff levels.

- **TQM as a total responsibility**

  If inspection is necessary this is less effective and more costly than creating a climate of total responsibility amongst all members of staff, who are willing and able to be responsible for the quality of products and services.

- **TQM standards**

  Standards should get the task, product or service right first time. Quality embraces marketing as well as production, finance, personnel and administration.

- **TQM is continual improvement**

  Quality image and standards are not implanted in customers, or in staff, in the short term. Continuous improvement is a long-term policy to be pursued relentlessly. Sustained effort can yield change through diagnosis, staff training, focus on management commitment and total planned improvement.

  Action teams in a TQM system will operate to improve standards of business and service quality, review internal systems of control and will form an integral part of the strategic business planning process.

If you think about management style, including TQM, you can see that there is an element of consistency between the concept of marketing and the management styles in use. There is a move to give quality service and to ensure quality provision by imposing standards, monitoring performance and comparing results, etc. All these activities, if carried out efficiently and effectively, will ultimately result in customer satisfaction and thus the achievement of marketing orientation in the organisation.

Relationship Marketing

On several occasions throughout this course we have referred to the importance of building and maintaining relationships in marketing. You can see that no company can be completely independent and stand alone; every organisation obtains supplies from somewhere and provides something to someone.

This means that there is a reliance chain linking organisations into multiple relationships. If the relationships are transient they may never need to be made secure and strong – for example, when you buy a souvenir of your holiday you are unlikely to repeat that purchase so the seller has no need to develop you as a long-term customer. However, if the relationship involves repetitive contacts it needs to be worked at. Trust must be built up and each party must feel secure in the knowledge that they can rely on the other. Although this works at every level in both consumer and industrial markets, it is really between organisations that relationship marketing is seen as being valuable.

In pure marketing terms the value of a customer over a life period is difficult to calculate, but the value financially can be estimated. If a customer buys on average twice a year and spends £50,000 each time – it means approximately £1m in ten years from that one customer alone. If the customer is satisfied with every transaction, they could buy more, or more often, and it could mean even more money. The financial value of a customer will vary with the nature of the product and its value, but long term a customer is valuable and they should be kept satisfied.

Marketing companies have always tried to take care of their customers but now they are also likely to be getting involved in the customer's planning activities. It makes sense. If a company knows that a customer is intending to have a special promotion, or to run a special production batch, they can plan their own activities to match the customer's time and material needs. Likewise, if a customer gets to know that a supplier will have a certain product available at certain times, they can plan their activities to match. So, by each party talking to the other, plans become interlinked and a degree of interdependency is created.

The very fact that each party is depending on the other means that the relationship becomes stronger and harder to break. This, in turn, means that there is less likelihood of losing a customer to the competition, or less possibility that another customer will be given preferential treatment over you.

It is not uncommon for joint planning meetings to take place with several organisations being involved. Long-term plans are made which enable each organisation to schedule activities and save costs by reducing risk.

The benefits of relationships can be immense. For instance, one example which has been quoted by Kotler and other authors is the relationships linking Levi Strauss, the jeans manufacturer, to its suppliers and customers, using EDI. At the end of each trading day Sears, one large company which retails the Strauss jeans, sends in details of which styles, sizes and colours of the jeans they have sold. This triggers off a replacement order from Levi. Their picking of the replacement order triggers off an order from Milliken, who supply the material for the manufacturing. Milliken, in turn, reorders fibre from Du Pont. Not only is this a good demonstration of the uses for EDI, but it also serves to show how major companies can work together to keep their systems operating and successful.

Even though initially the efforts in forming relationships may be done for security reasons, eventually other benefits will be seen. Suppliers and buyers will pass on information they have heard about new developments which are more suitable for a product, or cost less to buy, etc. Warnings about competitor activity will be passed on and taken note of. Anything like this can be invaluable in carrying on day-to-day business.

Relationship marketing can only take place after a strategic decision has been made. There may be good solid relationships between people at lower levels in two different organisations, but to involve a company in the activities of another is a serious step which will be taken only after full deliberation. How far to become involved is another aspect which needs to be decided. Occasionally there may be danger in locking yourself in to one supplier or too close to a customer who is not on a sound financial footing.

The implications of relationship marketing are very simple – time and effort need to be spent in forming, building and maintaining the relationships, but perhaps the biggest implication of all is that it may involve a change of culture within the organisations concerned. This is where internal marketing comes into being.

In order to form successful, long term relationships, the organisations involved must:

- Establish/identify the needs of the parties
- Consider how they can help each other
- Outline ***how*** the relationship will be managed
- Select managers for the process
- Set up communications links
- Set up control mechanisms
- Constantly monitor and review activities.

Marketing Education

(a) The changing role of marketing

Marketing has undergone substantial change in recent years as the external and internal environments have become increasingly complex, unstable and dynamic. Many of the changes have been brought about through the globalisation of markets; the rapid development of the global electronic highway and other inventions of the information age, more discerning and challenging customers and a proliferation of many new and varied marketing concepts.

In this new order, marketers need to play a more strategic and commercial role. Marketing managers not only need to develop new skills and aptitudes but must also acquire the knowledge that is necessary to understand the environment, customers and competitors, to achieve superior customer value. In today's highly competitive marketplace marketing managers are required to be much more accountable for their actions, to be able to show the cost effectiveness of marketing tactics and to show how marketing strategies add to shareholder /owner value.

(b) Marketing within the organisation

The late David Packard of Hewlett Packard observed "marketing is far too important to leave to the marketing department." Today, everyone in an organisation has an impact on the customer and must see the customer as the source of the company's prosperity. The better organisations, today, seek to achieve this through interdepartmental team working and regular communications across functions.

Much has been written about the need for marketing to take on a more strategic role and become more influential in driving the business forward. Unfortunately this will be difficult to achieve until more organisations appoint marketers to the board. Research by the CIM found that out of the top 20 companies in the Fortune 500 only one, General Electric, had a chief marketing office on the board.

It is suggested that one of the reasons for the lack of marketing representation on the board s is that marketing activities are often not measured in terms of profitability. Other suggestions are that many marketers do not have the sufficient "all round" business skills and are too tactical and not strategic. According to Doyle, (2000) the traditional marketing objectives of increasing market share and building customer loyalty are not enough in themselves. They need to be linked to economic added value and tougher financial performance. He argues that decisions made by marketers need to clearly show the financial contribution they make. According to Piercy (2002) this means companies have to develop customer focused strategies based on offering value to customers, which in turn, enhance performance and so increase shareholder/owner value. Kotler takes this further and suggests that there is a need to create prosperity amongst all stakeholders and customers.

(c) Marketing management tasks

Kotler (2006) suggests that there are eight core tasks a marketing manager needs to undertake.

These can be summarised as:

- Developing marketing strategies and plans
- This involves identifying potential opportunities given market experience and core competencies and then developing appropriate objectives, strategies and tactics
- Capturing market insights
- Monitoring the marketing environment and undertaking appropriate marketing research
- Connecting with customers
- Developing strong, profitable, long-term relationships with its customers
- Building strong brands
- Understanding the brand strengths and weaknesses and develop it in line with the marketing objectives
- Shaping the market offering
- Develop the product or service to match the needs of the target market
- Delivering value
- Delivering the product or service to the target market
- Communicating value
- Using marketing communications to inform, persuade, and remind customers either directly or indirectly of the products or service
- Creating long term growth
- Taking a long-term view of the product or services and how the profits can be grown.

(d) A wider skill base

The increasing focus on customers by both commercial and public organisations has meant a substantial increase in the size of the marketing profession. In the UK, marketing is the largest professional group with 550,000 full time marketers; up 60% from 350,000 just ten years ago. There are now more marketers than there are teachers, ICT professionals, engineers, doctors or accountants.

With the changing role of marketing, the skills required by marketers have changed. Today, successful marketers require a much wider portfolio of skills and a more professional approach. Not only do marketers require broad marketing skills but also require good financial skills, planning skills, analytical skills, communication skills, people skills, influencing skills, technology skills, financial modelling skills and management skills. Without these skills it is hard to see how marketers can perform their role effectively, interact with the other functions and add value to the bottom line.

(e) The different requirements of large and small organisations

When seeking marketing staff large organisations and SMEs tend to have different requirements. Large companies often seek newly qualified graduates to join their graduate schemes. Here they will often understudy a series of experienced professionals in order to gain experience. However, in SMEs where resources are often very limited, owner/managers often require new staff to be "up and running" and to make an early contribution to the business performance. Many SMEs owner/managers are therefore reluctant to employ recently qualified graduates, preferring to employ seasoned experienced professionals. Another argument, often raised by SME owners, is that they cannot afford qualified marketing graduates. This raises the question, can they afford not to!

(f) In house or via a marketing consultancy

Many organisations consider whether they should manage marketing "in house" or use a consultancy. As with all such questions there are advantages and disadvantages of each approach. The arguments for an "in-house" operation may include better control, more cost effective, more confidential, part of the team, usually always available and can be used on other tasks if necessary. The arguments for using a consultancy may include the ability to call on a wider skill base and only pay for what is done.

Many small SMEs do not employ a marketer and therefore using a marketing consultancy is often an attractive option.

(g) Resource planning

It is often an expensive and lengthy business recruiting marketing staff. Finding good staff can be difficult and therefore, it is important that an appropriate benefit package is designed to motivate and retain the best individuals. Investment in training is also vital. Given the raft of employment legislation that exists today, it is important that strong relationships are developed and maintained with the HR department and that they are involved in all personnel matters.

E. CONTROL

One use of the word "control" is to make something, or someone, do something that they may not want to do. However, when we speak about marketing controls we are not using the word in that sense – we are speaking in terms of measurement.

We know that the entire process of marketing planning can be summarised as:

- Where are we now?
- Where do we want to be?
- How can we get there?
- Which way is best?
- How can we ensure arrival?

The last stage, of how we can ensure arrival, is the control stage of planning. In simple terms, to know if you have been successful means assessing whether your actions have resulted in the outcome you were striving for. Measuring can be complex and difficult to do or it can be very simple.

For example, on a personal level, suppose you regularly had to attend an important meeting 40 miles away from your office and it was essential to be there on time. If you arrived on time you would be successful, but if you failed to arrive until the meeting was half over you would have failed in some respect. You would ask yourself what had gone wrong. Your control review would identify the problem. Perhaps you should have taken a train instead of driving and getting caught up in the traffic – there could be any number of other problems. Once you had analysed the outcome of your actions you would be able to see what you had done wrong; you would then make the necessary adjustments to your actions for the next meeting.

Or, suppose you had always been late in arriving for these meetings in the past and then one day you actually arrived early. You would then consider what had led to this. You would compare what you had done in the past, when you were always late, to what you had just done and you would identify some factor that had changed. You would recognise that this was something which you should have been doing all along and you would adopt the practice for future meetings.

This is what managers do in marketing all the time. They look at past and present successes and failures and then make changes to plans to enable them to reach the expected standards.

The Control Process

Control is not the final stage in the planning process, but an integral dimension of it. Planning cannot exist without control. Planning starts with determining specific quantified objectives against which progress can be assessed, and finishes by providing a flow of relevant management information which will advise the next planning cycle.

It is in setting the standards as objectives that the secret lies. SMART objectives will be achievable, realistic and capable of being measured – we can exercise control through reviewing ***actual outcomes*** against ***expectation***.

There are ***three*** basic elements associated with the control process:

- Setting the ***objectives/targets*** or specific standards which are the markers for performance
- ***Evaluating performance*** and measuring actual progress against objectives
- Providing ***feedback*** for management to take corrective decisions and modify plans.

There needs to a constant evaluation of objectives to provide information for measurement, feedback and management action. Such actions may be to overcome a problem or to build on some beneficial factor.

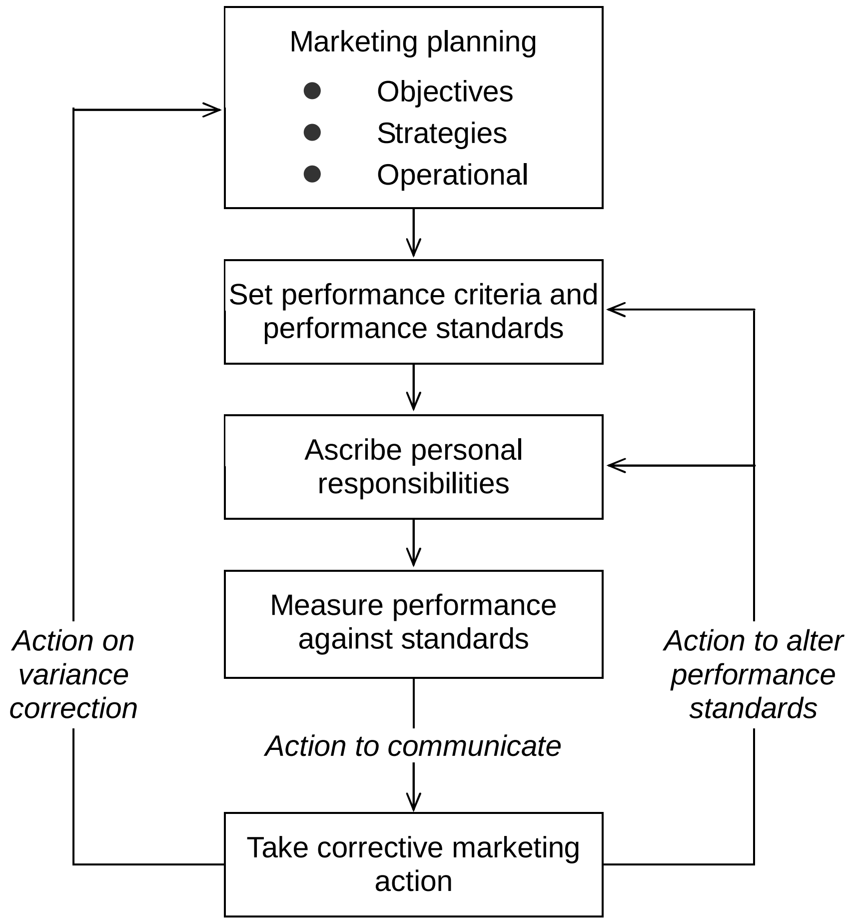
Corrective response is by no means necessarily major – it can mean changing a customer from one salesperson to another; changing the times of reporting; changing how orders are processed; getting a successful person, or section leader, to give a talk to others, etc. However, major changes may also need to be made at times – product deletions, changing distribution channel members, radical re-structuring of pricing methods and so on.

Kotler (1984) suggested four key issues in marketing control:

- Control of the annual marketing plan
- Control of profitability
- Control of marketing efficiency
- Strategic marketing control.

He then suggested that of these four, the first and the last are of prime concern. Expressed in diagrammatic form, Figure 9.4 represents the cycle of control at both the functional and tactical/operational levels.

Figure 9.4: Marketing control system



Critical Success Factors

The successful implementation of a plan does not, in itself, guarantee the successful outcome of the plan. There are other influencing forces, known as ***critical success factors*** (CSF).

Various authors refer, at different times, to critical success factors as being "*standards to be achieved*", "*performance measures*" or "*evaluation factors*", "*strengths*" and so on.

They are, in fact, any particular points which the organisation regards as being helpful towards achieving long-term success. They may be based on almost any aspect:

(a) Internal factors

- The rate of production
- The speed with which a new product is brought to market
- The response to customer enquiries, etc.

(b) External factors

- Market share
- Position and image
- Customer retention.

You can see where the confusion between "*standards*", "*criteria*", and CSFs comes from. They are all related to something which the company considers important and can be monitored and measured. You could even think of them as being "competitive advantages" in that, if the company lays down some form of ***critical*** success factor and achieves it, they will have an advantage over the competition.

Every organisation will have its own list of CSFs and these may vary greatly from those of their competitors. Over time, CSFs acquire importance in relation to the changing environmental circumstances which are affecting the company.

There will be relatively few factors which a company will regard as crucial to its long-term success.

McDonald suggests: "*product performance, breadth of services, speed of service, low costs, etc*."

Gilligan and Fifield suggest a longer list which includes McDonald's suggestions but adds aspects such as "*achieving a position as a good corporate citizen, the development of achieving creativity in management, achievement in product or market leadership*".

In their discussion on CSFs, Gilligan and Fifield highlight the fact that research has shown that a company with CSFs related to the external environment is more likely to be successful than a company with CSFs relating to its internal environment. This makes good sense as it is from the external environment that threats come and every company needs to acquire some defence against threats. The establishing of CSFs seems an admirable way to begin.

These will be monitored with particular concern since they are base on which the company is built. The following is a sample list of CSFs from an insurance company and shows the strategies that should be adopted and their associated performance indicators.

CSF	Strategies	Performance Indicators
Ability to achieve critical mass volumes through existing brokers and agents	● Develop closer ties with agents	Policies in force
	● Telemarket to brokers	New business written
	● Realign agents' compensation	Percentage of business with existing brokers
Be able to introduce new products within six months of industry leaders	● Underwrite strategic joint ventures	Elapsed time to introduce
	● Copy leader's products	Per cent of products introduced within six months
	● Improve underwriting skills	Per cent underwriters having additional certification
Be able to manage product and product line	● Segment investment portfolio	Return on portfolio segments
	● Improve cost accounting	Actual product cost/revenue versus plan
	● Closely manage loss ratio	Loss ratio relative to competitors

Control Criteria and Mechanisms

It would be easy to say simply that for a control to be effective it must meet its objective (as indeed it must). However, there are a number of general considerations which must be met, although the degree to which they may be applied will vary with the nature of the objective. Control mechanisms must:

- Be appropriate to the activity
- Take into account all prevailing circumstances
- Not restrict activities and support day-to-day effectiveness
- Be easy to operate and understand
- Act as a motivator.

Few marketers would disagree that the audit stage is one of the most important stages in the formal planning process. Understanding the current situation and how it came about is crucial if future activities are to be planned effectively.

However, control is not simply an end-of-year review. We are constantly gathering information about the way things are going and this needs constant evaluation. Being alert to environmental changes or deviations of actual and planned performance this allows management to be proactive in adapting current operations to suit changing circumstances.

The processes of gathering information against performance indicators should be built into the normal operating procedures or bolted on to them to check specific indicators.
For example:

- A retail manager needing to monitor the effectiveness of selling spaces in-store would ensure that the store's EPOS systems generate detailed data which can provide information on sales by product category, charted over time. Sales per square foot and stock turnover, profit per item would all be key performance indicators.
- A manager wanting to monitor customer care levels, would instigate procedures for acquiring customer feedback – using satisfaction questionnaires, mystery shopping (a research technique based on observation and used extensively in retail to assess customer service levels internally or of competitors) and assessing customer complaints.
- A sales director wanting to control the performance of a field sales force would concentrate on ratio analysis of performance indicators like sales to sales calls, sales expenses to orders, etc.
- A promotions manager wanting feedback on a programme of sales promotions activities would monitor research awareness before and after the event and evaluate it against the set promotional objectives.

Note that controls may be qualitative or quantitative, depending upon the nature of the objectives and performance indicators under consideration. Examples of each, and the way in which they may be applied at different levels with the organisation, include the following.

	SBU	Individual
Quantitative controls include:		
Return on capital employed	X	
Level of profit achieved	X	X
Reduced costs	X	X
Percentage market growth	X	X
Number of customers		X
Number of sales visits		X
Repeat orders	X	X
Qualitative controls include:		
Image	X	X
Quality of service	X	X
Customer satisfaction	X	X
Training	X	X
Staff development	X	X

In the next sections we shall consider three general approaches to controlling activities and evaluating performance. Of course there are many other controls and you should be aware of the range that is appropriate to the different types of objective and performance indicator in all elements of the marketing mix.

(a) Programming and budgeting

Programming is a term used to describe the systematic, planned steps by which plans are implemented and controlled. Progress made by individuals, or units, is monitored to achieve prescribed objectives at each stage and improved performance arises from this process. An emphasis on programming enables the company to allocate resources and responsibilities in the most effective way in order to attain objectives and standards.

Programmes set control standards for:

- Costs and operational quality
- Capital and sales revenue, profit and cash flow
- Performance and results

A marketing programme, by definition, is a three step process of planning and control:

(i) A defined marketing plan, with its sub-systems.

(ii) A timescale for each element of the sub-system (each element of the marketing mix) – essential for the coordination of the elements of a plan and to take into account the flow of resources required for its smooth execution.

(iii) Detailed programmes with instructions, performance standards, allocated responsibilities and expected results, and the control system to be used to implement the on-going adjustments to the programme.

In essence a plan consists of ***inputs*** to achieve a desirable and predetermined ***output***. Inputs are the resources and the way in which these are allocated and controlled is through budgets. These are just simple financial statements of the resources needed to carry out the plan, but may be developed to becoming detailed specifications of when and how resources are to be allocated, and to what purpose/objective.

There will be separate budgets for each element of the marketing mix – promotional spending will usually represent the largest element of the overall marketing budget, but it is important to remember that there are other dimensions to marketing activity. Besides staff costs, marketing research and new product development are likely to be the most significant elements of the marketing budget.

Budgets are often combined with timetables to develop a comprehensive, costed programme of activities for specified strategies. The following diagram (Figure 9.5) shows such programme for developing a marketing strategy in a large organisation over a two year period, using the help of external consultants.

Figure 9.5: Activity/Timescale/Budgeting Plan

Activity		**2006**				**2007**			**Budget**
Quarters:	*1*	*2*	*3*	*4*	*1*	*2*	*3*	*4*	*£000s*
Select a consultant									1.0
Internal audit									2.5
External analysis									2.5
Establish planning team									
Identify and evaluate alternative strategies									3.5
Present recommendations to planning team									0.5
Develop a marketing plan for preferred strategy									2.0
Brief staff as necessary									1.5
									13.5

(b) Exception reporting

A useful tool to help the manager to receive only the information required is ***exception reporting***. This system allows managers to set parameters in terms of costs and revenue, enquiries or sales, etc. and then to be alerted ***only*** to products or outlets whose actual performance is falling more than *x* % outside that budgeted for.

Managers have to decide how much variance they can allow without being alerted to it – i.e. how big should *x* be?

The grid in Figure 9.6 plots all the products of a company indicating for each product, A – I, their performance against budget – being above or below budget in respect of costs and sales levels.

By incorporating lines which allow for the tolerance limits set by the manager, only those products which need immediate attention are highlighted – in Figure 9.7, those products that fall outside 5%.

Figure 9.6: Performance against Budget – All Products

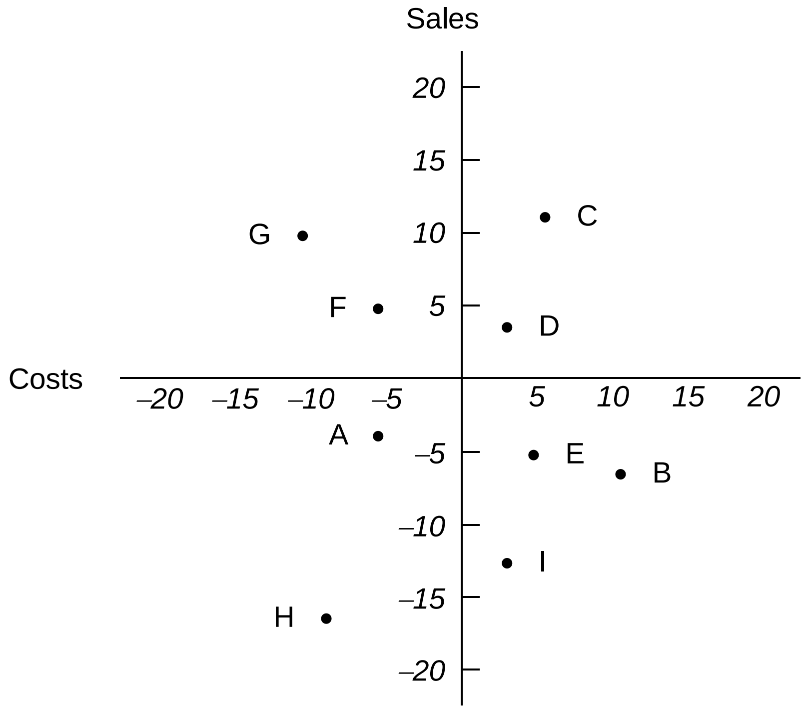
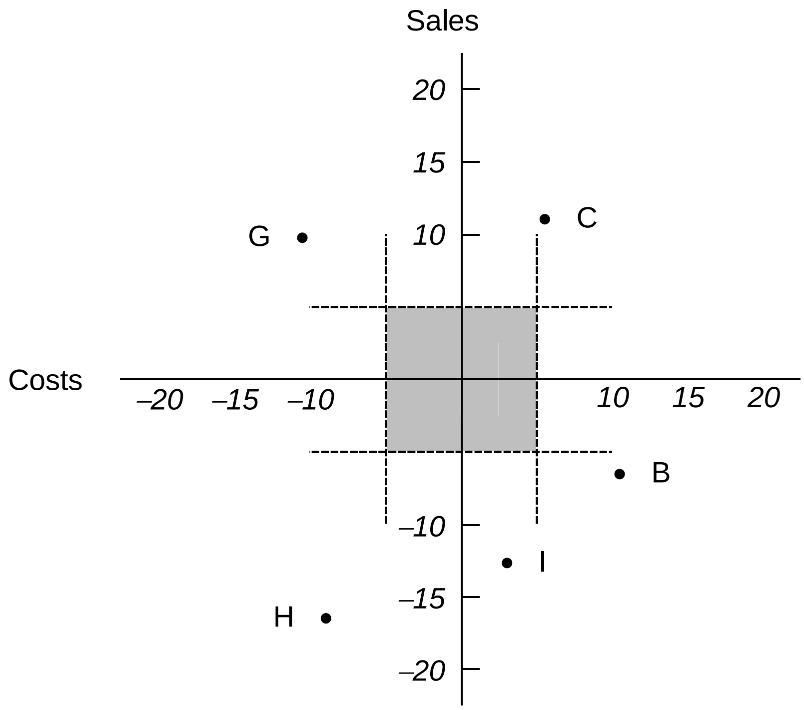


Figure 9.7: Performance against Budget – Products Outside 10% Tolerance



The products requiring attention because their performance is outside the 5% limit are:

- B – where sales are down and costs are up
- C – where sales are up and costs are up
- G – where sales are up and costs are down

H –where sales are down and costs are down

I – where sales are down and costs are up.

(c) Variance analysis

We must remember that it could be a never-ending job to control every single activity and every single person. Marketing managers do not have the time for this. They are busy with other duties – making plans for the future and implementing programmes for day-to-day operation.

For example, take a company with ten field sales managers each controlling a salesforce of 50 people.

Each individual salesperson has targets to achieve and has to produce reports for his sales manager. The sales managers then have to report to the sales director who, in turn, has to report to the marketing director and so on. You can see that unless there is some way of reducing the amount of information which is being passed along it can become unworkable as people do not have the time to constantly analyse extensive figures and results.

Variance analysis is therefore often used, whereby reports are presented from one level of the company to the next, but each time reports are only based on "variations".

Reporting by variation does not mean that figures and results are overlooked. What it means is that standards of performance are agreed, together with any degree of tolerance above or below the set standards.

Only the results that ***vary*** from the laid down standards of performance will be reported.

It is necessary to select controls that are appropriate to need, and to use no more than are required.

The results of selecting a range of control measures – and although we are using a sales example the principle applies to every operational area – is that management can become overwhelmed with information. Corrective action is only possible if managers can see quickly where intervention is needed, so variance analysis must be coupled with the principle of management by exception. If tolerance limits are established for each control measure it becomes only necessary to report instances that are outside those limits.

An upper and a lower control limit are required for each measure. These must be fixed with the needs of individuals in mind (in context with organisational needs and individual circumstances). Thus control limits may be set as:

	Higher	*Lower*
Unit sales	+6%	–3%
Sales revenue	+3%	–2%
Sales expenses	+2%	–5%
etc. etc.		

Each control must be established as favourable or unfavourable in relation to overall profitability, with unfavourable taking priority in the reporting hierarchy.

Once this principle has been established it is possible to prepare individualised control statements that reflect the needs of individuals and present the information in priority order. Only the variances that fall outside the tolerance limits need to be summarised, so that each performance statement pre-selects the areas that require priority attention.

It is bad practice to establish blanket limitations – rather, individual circumstances will dictate needs. An experienced operative can work within tighter tolerance limits than a newcomer. As an individual develops so tolerance limits can be tightened – in the beginning he or she will fall outside "norms" on all counts, and this is not motivational. Relaxation of some tolerance criteria to allow concentration upon key performance criteria prevents overload through too high expectation levels, and provides areas in which performance will be inside limits and upon which the manager can build.

An individual-centred approach also allows for variations that reflect the state of the environment in which an individual is to work. For some the acceptance of wider variation from budget may be necessitated by environmental factors.

Continuing to draw our examples from the sales function, for each control period:

- A salesperson will issue a detailed statement for his or her territory which will itemise individual customers if this is appropriate
- An area sales manager will receive aggregated information for each sales territory
- A regional sales manager will receive information aggregated by area
- A national sales manager will receive information aggregated by region.

Each of these statements will show clearly which criteria are outside tolerance limits. Documentation will, therefore, be action-orientated and produced to the specification of the individuals receiving it; it will ***not*** be aggregated data from which individuals have to extract the information they need.

Review Questions

1. What is a marketing orientated organisation?
2. List the Severn Ss framework
3. What are strategic business units?
4. What are the advantages of a functional marketing structure?
5. Name four key issues in marketing control.

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

A colleague in another function or in a company of your choice, has seen the success you have achieved through the development of a stronger marketing orientation within the marketing function. He asks you to write a report to him explaining the benefits and how he could achieve similar success in his organisation.

ANSWERS TO REVIEW QUESTIONS

1. (a) A marketing orientated organisation devotes resources to understanding the needs and

   (b) buying behaviour of customers, competitor activities and strategies and of market trends and external forces. It is important that the interfunctional activities capabilities are aligned to the market.

2. Strategy, Skills, Staff, Style, Systems, Structure and Shared values.

3. It is a separate operating unit within an organisation which is self contained and can relate to a single product, a product range, a department or even a subsidiary company within a large multiple organisation.

4. (a) Specialisation in task activities to develop skills

   (b) Marketing tasks and responsibilities clearly defined.

5. (a) Control of the annual marketing plan

   (b) Control of profitability

   (c) Control of marketing efficiency

   (d) Strategic marketing control.

Study Unit 10

Product Management and Development

Contents ***Page***

(Continued over)

INTRODUCTION

In this study unit we will look at the first of the four Ps of marketing – product. This is the heart of the marketing mix since, without it, there is nothing to market. We will also look at the marketing of services.

We shall consider the nature of products and what it is that people buy, the concept of the product life cycle which is fundamental to marketing, and the nature and process of developing new products.

Note that we shall discuss branding in the next study unit and this related closely to the concepts and strategies examined here.

A. THE CONCEPT OF THE PRODUCT

Products are bought for different reasons, in different quantities and by different types of buyers. Each exchange will have certain implications for the marketer – i.e. decisions need to be made on:

- Product quality
- Promotion
- Pricing
- Distribution
- Service levels, etc., etc.

The implications for the marketing effort will be influenced by how the buyer perceives the product and this requires a deeper understanding of the nature of what we call a product.

Product Depth or Dimensions

Skinner defines a product as "*anything that satisfies a need or want and can be offered in an exchange*". He goes on to say that a ***good*** is a tangible object (one you can touch), a ***service*** is not tangible but provides a benefit, and an ***idea*** is a philosophy or concept. All can be included in the word "product".

Kilter also offers the following definition:

> *A product is anything that can be offered to a market for attention, acquisition, use or consumption: it includes physical objects, services, personalities, places, organisations and ideas.*

We can see from this that the concept of a product to the marketer is far more than simply an item on the shelves of a shop or in the catalogue of a supplier. Levitt puts forward four concepts which go to make up his idea of the total product:

- The physical product or service
- The expected product, which includes price, packaging, availability, after-sales service and so on
- The augmented product, in which augmentation is the way in which the manufacturer differentiates his products from others by adding some extra benefit
- The potential product, which is the ultimate combination of product and service which it is possible to achieve.

This introduces the idea that products and services have depth – or different dimensions – to them which consumers find attractive and contribute to the decision to buy.

We can say that a product has three main dimensions:

- **Functional**

  Functionality refers to the **use** of the product – what it is for, or what does it do? It may be that it plays music, or it keeps out the cold, or whatever. For a refrigerator, for example, this could be that it stores, preserves and cools.

  The "function" of a product may change at times because someone has found another purpose for it – for example, house bricks can be used as supports for beds, seats or shelving units.

- **Tangible**

  This refers to the physical features that are offered – the materials from which it is made, the style, quality, packaging, etc. For the refrigerator, this could be that it fits under worktop, is self-cleaning and is offered in a range of colours.

- **Symbolic**

  The symbolic attributes of products are also sometimes known as "psychological" attributes or the "augmented product".

  This dimension of the product includes the add-on benefits provided along with the product – after-sales service, guarantees and warranties, credit facilities, availability in the market, delivery, etc. For our fridge, this might include image, guarantee, free credit and the particulars of the after-sales service.

  The symbolic attributes also refer to the "value" which a user gives to a product. Value is intangible and will vary from person to person – for example, the value ascribed to a pair of Nike training shoes by a style-conscious teenager is much higher than that given to a similar pair of shoes by a middle-aged keep fit enthusiast. It is these "symbolic" attributes that play on the "esteem" and "belonging" needs of the buyer and, consequently, help in the marketing of branded and high value goods.

Services as a "Product"

When you buy a physical product, such as a refrigerator, you automatically get the benefit of a lot of service which you may or may not know about – after-sales, guarantees, etc. However, when we talk of "services" in the marketing sense, we do not mean the backup behind the products you buy, but rather those services which are marketed in their own right. Examples include airline, train and bus travel; hotel accommodation; doctors, dentists, hairdressers and so on, where the result of the "service" is what you are buying. The most important difference between products and services is that services cannot be stored – for example, if a hotel bedroom is not occupied tonight, a profit opportunity is lost for ever.

Is a service any different to a physical product? Well, of course it is, in some ways. Services differ from physical products, in terms of their:

- **Intangibility** – they cannot be seen, touched or tried before purchase
- **Inseparability** – they are used or "consumed" at the time of purchase and, as such, cannot be separated from the provider
- **Perishability** – they cannot be stored for use at a later time
- **Heterogeneity** – they are dependent on the person who is providing the service and, as such, will vary from time to time in accordance with when they are being provided and the circumstances surrounding the provision.

The characteristics of a service can add difficulties for marketers but, at the end of the day, it is still "the item that is being exchanged" – it is the product. The product of an accountant is the expertise which is being sold, and the product of a hairdresser is the skill in cutting and styling that he/she provides.

Thus, "products" and "services" are not really any different. A product is a service and a service is a product. For the rest of this study unit, when we refer to "product" please remember that we are also referring to "service".

Classification of Products

The following well documented and universally accepted classifications of products help to identify the main implications for marketing. If you recall we have basically two types of markets – consumer and industrial. It follows, then, that we have basically the same two types of product and service.

(a) Consumer products

Consumer products are classified in three ways.

- ***Convenience***

  The minimum of effort is needed because the customer knows about the product before they shop. Brand substitutions are easily accepted as these products have low "value". They are the products which are bought automatically and repetitively – for example, butter in a supermarket.

  The marketing implications of this type of product are that:

  (i) The product must be easily accessible to the buyer

  (ii) Advertising is needed to strengthen branding and gain loyalty

  (iii) Differentiation is achieved by using other mix elements.

  We can break convenience goods down further into those that are emergency, staple and impulse items. The rise of the modern convenience shop owes its success to emergency purchases. The main shopping is usually done these days at the supermarket, but when you suddenly realise that the cat has no more food left in the cupboard, you can go down to the local convenience store. In the UK this is now usually at the local garage. Items such as milk, bread, sugar or potatoes are staple convenience goods. Impulse items are self-explanatory. Supermarkets have a knack of positioning these goods at the end of an aisle.

- ***Shopping***

  Those products where customers do not have full knowledge and where they can be influenced to accept an alternative product (during their "search" phase) by the benefits being offered. They are higher in "value" than the convenience type of product and therefore involve more risk in purchase.

  This is the category of major durable or semi-durable appliances. As they are more expensive than convenience goods, their purchase is often pre-planned with a search for information, stockists and prices. The Internet is now frequently used to consider different options and brands, thus saving time searching on the retail park or in the high street. Shopping goods also attract other considerations such as purchase terms – for example, interest-free credit, delivery and installation and, very importantly, after-sales service and repairs.

The marketing implications of this type of product are that:

(i) Benefits offered are critical – sometimes more than price

(ii) Persuasion may be involved (for example, by the retailer or salesperson)

(iii) Distribution will not be as widespread as for convenience goods.

- ***Specialty***

  This type of purchase is where customers have hard and fast ideas of which product, outlet, brand, provider, etc. they wish to use. The customer will go to great lengths to ensure that they obtain the actual product they require and will not be easily converted to a substitute. These purchases are high in "value" and therefore carry the greatest element of risk to the buyer.

  Exclusivity is a prime purchase motive. Jewellery, expensive cars and designer clothing would fit into this category. While behavioural lifestyle factors are important for all consumer purchases, it is this class of goods that provides the consumer with the greatest opportunity for self-actualisation. From a marketer's point of view, such consumers can be carefully targeted and often will be found to be members of an exclusive purchasing club.

  The marketing implications of this type of product are that:

  (i) Promotion needs to be targeted very carefully

  (ii) Image and reputation are critical

  (iii) Price is secondary to other features

  (iv) Distribution will be very limited/exclusive.

In addition, some authors argue that there may also be a fourth class of consumer product – ***unsought products***. By definition, these are goods that the consumer will not seek out and indeed may not really need. However, there are plenty of companies using direct mail techniques that produce extensive catalogues of these goods – for example, electronic kitchen gadgets such as tea bag timers. Insurance companies are another example, where they will attempt to sell you cover in case of an accident. Whilst many people do take up these offers, they are unsought.

(b) Industrial products

Industrial goods can be characterised on a functional rather than on a behavioural basis. This is because the primary use of industrial goods is in the manufacture, directly or indirectly, of other goods.

A simple way to imagine the variety of goods involved is to consider the sort of goods a company needs to work efficiently, such as telephone systems, computers, stationery and office furniture. Whilst these are not directly used in the manufacturing process, they are essential to the smooth running of a company.

Industrial products can also be classified into three categories:

- ***Raw materials and components***

  These are the actual fabric, etc. from which an end product is made. Manufacturers buy these items from suppliers and buying tends to be on a regular, repetitive basis once a production line is established.

  To the buyer, consistent quality and supply of these items are important because they will have a bearing on the ultimate quality of the end-product. Whilst price is a key factor in raw materials, and often subject to major fluctuations due to weather conditions, it is not the only factor. Reliable delivery, supply and consistent quality are all equally important.

The marketing implications of this type of product are that:

(i) Supply and price will be major factors

(ii) Promotion tends to be in business publications and catalogues

(iii) The level of quality required will depend on the quality of the end product

(iv) Relationships can influence the buying processes.

- ***Equipment/plant***

  Computer systems, production plant and other types of equipment needed in the operation of a business fall into this category. The nature of the purchases often involves high prices and, as such, a great deal of research and deliberation will go into the purchasing decisions.

  Major items of plant and machinery required for production – for example, the purchase of road rollers if you were running a plant-hire firm – are often classed as the "speciality" goods of industrial markets. Purchase decisions are complex and occur only after a long and extensive search of alternative products and companies. Price, whilst important, is never the single deciding factor.
  The provision of after-sales service, spares backup and technical support are equally as important.

  Office equipment such as PCs would also fall into this category. Although still considered as capital items, they are likely to be less expensive than the road rollers bought in by the plant-hire company. The decision-making process is not as complex or long, with fewer personnel involved, and specialist managers will be the major influencer and purchaser.

  The marketing implications of this type of product are that:

  (i) Product features and performance are critical

  (ii) Price may not be highly important

  (iii) Support services take on extra importance

  (iv) Promotion, highly targeted, may be direct or in business publications

  (v) Personal selling may be required

  (vi) Decision processes will be complex and take time

  (vii) Distribution is likely to be limited to direct or distributors.

- ***Supplies***

  The "consumable" items that are needed for day-to-day operations. These products are similar in nature to convenience goods in the consumer sector and include items such as soap, cleaning materials, polish and stationery. Purchasing can be habitual and may carry little psychological "value" to the buyer. Due to the relatively homogeneous nature of supplies and their wide availability, price is a major item in the purchasing decision process.

  The marketing implications of this type of product are that:

  (i) Price and the speed of delivery will influence ordering decisions

  (ii) Delivery is not normally direct from the manufacturer

  (iii) Price lists and any catalogues need to be comprehensive and nowadays are usually held on the web site and updated on-line

  (iv) Promotion will be more general than for other industrial purchasing.

In addition, there are a large range of ***industrial services*** which have, themselves, developed into large operations – for example, express delivery of goods has been taken on by the likes of TNT and UPS to any destination in the world. Similarly, bulk copying and printing companies have been established mainly as franchise businesses. The principal factor in deciding to use outside services rather than an in-house service concerns the question of cost-effectiveness. If the service required is used infrequently, the option of hiring specialist help is often more appealing.

B. THE CONCEPT OF THE PRODUCT OFFER

It makes little difference how we describe the product, or even how it is classified. The product is what is being sold and what is being bought. In other words, it is the item that is being used in the exchange process that is taking place between buyer and seller.

The essential question we have to settle is what exactly it is that is being bought and, as usual, this is not as easy as it sounds. The instinctive response is to say that we are simply trying to get people to buy our orange juice or our washing liquid or patronise our restaurant or register as a student at our University. But why should anyone want to buy orange juice at all? If they did, why buy this one?

People Buy Benefits

People hardly ever buy a thing for the sake of the thing itself. Almost always they are buying the benefit to themselves that ownership or consumption of the product can bring. A whole generation of marketing students has had this illustrated by the following little saying and it's still useful and true today – "A man doesn't buy a quarter-inch drill-bit because he wants to own a 6mm drill-bit; he buys it because he wants a 6mm hole in the wall". People buy benefits, not products.

A housewife buys orange juice because she wants a cold drink with her breakfast or because she wants to give her children something pleasant-tasting to drink that will not rot their teeth and that contains Vitamin C or because she is throwing a party and doesn't want to drink alcohol while serving the food or because she is intending to make orange sauce to serve with roast duck.

The first stage in the marketing strategy, therefore, is to identify the benefit that the target audience is seeking. People's needs vary and with them will vary the benefits they are seeking from the things they buy.

Some products offer multiple benefits to a single consumer. Our housewife above might like the taste of oranges, believe in the efficacy of Vitamin C and not have time for a hot drink at breakfast time. She is buying orange juice for all three benefits. However, here we have to look forward a moment to the later stage, that of promotion – the development of a message to our customers using (normally) mass forms of communication. A characteristic of these is that the message must be both brief and arresting. It is almost always impossible to do that while trying to communicate several different points. So we have to choose the one outstanding benefit that the consumer will value above all the others. This requires the strategist to rank the benefits that the product offers in order of importance and to choose the one at the top of the list to be the dominant feature of the offer.

Exceptionally, there may be occasions where the multiplicity itself may constitute the offer. For instance, building societies and savings banks often provide one kind of account that ties money up for long periods of time, but pays a high rate of interest; and another kind paying a lower rate of interest, but allowing the customer instant access to his money. If you were a savings bank and had decided to offer both higher interest and instant access, you might make this combination itself the benefit or selling point.

The Unique Selling Proposition

We now know why someone would buy a particular product. But, if you remember, the second question was "why buy this one?" Here we need to remember the discussion about positioning and consider the product's distinctiveness in the market.

If we can't persuade people that our offering is different from all the others available, why should they buy ours? The crux of the positioning exercise is that we have to give people a reason to choose our product. Therefore, we now need to translate the positioning statement we made into a benefit statement. If we have a product that is made from fresh oranges, while competing brands use concentrates, this benefit sets us apart from them and this becomes the reason why they should buy ours instead of the others.

This is, in essence, the concept of a unique selling proposition or USP. The concept, developed by Rosseler in the 1950s, asserts that every form of marketing communications, that should be centred around a differential benefit.

In markets where there is intense competition, it is by concentrating on the added value aspects of the product that marketers can identify unique selling propositions which give them advantages over the competition. Obviously, the more qualities there are to the product, the more valuable it becomes to the person who is acquiring it and the more likely the chances of success for the marketer. Hence the emphasis on the augmented aspects of image, after sales, delivery, etc. It cannot be denied that the best products for a buyer are those which give an "added value" of some kind – they give something more than the basic function. For example, designer clothes cover the body but they also give esteem and status; personal computers now give the benefits of built-in modems which can be used to communicate with people around the world.

Knowing the Target Customer

We could say that this seems to make the marketer's task very easy – all they have to do is just add lots of benefits and people will buy. Unfortunately this is not true. Different buyers want different benefits and offering irrelevant benefits to a buyer will not make a sale. It also costs money to add value to a product.

Resources are scarce and one of the main aspects of a manager's job is to use resources effectively and efficiently. Marketers therefore need to research what is required by the buyer, and match their product offering accordingly.

They need to know:

- Who is buying
- What the needs of the buyer are
- Who/what will influence the buying decision
- How buying needs have changed, or are likely to change
- Who else could satisfy the buyer's need
- What is being offered in the marketplace
- How many buyers there are or are likely to be
- What could influence the marketing effort.

In other words, product managers need on-going research and situational analysis so that they can develop their products to match any identified market sectors.

C. PRODUCT MANAGEMENT

Product management is concerned with both existing and potential products.

- **Maintenance of existing products**

  Products need support in terms of other marketing activities – promotion, pricing exercises, distribution management, etc. Product managers must constantly monitor product performance.

  Information on how a product is faring in the market will help a manager to decide if it is time to make any changes to the range, or part of it. In cases of poor revenue generation, it may be that a product needs to be dropped or extra promotional activity is called for. Decisions such as these are made on a regular basis in the process of product management.

- **Development and introduction of new products**

  We know that not every product is blessed with a never-ending life and, if only because of changing customer requirements, new products will be needed. We will cover new product development in more detail later, but at this point we must remember that it is a vital part of product management.

The concerns with both centre on how the product is placed and performing in the market. We have previously considered many of the strategies which will optimise those criteria in relation to marketing objectives – for example, positioning – and here we shall review these in relation to their relevance specifically to product decisions.

Product Positioning

Product management is concerned with getting the positioning right, keeping it right, or changing it until it is right.

As we have seen, perceptual maps are used to show positioning. These maps can be used by a manager to compare positioning with the competition or to show the overall picture of a company's product range, as in the following Figures.

Figure 10.1: Competitive Positioning (Leisure Activities)

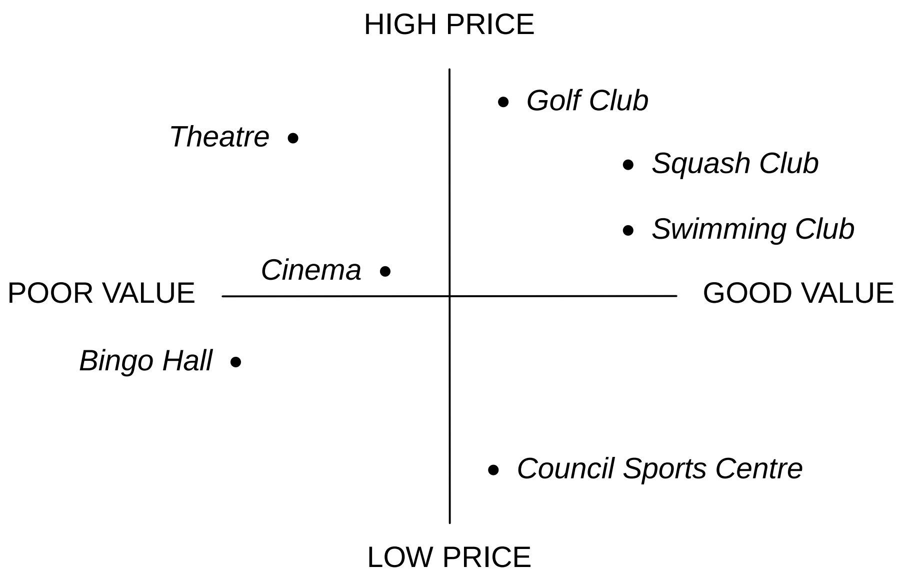
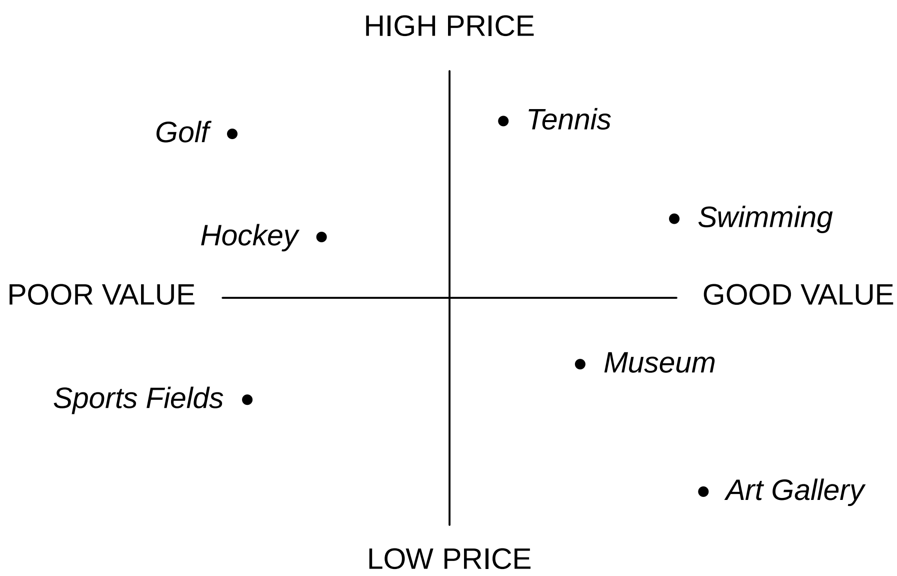


Figure 10.2: Leisure Product Range (Local Authority)



Changes in product positioning (forecast or actual) can also be shown by perceptual mapping, as in the following two Figures.

Figure 10.3: Competitive Positioning Changes (Leisure Activities)

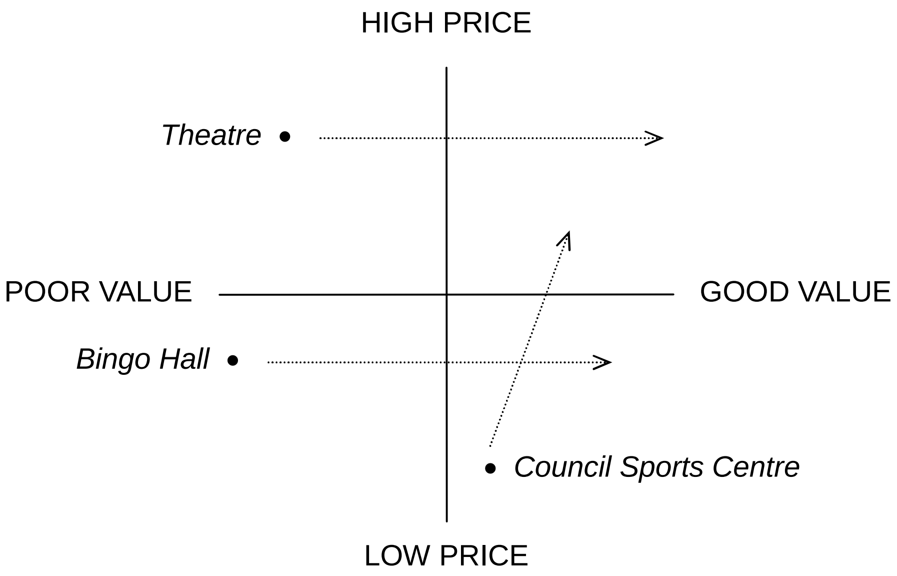
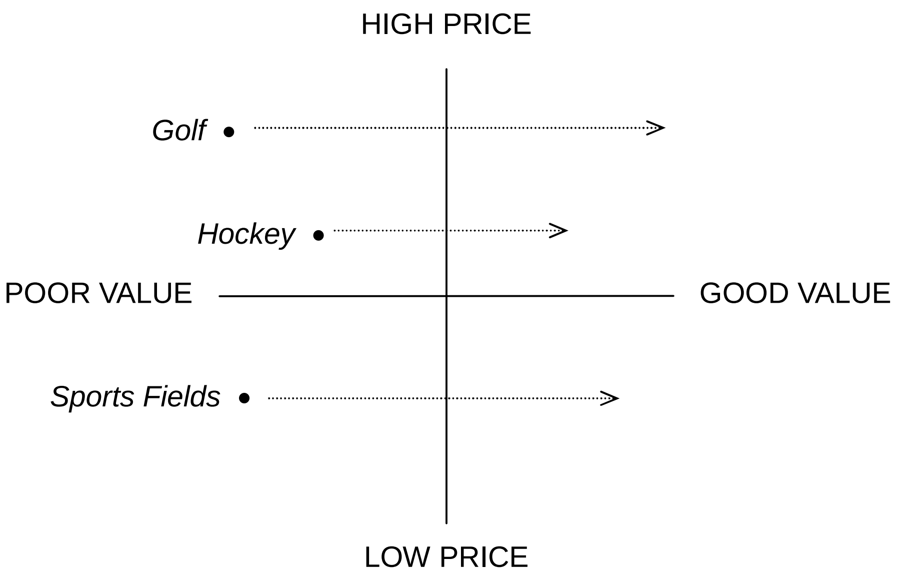


Figure 10.4: Leisure Product Positioning Changes (Local Authority)



The variables which used in the construction of perceptual maps can be on any aspect which the company wants to use – for example, distribution: price, guarantee: length of time taken to complete the order, or price: quality, etc. Generally, these influences will be directly related to customer perceptions and expectations.

Remember that the whole idea of marketing is to satisfy customer requirements and it is the company best at doing that which is likely to win the rewards of market share and profit, etc. By understanding the influences on buying behaviour, a manager can fine-tune the product and position it in such a way that it will not only satisfy, but "delight" the customer. This is what most product managers want to achieve.

Improving Customer Loyalty

There is an expression quoted in marketing and selling which says:

> "We want customers that come back, buying products that don't".

Translated, that means we want good quality products and satisfied customers.

Customers and consumers alike are now very knowledgeable on their rights. They have high expectations of products and do not hesitate to complain if a product offering does not match up to its promise. All of this, coupled with increased competition, has resulted, overall, in a general raising of the quality of products which are available in the marketplace.

The higher quality expectations for products have, in turn, resulted in more emphasis being placed on the added value aspects of products in order to gain customer loyalty.

Customer loyalty is of prime importance to any marketer, even if buying the product involved is a one-off, or very rarely completed, purchase. The majority of purchases, however, are repeated on more than one occasion and, as such, the marketer wants to build up a relationship which will mean that the customer will come back another time.

Apart from the aspect of satisfying the customer, there are very good managerial reasons for establishing customer loyalty, such as:

- The cost of gaining new customers is much higher than keeping existing customers happy
- It is easier to promote to existing customers than to unidentified buyers
- It is easier to encourage satisfied customers through the buying process than to start from scratch with new prospects
- It is easier to manage the product range when buyer needs are known.

You can see from these points how important it is to develop a long-lasting relationship with a customer. Long-lasting relationships mean customer loyalty. The stronger the ties are between a seller and a buyer, the less likely the breakdown of the relationship. Marketers try very hard to create and maintain this type of relationship.

The Product Portfolio

If a company has just one product then all its efforts and resources will be devoted to it. Since all the risks in the marketing environment will fall on one product, most companies would try to avoid such dependence.

Thus, most companies have a portfolio of products and the concepts of the range and mix of products within that portfolio needs consideration.

(a) Product range and mix

Many simple products are supplied in different sizes, to suit the needs of different customers; you will have seen big and small packs of foodstuffs in grocery stores and there are plenty of examples of size ranges, as in shoes and clothes. The same situation applies in factories – gears and chain drives, belt drives and machine tools all come in different sizes to suit specific purposes.

A ***product range*** (or line) has some similarities – if the products are not related in some way, they are in different ranges. For instance, a supermarket may have in stock 5000 product ranges and some may include four or five different sizes. Packs of sugar may be in two sizes and three varieties, but they will all be in the "sugar" line, as distinct from the frozen chicken line. Similarly, for a product which does not have size variations, the number of models in the range may be considered. Take pens, for instance; they are roughly the same size and the differences are in the quality of the nib, the filling mechanism and the casing. Packaging has some importance, too.

This leads us to consider the product mix, which can be a serious matter for a manufacturer.

Lancaster & Massingham demonstrate the concept of "***mix***" in connection with products through the following figure:

Product line 1 • • • • • • • • • = 9

Product line 2 • • • • • • • • • • • • • = 13

Product line 3 • • • • • • • • = 8

The "***depth***" of the product range is shown by the longest horizontal line and the "***width***" of the range is shown by the number of different lines.

When studying companies the "***consistency***" of their product range depends on the closeness of the products in terms of end use, production facilities utilised and distribution systems. Stronger consistency will give a company a greater strength in the market, whilst a greater depth will extend the consumer types. Extending the width of the product mix will give the company more scope for providing profit from different sources, for protection against a decline in one range.

In the above example, Lancaster & Massingham go on to show that the company has 30 items in the portfolio, in 3 lines, and the average depth of the product mix is 10. These "ratings" can be used by managements to assess company strengths.

We can take a closer look at the idea of a product mix.

(b) Implications of product mix

A company which is dependent on one line of products is clearly vulnerable to changes in the market, so it is usual for companies to develop a number of product lines or ranges. Quite often they start off sharing the same production and marketing facilities, then develop separate departments or even divisions as the products grow.

One of the most useful theoretical concepts which can help the marketing management to find the best product mix is the idea of a product life cycle. We shall examine this in detail later in the unit, but for now we can briefly state that it describes the way in which sales of a product develop and then decline over time. It is usual to plot this as a graph, producing a curve which grows, slowly at first, through the stages of development and introduction and then more vigorously in the growth stage, before reaching a relatively consistent level of sales in the maturity stage and then seeing sales fall as the product enters decline.

It is clear that a wise management will try to have new products coming into profit as the old ones fade away; and there might well be a time when it is best to withdraw an old product so as to concentrate on a new one.

Planning such product progression is essential where the marketing management can see there is a pattern to their product life cycles. However, it is important to note that the life cycle may be drawn for the product range, rather than for an individual product; and a new product (or a variation of an existing one) can prolong the profitable phase of the whole range.

(c) Product mix and customer benefits

The selection of the product mix would be easier if the decisions depended simply on production management, but the whole purpose is to satisfy customers, so what they want comes into the decision-making process. It is tempting to make decisions just on the profitability of each item in the range, but to do so could cause a lot of problems.

For example, the pack sizes of some food products may appear expensive to the production manager; yet if the small sizes were to be withdrawn, there would be complaints from old people who live alone, or from couples without big families to feed. The complaints would be made to the supermarket or grocery store manager and might take a long time to reach the food manufacturer. Whilst that is going on, the customers will have looked at competing products and may well have switched from one brand to another.

Customers get benefits in many different ways and it is essential to know what customers think about the features of products.

Product Management Decisions

Decision-making is usually helped if the situation can be simplified through the application of clear models. We have considered several of these earlier in the course in respect of planning marketing strategies and you should ensure that you are familiar with the application of the following to the development of product strategies:

- Ansoff matrix – identification of market penetration, product development, market development and diversification strategies based on assessment of the product and the market
- Boston Consultancy Group growth/share matrix – identification of cash flow potential of different products by reference to market growth and relative market share, and possibilities for repositioning products
- General Electric portfolio analysis – identification of product strengths/weaknesses and associated strategies based on assessment of competitive strength and market attractiveness
- Shell directional policy matrix – identification of product strategies based on assessment of competitive capability and prospects for sector profitability.

D. THE PRODUCT LIFE CYCLE

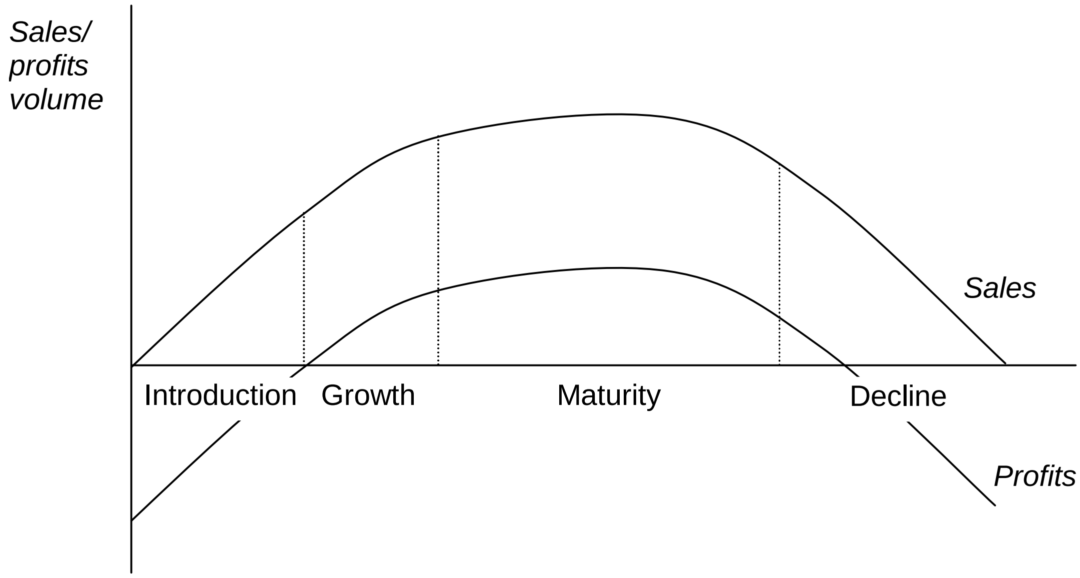
You should be familiar with the product life cycle model which is perhaps the most easily recognised and well-known model in marketing theory.

Once a product is launched, it begins its own life cycle and will eventually decline and disappear, becoming obsolete. However, there is no set period of time attributed to this – it may be short-lived in the case of something like a ladies' fashion or still be enjoying maturity after many years like the Mars Bar.

Stages in a Product's Life

Figure 10.5 identifies the four stages in the pattern of demand during a product's life.

Figure 10.5: The Product Life-Cycle



(a) Introduction

This is a heavily expensive stage with promotion being intensive even though it may be selective initially. The strategy will be to create product awareness and all the promotional tools are often used to launch a new product – from personal selling in the trade through to heavy consumer advertising. If the product is truly innovative there may be little or no competition at this stage, so market education will be required and promotion costs may be even higher.

Pricing strategy at launch depends largely on the degree of distinctiveness of the product and on the length of time it is expected to last. Two options are then open for consideration – skimming or a penetration strategy may be adopted.

The distribution network will have to be established with dealer incentives being offered to secure business.

At introduction stage, the product for the time being is run at a loss, because it has not yet been possible to recoup all the development costs.

Note that, preceding the introduction is a development stage. This can be protracted and will involve activities such as design, planning, costing, test marketing, etc. Costs are high, with no earned revenue. Promotion for awareness may commence in advance of introduction of the product to the marketplace, and aspects of the development process may overlap into the introduction through product modifications. (We shall consider new product development in detail later in the unit.)

The characteristics of this stage of the product life-cycle can be summarised as:

- High promotional spend
- Possibly little competition
- Limited distribution
- Frequent product modification
- High failure rate.

(b) Growth

If the product is taken up by the market, this stage will produce the greatest increase in sales and profit. The unit cost falls, although promotional costs are still high.

The competition will be catching up and promotion will be aimed at consolidating favourable attitudes to the product as well as establishing buyer loyalty.

The key to a successful growth is often gaining further distribution – for example, in leading market outlets – and this may increase costs.

The growth stage gives opportunities to solve problems which may have been found in the marketing effort (distribution, packaging, etc.) but pressure from the competition makes this a tense stage and there are still relatively high costs to be incurred.

The characteristics of this stage in the product life-cycle are:

- More competitors and less product distinctiveness
- Rising sales
- Profitable returns
- Company and product acquisition by larger firms.

The opportunity to achieve maximum profits usually peaks towards the end of the growth period.

(c) Maturity

Most products are in this stage of their life cycle. The market has matured and competition will be at the maximum. Profit levels may begin to show falling trends as market share is lost to the competition or the market becomes saturated.

There may still be good revenue to be earned from the product, but resources will be needed to retain market share in the face of competition. The length of this part of the cycle may be extended by marketing effort – new packaging, increased promotion, new market sectors, regions, etc.

Promotional spend is still required to reinforce the message and hold on to existing loyal customers. Promotion will be aimed at reminding the target audience about the product and at overcoming the competition.

Competition will also be felt in the area of distribution and a key strategy will be to retain agreements with dealers and retailers.

Key characteristics at this stage are:

- Sales do increase but at a much reduced rate
- Manufacturers often attempt to differentiate or re-differentiate the product
- Prices start to come down as efforts to retain market share are fought over
- Profits fall in line with falling prices
- Marginal producers whose margin is reducing against keen competition will often drop out of the market.

(d) Decline

The market is falling and results in low profits. There is a possibility of high support costs and considerable management time spent in considering the merits and demerits of the product. The product may need to be withdrawn if new markets/uses cannot be found or if adaptations to the mix are not effective in increasing sales. Some companies may stay on in the market whilst competitors pull out. If the market is small and specialised, the product may well continue to prosper in a niche situation.

At this stage organisations may be introducing new products to take the place of those which are about to be deleted. The decisions on product deletions and introduction are strategic decisions and will be dealt with at higher levels of management – some companies make a practice of deleting products regularly and others stick to making adaptations to extend the PLC; yet others will have an "open" policy of considering each product on its own merit.

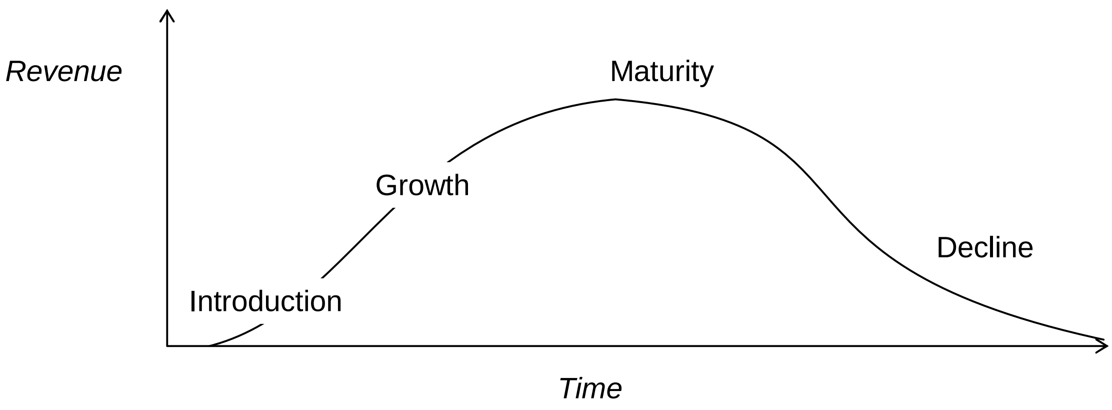
The decline stage embraces the following characteristics:

- Sales fall for the total industry
- Price cutting may intensify
- Producers decide to abandon the market.

Pattern of the Cycle

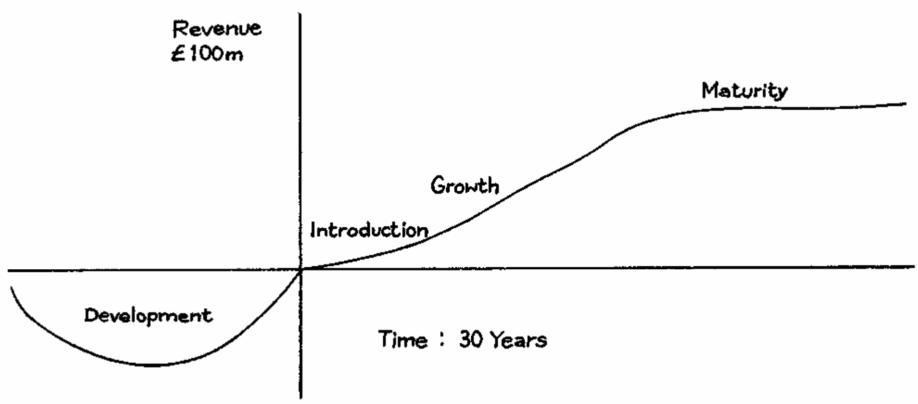
The typical life cycle model, shown in Figure 10.6, illustrates the four "stages" that a product can go through – Introduction, Growth, Maturity and Decline.

Figure 10.6: Typical Product Life Cycle Model



This model can immediately be criticised because it makes no allowance for any activity, costs incurred or time taken before the product is introduced to the market. It is, in effect, a "sales" life cycle as it shows the revenue gained and falling over time, although this could be related to the life cycle of the product from launch only. Figure 10.7, below, gives a better illustration of the concept.

Figure 10.7: Product Life Cycle Model



The model in Figure 10.7 is more realistic in that it shows activity and resource utilisation at the development stage, before market launch. We could therefore argue that the true pattern of the product life cycle diagram is "S" shaped.

But then we come across the problem that not all products are alike. They are launched under different circumstances, for different target sectors and for different uses. They will also involve different levels of resources during the development stage. This implies that the pattern of the individual life cycle model will change. Consider Figures 10.8 and 10.9.

Figure 10.8: Product Life Cycle – Rubicks Cube

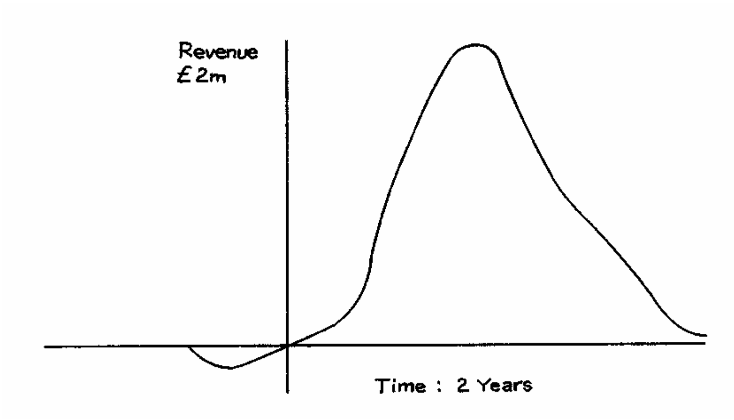
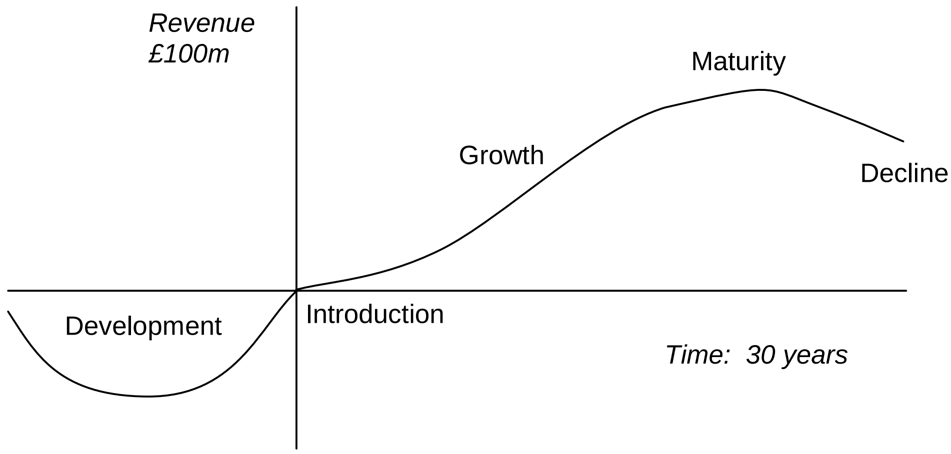


Figure 10.9: Product Life Cycle – CD Players



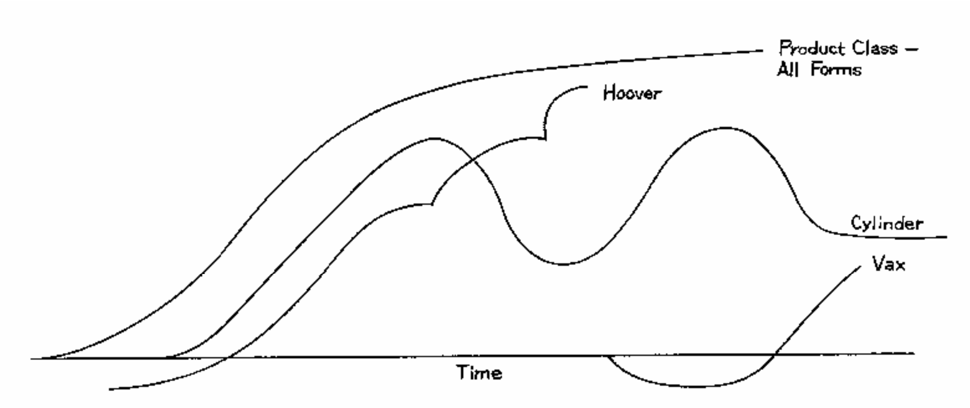
The model for the Rubicks cube shows little development costs incurred, a very rapid growth phase, a short maturity and a rapid decline. This reflects the nature of the product – it was a game that took the market by storm in the mid-1980s with everyone trying to beat the puzzle, but it quickly fell out of fashion with the resulting loss of sales. You can still buy the cubes but they do not take a large share of the games market – other favourites, or fads, have taken their place.

Figure 10.9 shows a different history, with massive development costs, a slow introductory phase and then a steady growth with a long maturity phase.

This reflects the fact that the CD player was a highly technical product which needed intensive development and production costs before launch onto the market. The product was bought in small quantities at first because people could not really see the benefits of changing how they listened to music. Additionally, CD players were seen as being a waste of money because the gramophone records that people had collected could not be used on them. Gradually, as the benefits of the superior sound reproduction were recognised, more and more people bought them with the growth stage increasing steadily until maturity was reached. The long maturity stage, as shown in Figure 4.8, is typical of where an industry has adopted a standard. . The CD player has now entered a rapid decline stage is it is replaced by the i Pod and the ability to download music instantly, and often free, from the Internet.

However, the model for the CD player is not for any particular product – it is for a generic, or core, product – a class of product. A life cycle diagram for an individual product may look completely different. In actual fact different product life cycle diagrams can be drawn for product class, product forms and products or brands. In Figure 10.10 we have used the vacuum cleaner as an example.

Figure 10.10: Product Life Cycle – Vacuum Cleaners



The different patterns which emerge are as follows:

- You can see that the life cycle of the ***product class*** is continuing.
- The ***product form*** (cylinder) was popular for some time and then declined in popularity with another growth stage at a later date.
- The curve for the individual ***brand*** (Vax) shows that the product has been a relative latecomer into the market and it is still in its growth stage. The scalloped curve for the Hoover brand, however, shows an on-going history of rising and levelling of sales.

This variety in the possible shape makes it rather difficult to accept the idea of a "standard product life cycle" and this is a major problem for managers. They would like to be able to draw a simple product life cycle and then have everything go according to their expectations. Unfortunately, life is not that simple.

Limitations of the Product Life Cycle

We know that most marketing models are not perfect and can be criticised for various reasons. The product life cycle model is no exception to this and managers are faced with a variety of problems in using it as the basis for planning and action.

- **Variable influences**

  Product life cycles are a reflection of sales over time. We all know that sales can be affected in numerous ways and, no matter how good the forecasting or planning, there can always be a reduction in sales. The product life cycle takes no account of variations in the factors which may cause this – environmental influences such as competitive activity, legal pressures or customer buying behaviour.

- **Predictability**

  As it is not possible to be 100% accurate in forecasting sales in advance, the only way that the product life cycle model can reflect a true picture is if it relates to sales already achieved. It follows, then, that only ***historical*** product life cycles can be accurate.

- **Position of products**

  Another problem that managers face is in knowing exactly where each product is in its life cycle. The growth stage may be protracted or very short. The potential size of the market may have been underestimated, which could result in a manager thinking that the product had reached the maturity stage when, in fact, there could still be opportunities for growth.

- **Over-reliance**

  Sometimes a reduction in sales revenue can be because of some influencing factor (e.g. recession). Just because the product appears to have reached maturity does not mean that it will go naturally into decline. An over-belief in the concept of the life cycle can mean that a manager will withdraw support from a product when sales slow down. Doing this can actually ***create*** decline and the product will fail. This is known as the "self-fulfilling prophecy syndrome" and has caused many products to disappear from the market earlier than necessary.

Usefulness of the Product Life Cycle

Because we have covered the limitations of the product life cycle first, you could be forgiven for thinking there is no great use for this concept or model. On the contrary, it can be extremely useful if it is used with caution. As a general aid to planning it is excellent and can offer a number of benefits.

(a) Planning and control

Once levels of revenue to be achieved have been established, a manager can calculate how many units of a product need to be sold in the time period covered. Using a ***desired*** product life cycle will show what possible sales could be achieved based on salesforce capabilities (number of customer visits: likely conversion rate, etc.). It also means that the manager can liase with the production department on schedules and product availability.

If the possible sales, coupled with the product availability, are in line with the revenue objective, the objective is given greater credibility. It also means that resource utilisation can be planned much more effectively.

Using the model as a control mechanism is perhaps an even greater advantage. When a forecasted, or desired, chart is drawn it can be used as a measurement of actual results for any product. Comparisons can be made between the take-up rates of a range of products in order to see which marketing activities produced the best results. This type of post-campaign monitoring will help when formulating strategies for future product launches.

(b) Strategy formulation

The characteristics of key indicators which can be expected at each stage of the product life cycle give good ***general*** guidelines on the type of marketing strategy that might be appropriate.

We stress the word "general" because there will be exceptions. Environmental influences should always be taken into consideration when formulating strategies.

Characteristics	Introduction	Growth	Maturity	Decline
Sales	Low	Increasing	Slowing	Declining
Profits	Loss	Peaking	Declining	Low to zero
Cash flow	Negative	Moderate	High	Low
Customers	Innovative	Mass market	Mass market	Laggards
Strategic focus	Expanding market	Market penetration	Defensive marketing	Productivity
Marketing expenditure	High	High – declining	Falling	Low
Product plan	Market to innovators; early adopters; high product failure rate; basic – developing	Expand for early & late majority; less product distinctiveness; improve models.	Widen product lines, rationalise brand; less competition; differentiate.	Niche marketing; reinforce brand loyalty; rationalise.
Competitor reaction	No reaction	Maximum new entrants – high	Marginal competitors exit	Competition declines
Pricing plan	High skimming	Differentiated for each segment	Lowest – competitive	Price cutting rises for niches
Distribution plan	Unstable pattern – widen channels, seize shelf space.	Increasing pattern – competitor activity increasing.	Control passing to fewer firms.	Segmented fragmented, and localised.
Promotional plan	Push for awareness	Create "pull"	Withdraw	Cease

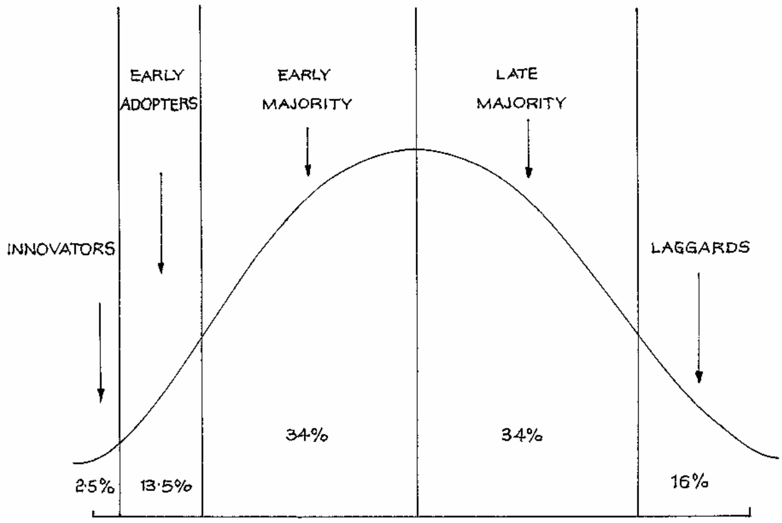
If managers were to follow the guidelines given above too rigidly they might come up against a number of problems. Take the example of Distribution at the growth stage. Simply to say that because a product is in its growth stage you should intensify your distribution activities may not always be true. Product and customer requirements may make that a nonsensical proposal.

For example, think in terms of producing a highly specialised and innovative design tool. To have intensive distribution would be almost impossible, and customers would need personal attention.
On the other hand, intensifying distribution for a product aimed at the consumer market, might well be appropriate when the product is in its growth stage. Therefore, it follows that the product life cycle is not, and can never be, a *formula* for marketing management.

(c) Targeting and positioning

The Diffusion of Innovation is a concept which was introduced by Rogers and it refers to the characteristics of buyers. Based on the normal distribution curve, the model shows the rate of diffusion at which a product will normally spread into a market.

Figure 10.11: Diffusion of Innovation



As you can see from Figure 10.11 the theory splits buyers into five categories:

- ***Innovators***

  These are buyers who are always at the forefront of the market. They buy new products as they like to experiment and be seen to be first. These people are the "opinion leaders" of society. If this category can be convinced of the value of a product, and they buy, there will almost certainly be a growth rate for the product. It is also likely that if this category ***do not*** take up a product, then success will be limited and the product will die at birth or very soon afterwards.

- ***Early adopters***

  These buyers are never the first to try new products, but they always follow opinion leaders fairly closely. They are not confident or adventurous enough to be leaders, but like to be "fashionable". They need to see that a product has some value before they buy.

- ***Early majority***

  Once a product is established, the early majority will take it up and buy. By the time the early majority are buying, the product has been on the market for some time and has been proven to be successful or useful in some way.

- ***Late majority***

  The late majority buyers are those who wait until the product is almost at maturity stage. They require much persuasion and it is often only when a product is widely available that they will buy.

  They are conservative buyers who need reassurance of performance.

- ***Laggards***

  These buyers are behind the time. They buy products when they are going out of fashion or may even have been outdated by new technology. They are the most resistant buyers to convince as they are the most risk-aversive. Products in the decline stage which have been reduced in price may be attractive to these buyers, but a marketer would not necessarily devote very much attention to them.

By superimposing the theory of the diffusion of innovation onto the product life cycle, it is possible to understand the typical characteristics of buyers. This means that positioning can be done in such a way that it will be more effective ***and*** changes in positioning can be made as the product moves from introduction through to decline.

(d) Advertising strategy

Extending the general indications for strategy formulation shown above, the product life cycle can be used as the basis of planning advertising. The options and approach taken will change over each stage.

- ***Introduction***

  This is the stage where the product is actually launched into the marketplace and where a significant amount of investment is made in creating an awareness of the product. This is often referred to as ***pioneering*** advertising.

  Advertising will play the role of ensuring that the product name and benefits become known and spread quickly amongst the target market, possibly supported by sales promotions, e.g. coupons, samples, etc. to help encourage customers at least to try the product. This is likely to be an intense period of advertising, as early sales will be critical to enable some return on investment (ROI) as soon as possible. The ultimate aim will be to ensure that buyers can see how the product might relate to them and to stimulate them enough to consider its use or consumption.

- ***Growth***

  Advertising is likely to be a little less tense at this stage, as the product effectively begins to find its own impetus and both retailers and consumers make repeat purchases. At this stage there will be a little less emphasis on creating awareness and providing information about the "new" product. More emphasis will be placed on repeat purchase, image and developing a long-term relationship, effectively loyalty building.

  What an organisation must consider, is that at this stage competitors may be launching their version of the same product and therefore the organisation must ensure that it can differentiate. Again, advertising will be used to generate the message of differentiation. As a result of this, the key message that advertising will be seeking to send is that of image. In this instance, organisations will be developing "***competitive*** advertising" strategies to ensure that the unique benefits of their products are communicated in a truthful way.

- ***Maturity***

  When products get to the maturity stage, they are likely to be involved in very defensive advertising and in trying to maintain and hold their customers. Many competitors may now be in the marketplace and therefore there is a serious threat to market share for a particular organisation. When it gets to this stage, often a combination of ***competitive*** and ***comparative*** advertising is used.

  Advertising will play a role in reminding consumers about the brand image and brand values, reassuring them that they are continuing to do the best thing by on-going use of the product. It is likely that mass marketing will be used for this purpose.

  At this stage, some organisations may actually take the opportunity to re-launch their product. This will mean that for the brand to be revitalised, there is likely to be a more aggressive and lively approach to advertising. The car industry is a typical case of this, as they often seek to make minor cosmetic alterations to the exterior of a vehicle and then re-launch it.

- ***Decline***

  When a product gets to this stage, it is often beyond redemption and therefore this stage is about moving the product on and making room for the new one. Thus the majority of advertising and sales promotion will be based on ***reminder*** and ***reinforcement*** advertising and sales promotion to keep the product going a little longer but eventually it will become obsolete. The majority of organisations would be looking at this stage, more to investing funds into the next product launch.

Looking at the product life-cycle in this way does assume that a product has a typical life-cycle and declines and disappears from the market altogether. In fact, many products will be revamped, modified and re-launched, as suggested in the maturity stage. If this does happen, then clearly there will be a need to revise the whole communications plan to communicate the message based around the new and improved product and brand.

When considering the development of a communications plan, the product life-cycle does have limitations, and these must be considered, as the last thing any organisation wants is to hasten the demise of its product. Therefore, it is always critical to look at a range of environmental factors to support the planning process and never to look at the product life-cycle in isolation from other factors.

(e) Product management

By constructing a desired product life cycle at the beginning of a campaign, monitoring results and then plotting actual figures, a manager can see how any product is performing. The visual representation helps in planning ahead to phase out obsolete products and in knowing when to introduce new products.

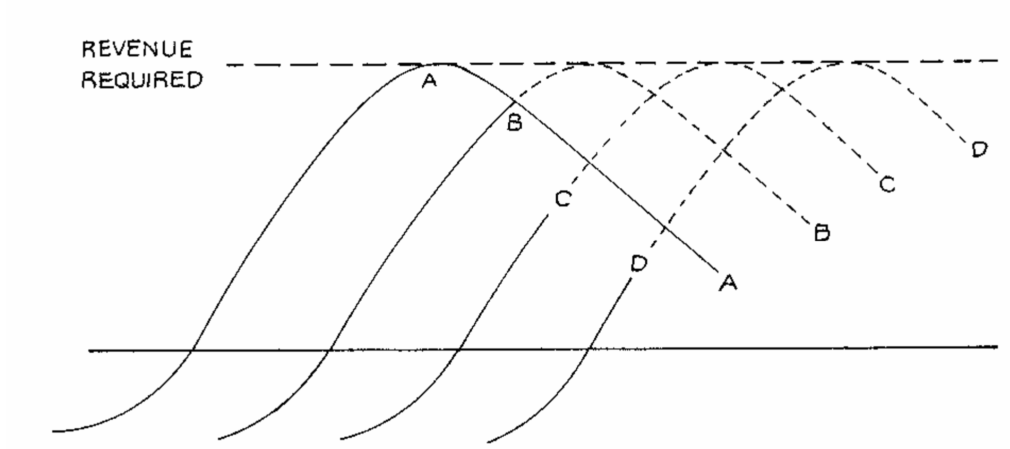
The ideal situation for any company is to have a relatively steady income and it is by product planning that this can be achieved.

In Figure 10.12, the horizontal dotted line shows the required level of revenue for the company. You can see that:

- Product A is now well into the decline stage and revenue is falling
- Product B is moving into maturity. This product was launched and managed to reach maturity as product A began to fail
- Product C is in the growth stage and is timed to reach maturity as product B is expected to fall
- Product D has been launched and is being managed to reach maturity as product C moves into decline.

The expected revenue is more or less at a steady rate which means that the cash flow will be constant and resource utilisation will be planned.

Figure 10.12: Recurring Product Life Cycle



This ***recurring product life cycle*** will be appropriate for those companies who are involved in new product development, rather than in product adaptation. Where product adaptation takes place, the result will be a scalloped, or extended, life curve, such as the one for the Hoover brand in Figure 10.10.

E. NEW PRODUCT DEVELOPMENT (NPD)

Companies who do not have the benefit of one perfect product which will always be in demand by loyal customers and will never be attacked by competition, need to be involved in NPD to one extent or another.

The market stance adopted by the company will, to a very large extent, dictate whether a company will be an innovative leader and involved in extensive NPD, be a follower and copy the leaders, or whether the products will only be refined over and over again to make them appear "new" to the buyers.

The advantages of NPD are that it can:

- Give advantages over the competition
- Mean increased customer loyalty
- Lead to increased sales/stability of profits
- Spread investment risks
- Increase the prestige of the company

- Utilise production equipment.

The disadvantages of NPD are the risks – investing money and time into a project with no guarantees about the outcome. Although risk also extends to the potential outcomes of not undertaking NPD, which are the opposites of the advantages.

New product development is expensive, so before rushing off to introduce a new product, it is worth asking the following questions:

- Is there a consumer need?
- Does the company have the resources and technical ability to market and manufacture the new product?
- Is the potential market large enough to generate profit and produce payback on development costs?

The answers to these questions will come from producing a formal method for assessing new product ideas, their feasibility and the likely uptake. Once this is in place, management can decide whether to launch the new product or not.

Types of NPD

New product development (NPD) can be based upon one, or a combination, of the following:

(a) Acquisition

- Takeover of other organisations
- Purchase of products (and/or patents)
- Licence or franchise of proven product.

(b) Pure research – creation of new product concepts from basic research.

(c) Applied research – development of new product concepts from existing products.

NPD can also be considered to include the amendment of existing products in order to produce products which are "new" to the market. The main form of new product development, that we are concerned with here, is that relating to the product of research and is totally innovative, in which case products entirely new to both market and company will be developed. There are other forms, as follows:

- ***Copycat NPD*** is the rapid duplication/replication of products introduced by a competitor. Replication is perfectly legal providing that the original patents have not been violated. Duplication can, however, be highly illegal, as when patents are stolen or products are marketed under another company's brand.
- ***Leapfrog development*** is the creation of a new product that is ahead of what has currently just been launched by a competitor. Stages of development are omitted because they have been worked through by competitors and the results can be deduced from their product(s). Typically the market moves ahead very fast and competition is fierce. The electronics industry has been the leading exponent of leapfrog development in recent years.

We can categorise the types of new products as follows:

- New-to-the world – creating an entirely new market
- New product lines – allowing entry to an established market
- Additions to existing product lines – supplementing established product lines
- Improvements to existing products – improving performance or providing greater perceived value

- Repositionings – existing products targeted to new/different market segments
- Cost reductions – new products with similar performance at lower cost.

The Process of NPD

The new product development process has, for many years, been viewed as a linear, sequential process involving several stages of analysis and review. The model most frequently quoted for this is the Booz Allen Hamilton model, identifying logical sequences in the process as follows:

Idea generation
↓
Screening
↓
Concept testing
↓
Outlining marketing strategy
↓
Business analysis
↓
Product development
↓
Test marketing
↓
Commercialisation

This process is designed to act as a catchment for the maximum number of new ideas and developments on a theme, for these to be screened for suitability and practicality, for those that pass initial screening to be evaluated for their marketing potential and only then for the survivors to go through to market testing and commercialisation.

There will typically be a high dropout rate at each stage, for each has specific criteria that the developing idea/concept/product must meet. Despite this very careful and logical process, it used to be agreed that the ratio of successful new products to ideas was between 1:60 and 1:100. Recent research in America suggests, however, that the ratio is now nearer 1:10. The reason given is that many organisations have come to terms with the structure and complexity of the process, and no longer seek to use the shotgun approach of previous decades.

The process needs to be thorough and systematic but flexible. All costs should be considered but short-termism should be avoided, as often there may be high costs/low profits initially but ultimate profits will be excellent and costs can reduce through experience.

Whilst the model does give a good basis for risk reduction in new product development, we can see, by looking at each stage in turn, that it can be a time-consuming process and therefore may not be perfect in today's highly competitive marketplace.

(a) Idea generation

The formal process begins with the generation of the maximum number of new ideas.

The company will be actively looking for opportunities, and new products can be produced in response to a perceived, or recognised, demand. The process of gathering the ideas may take weeks or even months. The ideas have to be collated, considered for feasibility and eventually passed to the people who are responsible for screening.

They can come from a variety of sources. A company's own R and D department will be working on new ideas all the time. Innovations can also come from the customer service department, where staff and customers/consumers (and distributors) can be encouraged to come forward with ideas. The sales and production departments are another important source.

(b) Screening new ideas

The screening stage is crucial, as it is here that non-viable ideas are shelved. Tests for viability are generally carried out for compatibility with organisational policies, strategies, resource constraints, etc. Note that there is opportunity here for a well-organised screening process to sift out ideas that may have potential in another SBU or even in another organisation to whom they can be sold.

Once the ideas have been assessed for their initial viability, it is necessary to devise a method of screening these so as to reduce them to a manageable number which are considered to have real prospects. A series of factors which research has shown are desirable to the consumer and to the company will have been identified. The new ideas can then be compared so as to establish a short list of those that fit most closely to these criteria.

The company will have set certain criteria – for example, being able to produce the product without further investment in production plant or personnel, or that the product must "fit" with the rest of the range, there must be a recognised level of demand, it must give a stated level of profit; it must be different to what the competition is offering, etc. Other factors that will come under consideration are raw material availability, production, distribution and the effect on sales of other products.

The people who are responsible for screening the new ideas must try to "match" the ideas against the stated criteria wherever possible. Assuming some of the ideas meet the criteria, they are then passed on to the people responsible for the next stage in the process.

(c) Concept testing

The next stage, known as concept testing, is to determine whether the new product is likely to appeal to customers. Concept development and testing is focused on consumer need – is there a concept that wraps the idea up into a package that will be welcomed by sufficient consumers?

This is not a "product test" but an "idea test". The concept is taken to potential buyers as well as to the internal processing people to check on manufacture, packaging, distribution, etc. At this stage people are being asked such questions as: "*Do you think it is a good idea*?" "*Would you buy it at x price*?" "*Can we make it*?" "*Will it be easy to store and distribute*?" Once again, a time-consuming process, before the next stage is begun.

The usual approach to concept testing with consumers is to form panels of potential target consumers – focus groups – and present them with the concept in some appropriate form. There is no requirement for a physical product at this stage, although the addition of specific examples – a sample made up with dummy packaging perhaps – adds reliability to the research. The consumers are presented with a clear description of each concept under test and are then asked for their responses.

The format of the research will vary with need, the skills of the researcher and the time and cost constraints. A concept which has been well received in initial tests is likely to go through much more detailed testing before a formed consumer view is reported back.

The beauty of concept testing is that it makes it possible to gauge consumers' reactions before the company has incurred heavy costs in production runs. However, note that the answers to questions which ask the consumer to predict future action – such as "Would you definitely/probably/probably not/definitely not buy the product if it were made available?" or reactions to prices – must be taken very conservatively. Individual consumers judge a product on whether it will deliver a value that the individual consumer needs, at the time when the consumer needs it.

(d) Outlining possible marketing strategies

Strategy development is concerned with locating an affordable marketing strategy that will support the concept.

The results of the concept testing can help a company to decide just how it will market the product. Will it be distributed direct, or through specialist channels, or will it be made widely available to cater for a mass market? What positioning will it be given – high quality, good value for money, or cheap and cheerful? Will the communications be heavily biased towards direct marketing, or in the major media? What strategy would cause least reaction from the competition? How can results be most effectively measured?

Decisions made at this time depend a great deal not only on the results of the concept testing but on knowledge of the marketplace and the planning skills of the marketers involved. Knowledge of the marketplace is something which requires research. Research needs to be on-going and takes time!

(e) Business analysis

This stage is crucial to the NPD process. It is here that the potential profits are compared to the production and marketing costs to see if it is worth proceeding. Competitive activity, market trends, environmental aspects, etc. will all be analysed in order to give as accurate a picture as possible.

At this stage, the company has to consider the financial viability of the new idea.

Research and forecasting techniques are used to determine the likely level of demand. A cost analysis will examine not only direct production costs but also capital investment and marketing costs and even new personnel. Profitability can then be established in terms of "breakeven" and rate of return analysis.

It is at this stage that products are often rejected because they do not demonstrate enough potential earnings in a given period of time, whereas given the appropriate support, they may actually be products which could give huge profits over a longer period of time. Assuming that the product idea is still a viable proposition at this stage, the next stage then comes into effect.

(f) Product development

Product development is the creation of a rounded product that is sound technically, commercially and meets strategic requirements.

To begin manufacturing a new product is a risky venture and there can still be some doubt as to the viability of the product. Because of this, some manufacturers will choose to produce a prototype, or small batches, in order to test effectiveness before they give full commitment to production. The effort in producing small quantities adds to the expense and time involved, not to mention the possibility of the competition becoming aware of what the company is doing. It is during this stage that final planning for the other elements of the marketing mix (brand names/pack sizes, etc.) will be completed and this is often the time when something completely unexpected will crop up – meaning higher costs for the company.

(g) Test marketing

This is where the product is introduced to a representative sample of the potential market to gain consumers' reactions. The aim is to establish whether sales are likely to meet initial expectations, and to evaluate sales and distribution prior to a full-blown launch. It represents an opportunity to adapt any of the mix elements which prove to need adjustment – any problems or flaws in the product or its promotion can be identified and made good before the continued roll-out.

It is important that the test audience chosen is representative of the entire target audience. For industrial products, selected customers may be approached to "test" the product and they will be surveyed for their responses in view of effectiveness, price and other attributes. For consumer products, testing regions are generally chosen. In the UK, and indeed throughout the world, certain areas are known to be good testing sites. Usually this is because the region has a representative cross-section of the community, with good communications and distribution facilities available.

Although it increases costs, it is better to use more than one testing area so that comparisons can be made. Different prices, advertisements, methods of distribution and perhaps even packaging may be used in the different areas so that the company can see which methods are most effective.

The results of the test will then dictate whether or not the product moves on to the final stage of the NPD process. However, before we move on to the final stage, it is worth considering the possible problems in test marketing. The problems can come from:

- **Buyers** – people will often buy a new product just to try it. They may like it and tell a researcher so, but they will then revert back to their normal purchases because of brand loyalty or for some other reason.
- **Distributors and suppliers** – they may be willing to give a new product exposure because of an introductory incentive, but once the incentive is withdrawn they may not be so willing to co-operate or devote space to the product.
- **Competition** – if they have relatively similar products, competitors may take defensive action and introduce promotional activity that will undermine the testing. This could be in the form of increased advertising, reduced prices or some other form of incentive to keep the attention of the target audience away from the product being test-marketed. Competitors have even been known to buy up new products in large quantities; this results in distorted sales figures that can lead to over-optimistic forecasting of demand on the part of the company introducing the new product.

  On the other hand, if you are introducing a truly innovative product which has no competition, you are likely to become subject to "following action", where competitors will investigate your product and your marketing activities, find some way of improving on what you have done and then capitalise on your weaknesses by launching an "improved" version.

Other factors which research has shown can cause problems in test marketing are:

- Failure to understand the needs of the target market adequately
- The wrong sector is chosen for the test and it is not truly representative of the whole market
- The size of the market sector being tested is not big enough
- The timing is wrong, e.g. testing products in July, when they are likely to be purchased for Christmas gifts or entertainments

- The length of the test is too short, or too long, which can give distorted results
- Not enough resources are put into the advertising and promotional aspects
- The results of the test are ignored because of an over-belief in the product by one influential executive in the company.

Irrespective of the problems which may be encountered, there is no doubt that this stage in the NPD process takes ***time*** and ***effort*** (both time and effort to any company mean one thing – ***money***!) before the new product finally reaches the last stage in the process.

Because of this, there is a trend among more and more companies who, when they produce either entirely new or adapted products, are dispensing with the test marketing stage. Decisions on whether to test the market or not will often depend on the confidence of the decision-maker. If the early research into the new offering is viewed as being fully reliable, they may decide to take a calculated risk and get to market early in order to defeat the competition. One outcome of this, of course, is that the product may not be as perfect as it could have been (not to mention the marketing effort). However, it is always possible to refine an offering after it has been launched, whereas it is often too late if the competition get to the market first.

(h) Commercialisation

This is the full-scale manufacture and launch of the product onto the marketplace. If all of the stages have been carried out correctly, the product should have a good chance of success, and yet research indicates that anything up to 80% of new products fail to progress from the introductory stages of their life cycle.

Alternatives to the NPD Process

If we accept that the sequential NPD process as outlined in the Booz Allen Hamilton model is valuable in that the process can weed out obvious failures and, at the very least, reduce the risk factors, we must also realise that in the aspect of "time to market" it can be severely restrictive.

A sequential approach implies that one stage must be completed satisfactorily before the product is "pushed over the wall" and another stage begins. Add to this the fact that often different teams of people are responsible for the various stages and it is not difficult to see why producers have had to come up with new ideas on how to cope with NPD.

Consider that, instead of each stage being done in sequence by the relevant people, the company changes its approach completely and parallel processes are introduced where various stages are carried out simultaneously. You may well think that this is a high risk process and that some aspects may be overlooked, which could still result in failure for the product. But it is a fact that manufacturers are moving increasingly to this innovative style of NPD.

(a) Team approaches

Venture teams, or new product teams, are drawn together for the sole purpose of introducing new products to the market. These teams may be ad hoc in that they are brought together for one project only, or they may be more or less permanently established in that they are constantly looking at new product ideas. It is necessary that the team represents ALL sections of the organisation: marketing, finance, purchasing, production, possibly personnel and maybe even any trade unions. In other words, any parties involved in the production and launch of a product should be involved.

The team meets and "brainstorms" ideas. Just as with the Booz Hamilton sequential approach, these ideas can be as collected from customers, or the salesforce, or simply ideas that have been generated by the personnel in the company.

Because the team is composed of people from different functional areas, there will be immediate responses as to the likelihood of turning an idea into a distinct possibility for development – for example:

- *"We couldn't produce that on the machines we have at the moment – it would mean new plant."*
- *"We wouldn't dare offer that to our customers, it would make the rest of the range look over-priced."*
- *"The production line would be handling hazardous materials – they would need protective clothing."*
- *"We would never reach the return on investment with this, the costs are too high."*
- *"There's a new material which our base in the USA has just brought out – it's pretty cheap. If that would be OK to use for this project, we could keep the cost of production right down."*
- *"I heard at an exhibition that the competition were trying to do this but they ran into problems with a supplier so they dropped the idea. With us having our own source of supply we should be able to move quickly."*
- *"If we can introduce this product we'll have endless opportunities for extending it in the future."*

So you can see that by using cross-functional teams, a lot of ideas can be subjected to simultaneous initial screening which will get rid of some totally unsuitable ideas almost immediately and identify those ideas that are at least possible.

The various team members then go off to their own areas and "work" the ideas. Production thinks about whether, and how, the product could be made; marketing researches demand and draws up outline plans for the mix elements; personnel look at whether new people or skills training will be required; and purchasing investigate sources, prices and quality of the required materials. Other involved personnel consider the aspects relevant to them. In some circumstances even potential buyers, or users, of the product could be involved with these teams.

The team must meet regularly to report on progress and discuss any changes that may be necessary as a result of the activities undertaken. As a lot of the work will be "research based" many inconsistencies will be ironed out as the development process continues. This means that decision making is much easier and decisions made should be far more reliable, with the result that risk factors can be reduced to a great extent.

If a team such as the one we have described is formed, the members should be working together from the idea generation stage to the ultimate commercialisation stage, so that they carry the product through all of the problem stages. In effect, the product becomes "their baby" and they are interested in ensuring success.

(b) Cultures of innovation

Obviously, this approach to NPD will only work if the culture of the organisation is conducive, and supportive, to this type of co-operation. The whole ethos of the company needs to be innovative and encouraging towards innovation on the part of its employees.

There are numerous examples of companies which have successfully adopted innovative cultures, but perhaps the most quoted is 3M. This company actually allows its workers time to come up with new ideas. If an idea is accepted, the person whose idea it was not only becomes part of the project team and helps get the product to market, but also gains a percentage of the profits made by the product. All of this has resulted in a workforce which is constantly generating new ideas and is dedicated to getting those ideas produced – with obvious benefits to the company and its customers. A real "win-win" situation for all concerned.

Innovation is, of course, also extends to the development of existing products.

(c) Existing product development

Recent years have seen companies moving away from producing entirely new products and concentrating instead on product adaptation or extension. When you consider that it can cost far more to introduce a new product than it does to adapt one, it is not difficult to see the sense in this. Sometimes even a slight change in some aspect of the mix elements can extend the life of a product and this need not incur high costs for the company.

New Products in the Market

Research into successful new product launches indicates that, to be successful, there must be:

- An innovative culture within the organisation
- Encouragement from senior levels
- Committed development teams/personnel who will "champion" the product
- Close co-operation between all functional areas of the organisation
- Adequate resources invested in the development processes
- Good understanding of the target market
- Confident decision-makers.

Failures in product launches are quite often related to the timing of the launch, but they may also occur because of inadequate market research, failure to anticipate changes in technology, customer preferences or competitive activity They can also arise quite simply because of excessive faith in a product by the company or one of its more vocal or influential managers.

Recent research has shown that failures in NPD can be caused by:

- Poor/inadequate actions at the test marketing stage
- Lack of research into the needs of the target market
- Time taken to get to market
- Inadequate investment in promotional aspects
- Risk-aversive management teams.

The adoption of any product depends on the rate of acceptance by the buyers. This acceptance rate is often described as the rate, or process, of adoption. Basically, it is the rate at which people become aware of something, then enter the buying process. The speed of adoption will depend on the intensity of activity by the company, on product characteristics, etc.

The rate of adoption and the diffusion of innovation categories and buyer characteristics (as noted earlier in this study unit) are linked. If a new product is to be successful, it must first be bought or adopted by individual customers, households and organisations. Diffusion occurs only once acceptance of the product spreads in the marketplace. The diffusion process follows a similar shape to the product life-cycle curve.

Despite all this effort, it is reckoned that only 10% of new products are successful. No-one really seems to know whether or not the failure goes through all the above stages, where the idea can be scrapped at any point.

All is not gloomy for new products, of course, and you will often see "good ideas", which have never been through the above procedure, or have skipped from idea to product quite quickly.

NPD Strategy

We saw earlier how the Ansoff matrix could be used in marketing/NPD strategy, and we also noted the four main strategies:

- ***Market penetration*** calls for development of products that extend the presence and security of the organisation within its market(s). As greater levels of penetration are achieved, so it becomes ever more difficult for a competitor to enter the market.
- ***Market development*** calls for identification of other markets that have a need for existing products, and introduction of the products to the markets.
- ***Product development*** calls for the intelligent extension of what you already know how to do (e.g. production of a marine paint as an extension of a range of household, industrial and motor industry paints).
- ***Diversification*** requires entry to a new market, where new products and/or management experience is required.

In respect of diversification, many large organisations have seen diversification as a route for development but have not realised the enormous amount of specialised knowledge and experience that is required in order to succeed in any market. It is very easy to underestimate your own level of skills, within a known market, and to assume that management skills are easily transferable. In many cases they are not.

It is extremely dangerous to venture into markets without the necessary management skills; and it is even more dangerous to buy in those skills without having the ability to manage the new managers. Market entry can be gained by acquisition, but if a firm is available it is perhaps because its management has not been effective. Why should an ineffective management suddenly become effective simply because it has new owners and fresh injections of capital? Yet several large British groups diversified into America in the 1970s without thinking through this rationale; many, notably Lyons, withdrew in time, with massive losses.

Industrial marketing managers often have to market a set of skills and capabilities rather than a new product. To the design team every job is new, because the design is to the client's specification. Imagine "test marketing" the Channel Tunnel. Yet someone had to do a marketing job for that project and they worked on the concept, of course.

F. THE MARKETING OF SERVICES

The Importance of Services

Services are not easy to define. The essential characteristic of services is their intangibility. A service is an act or benefit that does not result in the customer owning anything. There are few pure services. In reality many product "packages" involve a greater or lesser level of service as can be seen in Figure 10.13 below:

Figure 10.13: Product Packages

Entertainment Travel agencies Personal services	Theme parks Airlines Medical services Education	Cars Computer Hardware	Electrical goods Computer Software	FMCG products

◄────────────────────────────────►

High service Low physical content	High physical content Low service

Source: Brassington & Pettitt, 2007

The importance of services in the economy is increasing rapidly. Nearly 2/3rds of the EU workforce is now employed within the service industry. Consumer service industries include trade, communications, transport, leisure and travel, food and accommodation, financial and medical services, education, government and technical services. Business services include repairs and maintenance, consulting and professional advice, installation, equipment leasing, marketing research, advertising, recruitment and security services.

In order to understand the nature of services marketing it is necessary to understand the particular characteristics of service. As discussed earlier in this unit services have four key basic characteristics. These are:

- **Intangibility** – they cannot be tasted, touched, seen, smelled or possessed
- **Inseparability** – they are produced at the same time as they are consumed
- **Perishability** – unused capacity cannot be stockpiled or stored for future use
- **Heterogeneity** – there may be variability in the quality of service because services are provided by people and people perform inconsistently.

Developing Marketing Strategies for Services

In order to develop marketing strategies for services the marketer must understand what benefits the customer wants, how the customer perceives the service by the competitors and what services consumers buy. The marketer must, therefore, develop the right service, for the right people, at the right price, in the right place with the right positioning and image. The marketer must then communicate the offering to the target market.

One of the challenges service marketers face is matching supply and demand. This is often achieved through pricing initiatives, advertising and other promotional incentives. Customers may be encouraged to buy during slack times or the product may be altered. Examples here include pubs who have "happy hours" to encourage early evening drinking when business is generally slack, restaurants who change the menu at certain times of the day and hotels who offer low cost weekend breaks.

As we know, the aim of marketing is to satisfy customers and achieve differential advantage. For any product, achieving and sustaining differential advantage is difficult but for services the challenge is even greater. The intangibility of the service and the role of people in its delivery are the main challenges. Other challenges include the difficulty ensuring consistent service quality, little protection from patents, few barriers to entry and numerous restrictive regulations.

These challenges make it important for marketing activities to be carried out in a systematic and appropriate manner. The needs of the targeted markets must be well understood in order to meet customer's exact requirements. There is also a need for a clear understanding of the service levels provided by competitors and their marketing programmes. It is also vital that regular customer research is undertaken to establish satisfaction levels.

The Extended Marketing Mix

As you know the traditional marketing mix consists of the "4Ps". However, with service products, three additional elements of the marketing mix are necessary to reflect the special characteristics of services marketing. These are:

- **People**: This includes service providers and customers who participate in the production and delivery experience
- **Physical evidence**: these include facilities, the infrastructure, and the products used to deliver the service
- **Processes**: this includes the operating process that takes the customer through from ordering to the manufacture and delivery of the service.

Collectively, the traditional "4Ps" plus the additional "3Ps" form what is termed the extended marketing mix for services. Any of the extra marketing mix elements can enhance or detract from the customer's overall experience when consuming the service and it is important that these are included when designing and implementing the marketing mix for services.

Service Quality

Doyle suggests that the pursuit of quality has been one of the most important challenges of the last decade as marketers have sought to respond to the demands of consumers for improved standards.

It is hard to measure quality for the following reasons:

- Intangibility means that there are rarely physical quality standards that can be set and measured
- Heterogeneity means that achieving consistency in standards is particularly difficult
- Inseparability of production and consumption means that consumer participation makes it even more difficult for management to control the quality process
- Consumers evaluate quality not just in terms of the outcome but also in terms of the process. For example, when people buy car insurance on the web it is not just the terms of the policy that they judge but also how easy it is to navigate the site and make the transaction.

Managers of service organisations therefore have to focus on both the quality of the outcomes and the quality of the processes.

Determining Service Quality

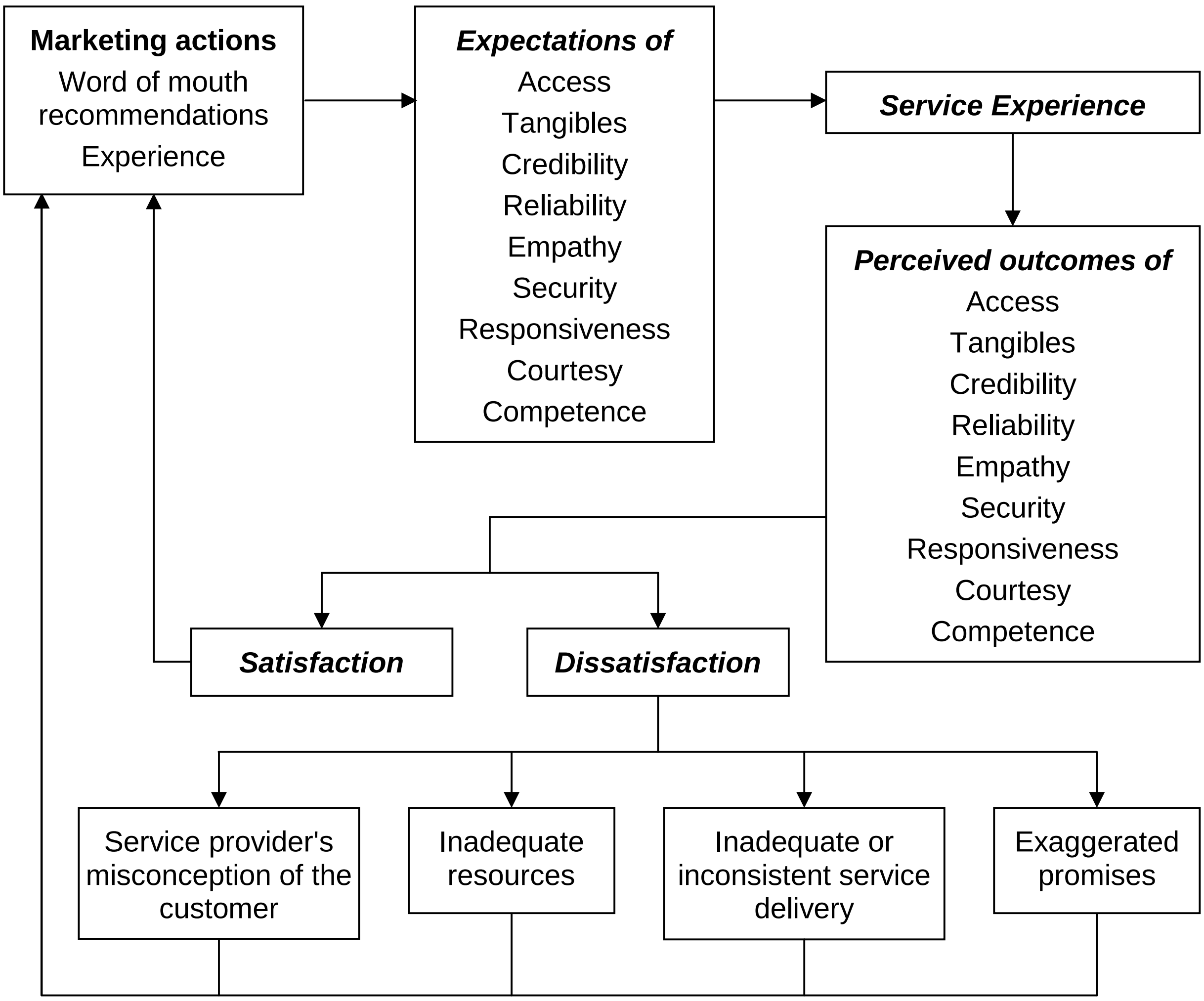
A study by Parasuraman et al., in 1985 highlighted 10 key determinants used by consumers to judge quality. The first five relate to the quality of the "outcomes" whilst the remainder refer mainly to the quality of the process.

- **Reliability** – The consistency and dependability of the service
- **Access** – Is the service accessible and delivery quick?
- **Credibility** – Can consumers trust the company?
- **Security** – Is it safe? This is particularly important when using the Internet
- **Understanding customers** – Does the company make an effort to understand the customer?

- **Responsiveness** – Are the employees providing service?
- **Competence** – Do staff have the skills and knowledge to provide service?
- **Courtesy** – Are staff polite and considerate to consumers?
- **Communication** – Is the service clearly explained?
- **Tangibles** – The appearance, facilities, web site, brand image etc.

It is clearly difficult to create and maintain quality in all ten of these areas and to integrate them into a coherent service package. Figure 10.14 seeks to show diagrammatically the service experience and the factors that affect consumers' expectations of what they will receive.

Figure 10.14: Consumer Expectation and Perceived Performance



Source: Brassington & Pettitt, 2007

The expectations of consumers are created by word of mouth, personal needs, past experiences and advertising and promotions. The task of management is to meet these expectations. Customers judge quality by comparing the service they receive with what they expect. If the perceived quality exceeds expectations then they are satisfied. If, however, performance falls below expectation then they will be dissatisfied.

When expectations are not meet there are four key reasons for this:

- **Service provider's misconception of the customer** – Management do not know or understand what consumers want. Maybe they do not undertake appropriate research.
- **Inadequate resources** – For instance this might be lack of customer facing staff or having to wait a long time on the telephone.
- **Inadequate or inconsistent service delivery** – Customer facing staff are inadequately motivated or consistently fail to achieve service targets.
- **Exaggerated promises** – The firm over-promises. The performance fails to meet the "hyped up" expectations.

To Achieve High Quality Service

If an organisation is to achieve high quality service the following issues need to be addressed:

- Develop the right strategy – identify target markets and establish what attributes are required by consumers
- Ensure top management commitment to high service levels
- Undertake detailed implementation – this will require setting high and measurable performance standards, undertaking training and motivating staff, measure performance against standards and undertake frequent consumer research
- Ensure that communications are designed to avoid making promises that cannot be kept.

G. NON-PROFIT MARKETING

Marketing is becoming increasingly important in the non-profit sector. Non-profit marketing can be defined as activities conducted by individuals and organisations to achieve some goal other than the ordinary business goal of profit, market share or return on investment. It is where the organisation is not driven by shareholder value and competition may not be a significant factor in the strategy. However, although a non-profit organisation has primary goals that are non-economic, it may be required to become involved in "profit making" in order to achieve these goals. For example an organisation may have to raise a significant sum of money in order to promote its message and to pay the overheads.

Non-profit marketing is the application of marketing concepts and technologies to organisations such as hospitals, universities and schools. Social marketing is the development of programmes designed to influence the acceptability of social ideas such as getting people to reduce their carbon footprint.

Cause related marketing (CRM) relates to charities and this is an area where there have been radical changes in the way in which they generate revenues and their increasingly professional approach to marketing. Charities, like other organisations have found that the environment has changed and the market has become dynamic and more competitive. With the growth of global communications and media, people are now more aware of world disasters and events and this has increased the demand on the charity dollar. Faced with this situation, many charities have become more businesslike and adopted traditional marketing approaches.

In general terms, the same principles apply equally to non-profit organisations as to any purely commercial concern. However, there are a few specific points worthy of mention.

- Many charities have a wide-ranging product portfolio because of the need to take into account the needs of the funders and customers or clients.

- With so many different publics a strong corporate image and an effective marketing communications programme is important.
- If dispensing information and advice, or seeking to increase the profile of the cause, marketing communication is very important. However, for the smaller organisations funding is often limited. Often subsidised rates are sought from the media and donations in kind are requested form local businesses
- Publicity is an important tool, not only because it is relatively cost effective but also because it can reach a wide audience. It is often used to raise money, educate people and promote the cause.
- Often high profile sponsorship is used to promote the cause and help fundraising.

Marketing in non-profit marketing areas is rapidly developing and the techniques used in commercial business are being transferred to the non-profit organisations. Many non-profit organisations are now employing dedicated marketing professionals or using top marketing consultancies. Many of the top UK charities now have substantial marketing budgets and use the full range of marketing tools, including TV advertising.

Review Questions

1. How do services differ from a product?
2. What are the four stages in the PLC?
3. What are the five stages of the Diffusion of Innovation framework?
4. What are the stages in the NPD process?
5. Give four reasons why customers may be dissatisfied

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> You are the Marketing Manager for a medium-sized company that produces novelty confectionery (sweets/candy) for the children's market. Sales have slowed down lately and this has raised serious questions about the attractiveness of the company's product range. You are committed to the belief that innovation and new product development are vital to turning around the company's fortunes. You immediately set about writing a paper for the weekly board meeting headed "Competing through Innovation and New Product Development". Write that paper.

ANSWERS TO REVIEW QUESTIONS

1. Services differ from products in terms of their intangibility, inseparability, perishability and heterogeneity.

2. Introduction, growth, maturity and decline.

3. Innovators, Early adopters, Early majority, Late majority and Laggards.

4. Idea generation, Screening, Concept testing, Outline marketing strategy, Business analysis, Product development, Test marketing and Commercialisation.

5. These may include:
   - Management do not know or understand what consumers want
   - Inadequate resources
   - Inadequate or inconsistent service delivery: Customer contact staff are inadequately motivated or consistently fail to achieve service targets
   - Exaggerated promises.

Study Unit 11

Branding and Brand Management

Contents ***Page***

INTRODUCTION

The American Marketing Association gives the definition of branding as being:

> "...*a name, term, sign, symbol or design, or a combination of them, intended to identify the goods or services of one seller, or a group of sellers, and to differentiate them from those of competitors*".

Hankinson and Cowking (1993) define a brand as:

> *"a product or service made distinctive by its positioning relative to the competition, and by its personality in the context of the target market".*

Essentially, a brand is the flag which signifies, to the buyer, what they can expect from purchase in terms of quality, service, functionality, etc. A brand is a recognition factor which, particularly at the point of sale, can help a buyer to reach a purchase decision.

In this unit, which is closely allied to concepts studied in the previous unit on products, examines the nature of branding and the strategies which may be adopted. We also consider the growth of "own brands" in the retailing sector.

A. WHY BRAND PRODUCTS?

One of the most important tasks that marketing communications is called upon to perform in the modern world is that of building and sustaining brands. This centrality is not generally appreciated by non-marketers for a very simple reason; they do not properly understand what a modern brand is.

The Concept of Branding

To most laymen, a brand is simply a distinguishing mark or word that allows you to specify one good from others like it. That, indeed, is how brands originally came about but in a modern, fiercely competitive economy, a brand must be and do much more than simply distinguish. It must, as we have seen in previous study units, give the potential customer a reason for buying ***this*** good as opposed to our competitor's. But the world is becoming a more transparent place; it's very difficult to build a product that has anything really different about it. Even if you do develop something really new, it may be only a matter of a few months, weeks or even days before some sharp-eyed competitor has analysed your product, developed a similar offering, and launched it in competition.

This situation, as Philip Kotler has said, leads marketing inexorably in two complementary directions; branding and service.

- ***Advantage through service***

  If you can't guarantee to offer a product that is any different from anyone else's, then perhaps the most effective means of gaining competitive advantage is to ***deliver*** it better than anyone else. So the service aspects of the offering become important. How reliable is the quality of the product? How quickly can a customer have what he wants? Does he have to wait hours or days or can he simply take it away with him from the store or the showroom? How wide is your product range? How often do you run out of a certain size or colour? If you can say "never", you may have an advantage over a competitor on the next counter who frequently allows stocks to fall to zero.

- ***Advantage through intangibles***

  A modern brand offers a range of intangible qualities in order to be seen to be different from its competitors. These qualities are built up, as it were, around the product (which of course also has to be as good technically and physically as possible). Let's look at the anatomy of a brand and see how it is constructed.

At the heart of any exchange transaction lies someone's need. The first thing a good brand has to possess is an accurate and sympathetic appreciation of that need. If this is not properly accomplished, no amount of tinkering will improve the final offering. Consider the example of a railway company that cleared the goods line of snow so that trucks of pig-iron could be moved to the city but failed to clear the commuter lines, so there was no-one in the city to receive the goods. The company had failed to appreciate that its basic role was to move things and people in a ***timely*** way. Get that wrong and you make all subsequent decisions wrongly too.

Around this basic need you should build your physical product or service. Around people's need for timely movement, you construct the physical paraphernalia of a railway system. Around someone's hunger, you build your snack bar. Around someone's vanity, you build your after-shave lotion. But anyone else could, in theory, do the same. You therefore add a further layer; the identity that marks one product out from another. This is done by means of a name, colours, packaging and so on. But someone else could be giving their product their own "coating" of identity. Why should anyone buy this one? To answer this, you build another layer which is composed of the extras that make this offering better value than others – what Levitt called the "augmented product". This is to do with guarantees, money back if dissatisfied, good after-sales service, quick delivery times and so on; in other words, the service aspects we were talking about earlier.

In a competitive world, others could do just as much so yet another layer is needed. We build a coating of values around the offering. We convince people that this product is not just as good as anyone else's but that it is unique in some way. So, as Martin Davidson, in his book The Consumerist Manifesto (Routledge 1992), has said we use communications to convey a sense of the unique properties of our offering and that we do it by finding out what matters to people and playing those values back at them. Consider the case of Persil (or any other soap powder) which has for many years been playing back at mothers their own sense of duty and guilt associated with not only keeping their children's clothes clean but also being seen by other mothers to do so.

Of course, these values are never (or hardly ever) explicit. If you said to someone, "Buy Persil to wash your clothes, because it will take away your residual sense of guilt that you are not the model mother you think everyone else is", they would laugh at you – and go out and buy something else. The proposition works best by remaining implicit. No-one says, "Offer your neighbour Gold Blend coffee (rather than any other, less seductive brand) and perhaps she'll consent to go to bed with you", but the unspoken implication of all those soap-opera ads is precisely that. If you are (or wish to become) the kind of person that girls (or boys) go to bed with, you'd better start equipping yourself with the lifestyle trappings that kind of person has.

The intelligent reader will now raise the objection that this "layer" of coating is also imitable; what is to stop the competitors from copying the idea and playing back the same values to the consumers? Nothing – in theory. In practice, though, there are two reasons. One is that everyone else in the marketplace is engaged in the same game. Each of them wants their product to seem (though it cannot be) different and unique. The last thing your existing competitors want is to be thought to be copying your sales pitch. Somehow it matters not at all to put out an exactly similar product but it offends some deep-seated instinct to be seen to be copying someone else's advertisement.

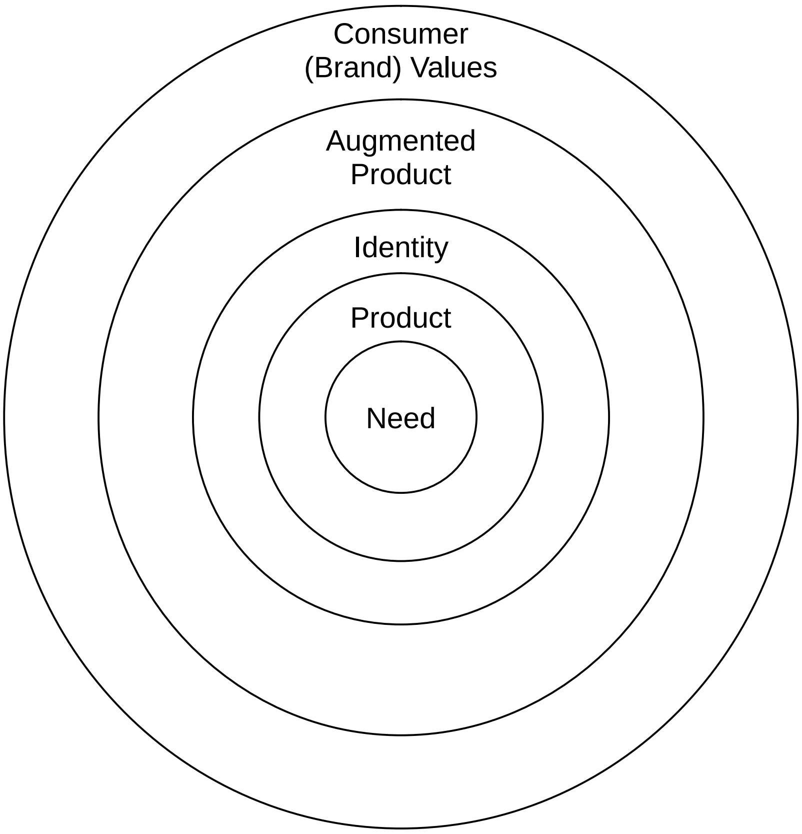
The other reason is slightly more contentious. It is to do with the nature of competition itself. In a perfect world, everyone could compete with everyone else in any sphere of life. But this is not a perfect world. Some people start off with advantages such as money, talent or power and taking them on in a straight fight is not easy. Knowing this, firms that are in an attractive market look for ways of making it less so to others. They want to retain that initial advantage.

One way of doing that (sometimes known as "defensive marketing") is to spend money on brand-building.

It works in two ways. Firstly, you are creating (with some people, at least) an idea of uniqueness in your product. That gives returns in sales volume and profit. Secondly, it becomes much harder for anyone else to come and try to take a share of the market as they will have to be prepared and able to match your spending. This is a gamble most firms will not take. The net effect is that the number of your competitors remains small. Those who could imitate you are few and, as we've already seen, they would die rather than be seen to be copying your ideas.

We could diagrammatically represent all of this layer-building as follows:

Figure 11.1: The Anatomy of the Brand



Why are Brands so Important?

Strong brands help a company to maintain market share in the face of a changing competitive environment and it has been shown that a strong market share is associated with above-average profits. Brands have become assets in their own right. In addition, they represent low-risk opportunities for the manufacturer or service provider and they also represent reduced risk for the consumer.

The first result of building a successful brand is a virtuous spiral of increasing power and prosperity. If you can persuade people that your brand is what they need, they will buy it and this, through economies of scale, will create increased profits. This makes it easier for you to invest in more production and more brand-building (for example, through advertising campaigns), which makes it harder for competitors, some of whom might exit the market. This makes your profits greater, which makes it possible for you to invest more and so on.

Branding has an important place in competitive activity. Some manufacturers introduce a number of brands that all satisfy very similar product characteristics. For example, in the detergents market, Lever Brothers and Procter and Gamble have several brands all fulfilling the same purpose. It also means that anyone trying to enter the market for the first time would have to launch several brands at once to compete.

Another benefit comes in the perpetual battle that is joined between manufacturers and retailers. You depend for your sales upon a retailer giving your brand shelf-space. If he cuts down the amount of space, your product sells out more quickly or is less noticeable (and thus more likely to be passed over for another) by the consumer. But the bigger your brand, the less the retailer can afford to refuse to stock it. You get onto the shelf and a competitor is removed which may result in him giving up and withdrawing his brand. All the more market share for you.

There is also the question of price. If all competing similar products started level, the most likely outcome would be a price war with the company sustaining the lowest prices longest, ultimately winning 100% of the market. But the survivor would not be making much profit, if any. Descending prices are not what is wanted in business. A strong brand allows the manufacturer to keep the price stable because it is in the nature of a strong brand that people feel uncomfortable with any other. They are, therefore, prepared to pay a premium price for it.

Buyers are attracted by certain brands and not by others. There may be good reasons behind the rejection of a brand by a buyer – for example, poor experience in customer service or in product quality, or perhaps because of influences coming from a family member, etc. – but "brand rejection" does occur. Because of the danger of this phenomenon, marketers try hard to protect a brand image with vast amounts of money being spent on advertising and publicity. At the end of the day, marketers see the brand as being a major asset, which works in their favour. The more loyalty that can be created, the better it is. The better the branding, the more likely it is to create loyalty.

Brand loyalty refers to the inclination of a consumer to purchase a brand again and is usually measured in terms of repeat purchase. Consumers are said to be relatively loyal if they purchase the brand more frequently than a competitor's.

Other benefits also accrue. Shareholders and the City know how effective a strong brand is in raising profits (and therefore dividends), in sustaining future growth and in funding further product development. They, therefore, prefer buying shares in a company that has strong brands, to buying shares in one that doesn't. So the effect of building a big brand is to build the share price too.

The Value of Brands

We have discussed earlier in this unit that successful brands are assets to the brand owner. We have seen that successful brands can survive for a long time and can create a competitive advantage.

So how do we value brands? Brand valuation emerged in the 1990s as an important measure for brand owners who wished to assess the effectiveness of the brand and to calculate the overall value of the company. It has been recognised for some time that the physical asset of a company may only represent part of the value. When Ford purchased Jaguar, for instance, it is reported that the physical assets were only worth 16% of the value of the company. Many argue that for many companies intangible assets provide their most significant source of future competitive advantage. John Stewart, former CEO of Quaker is quoted as saying "If a business were split up, I would give you the land and bricks and mortar, and I would take the brands and trademarks, and I would fare better than you."

Not everyone is a supporter of brand valuation. Clearly any method of valuation will be subjective and there will be advantages and disadvantages of each. However, the recognition of brands as assets is likely to become more important in the future as more financial directors and accountants use brand valuation techniques in balance sheets.

There are a number of ways to establish the value of brands. These include historic cost, current or replacement cost, future earnings potential and incremental added value. Each of these methods has advantages and disadvantages but the approach that is gaining in popularity is one developed by a consultancy named Interbrand. This is a framework based on a combination of objective and subjective inputs which include; the state of the market, the stability of the business, the size and position of the company, profit trends, investment and financial support, geographic spread and protection and security (patents and copyright etc). From these inputs a brand valuation is produced.

When organisation require an independent Brand valuation they are likely to seek the services of Interbrand.

B. BUILDING BRANDS

To develop a brand takes time and involves long-term planning and investment. This means that decisions on the type of branding to be used will not be taken at the operating level. These decisions are strategic in nature and involve higher-level decision-makers.

Brand Strategies

There are a number of strategies which can be adopted towards branding:

- **Corporate umbrella branding**

  This is where the name of the company is used as the main "identifier" to the customer, such as Sony, Kellogg, Heinz. Just as a product can have a "coating" of values wrapped around it to make it distinct and to give its consumer a sense of ownership and reassurance, organisations can also be branded.

  Brands of this type can be very powerful. The name "Hoover", for instance, became synonymous with the vacuum cleaner. "Biro" became a common name for ball pens.

  Of course, such branding can also be very dangerous. If for some reason a brand name becomes damaged by adverse conditions or publicity it can reflect on the entire product range and, consequently, affect earned revenue.

- **Range branding**

  This is where a company has products being sold under a recognised name which is different to the company name.

  Some companies have developed separate range names for different families of product, as in the case of Japan's Matsushita that owns Technics, National, Panasonic and Quasar. Other examples are Heinz who use Weight Watchers and Nestle who use Findus for frozen foods.

- **Individual product branding**

  This is where the name of the product does not have any relationship to the company name at all but the product is recognised for its own merits – for example, Lucozade, Seven Up, Benylin.

A company may decide to adopt one, or all, of these strategies depending on what it is they want to achieve. We can quote many examples:

Corporate	Family	Individual
Van den Bergh Foods	Ragu	Chicken Tonight
Nissan	Frontera	Frontera Sports
Volkswagen	Golf	Gti
Warner Lambert	Health Care	Benylin

Often the brand strategy decisions will be based on the type of products which are being manufactured. If they are broadly similar the company may choose to be known for its corporate name rather than for individual products. Where the product range is diverse and aimed at different target sectors they may choose to adopt a policy of "family" or "individual" branding. It is impossible to give a good, general guideline. The ethos of the company and its long-term intentions will dictate how branding is carried out.

The approach will depend on the wider corporate and marketing strategy that is adopted. For instance, some organisations (such as the Hanson Trust or General Foods) tend to build corporate personalities that are only of relevance to some of their audiences (or "publics") such as the financial community, bankers, stockbrokers and analysts; governments, their staffs and their shareholders. When you buy a jar of Mellow Birds coffee, you are not aware (unless you happen to have a professional interest or are a member of one of those corporate audiences we have named) that this is a General Foods' product. What you are buying is an individual brand and it is the brand values of this particular instant coffee that motivate you. On the other hand, if you buy Smash (instant mashed potato), Dairy Milk chocolate, Bournville drinking chocolate or Milk Tray chocolates, you will be aware of, and partly motivated by, the cursive script of the Cadbury name on the package. Some of these product brands are very powerful in their own right but they gain a good deal by being associated with the Cadbury corporate brand.

Something similar, but subtly different, happens when you buy Heinz tinned goods. Here we certainly have a powerful corporate brand name from which the individual products borrow strength but in this case there are no strong brand identities for the individual products. Heinz Baked Beans are not special because they are beans, but because they are Heinz. The same is true of their tomato soup, their tinned spaghetti and their macaroni cheese. These products could not stand alone as brands as they would have no special identity. They are bought because they belong to the Heinz "family" of products. This is different from the Cadbury situation, since there the brand itself (Smash or Dairy Milk) is strong and the "family" or corporate brand is not dominant, but built up, as it were, by the presence of several strong individual brands that signal allegiance to a (less dominant) corporate brand.

A simple analogy may help to understand the difference. Imagine a family – let's call them the Appleyards – where mother, father and all three children have red hair and brown eyes. As the children grow up, they begin to go their different ways; one becomes a vet, another a farmer and the third a blacksmith. But everyone in the area knows them as a family and when the farmer's prize bull wins at the County Show, people say, "That's the elder Appleyard boy, isn't it?" His success is his own, but it is seen to derive from being of good Appleyard stock. On the other hand we might have a family called Steele, in which the eldest daughter Anne grows up and becomes a surgeon. Her brother Barry becomes a motor racing driver. Their father is a banker and their mother is a University lecturer in philosophy. Each is known, among their own circles, as highly successful. But Anne Steele is "the famous orthopaedic surgeon" and no-one thinks of her when they are watching Barry Steele win the Monaco Grand Prix. Neither do they make the connection with Amanda Steele, the philosopher, or with Everard and Steele, the merchant bankers in London. No-one, that is, except those who know them well as family friends.

So it is with corporate brands. Some (like Heinz) are Appleyard brands, where the individual units derive their standing from being part of the family. Others (like Cadburys) are individual brands that happen to belong to a family, but it is not as a family (or not primarily as a family) that they are known.

The strength of a corporate brand is important for two reasons. First is the obvious one that staff will come and work, investors will buy shares and governments will give grants or planning permission, more readily to a well-known and admirable organisation than they will for one that is unknown. The second is, if anything, even more important to the marketer. When entering foreign markets or when introducing new products in existing markets a strong corporate brand can lend strength to the new arrival. This allows you to launch without incurring such heavy costs and thus gives you competitive advantage.

The building of brands, then, whether individual product brands or the corporate brand, is an important task of the creative strategy. It follows that any strategic communications plan must take the brands into account. The creative team, no matter how brilliant their ideas, cannot be allowed to execute ideas that are not consistent with the longer-term interests of the organisation's brands.

Brand Development

When brands need to be developed, either from scratch or changed in some way, decision-makers cannot simply come up with a catchy name or new logo and hope that the buyers will like it. The brand must be very carefully planned in terms of its particular characteristics. Consideration needs to be given to several aspects including:

- **Impact on existing brands**

  To introduce a new brand, or change an existing brand, that would have an effect on other brands being offered by the same company would be rather foolish, to say the least.

- **Suitability for global operations**

  Products are available in most parts of the world so the "translation" of a brand needs to be universal. A name which is offensive, or difficult to say, or a colour which signifies disaster would be inappropriate. There can also be savings on promotional material if brands are adapted to cope with multiple cultures.

- **Potential for brand-stretching**

  A brand name that can be used to cover other products which may be introduced later can be highly attractive. When a company has acquired a good reputation for a brand it makes sense to use that brand for other products ***Brand stretching*** is where there is an extension of the products offered under a brand name. Its attraction is that launch costs are not as great because the family name is already well known. It also represents less of a risk to consumers, who might be worried about trying something new.

C. OWN PRODUCT AND OWN BRANDS

One indication of the increasing power of the retailers has been the growth of own product and own brand strategies. Recognising that they were paying premium prices for highly-branded goods, and therefore reducing their own profits and risking their ability to compete on price grounds, supermarkets and store chains began to investigate the possibility of offering cheap versions of popular products (thus keeping their competitiveness without sacrificing margin) and premium-priced products branded by association with the retailer's own values.

Buyers who try the own-brand goods will often find that there is little difference in quality and taste but there can be a big difference in the price they pay. If the price they are paying does not equate to the "value" they receive, they change brands. They shift loyalty from one brand to another! Brand managers don't want this to happen so they do everything they can to keep their customers happy.

Own Brands

John Lewis stores sell (among other things) medium to high-priced fashion garments. These require John Lewis to pay a high cost price and to sell at an equally high price, thus squeezing profit margins, but they are willing to do this because their credibility as a fashion retailer would be compromised if they did not. Thus you will find Levi's, Nike and many others among the merchandise offered. However, they also offer a fair number of garments whose production qualities imitate the branded ones but which carry the brand name Jonelle. These have been manufactured to John Lewis specifications by independent makers. Their cost price is quite low by comparison with the big brands and the store can sell them at a premium price, approaching that of the big brands. Thus John Lewis make a handsome profit when they succeed in selling these goods.

Such goods are known as "own brand". However, the situation is confused by the existence of some chain stores (often franchise chains) that exist to sell only (or mainly) one proprietary brand – for instance, Benetton or Body Shop. These are also known as "own brands". In any case, the point is that the goods are branded by association with the retailer's own brand values.

Own Product

By contrast, most supermarket chains carry a line of heavily-discounted goods, without any elaborate packaging, that promise to deliver reasonable quality versions of the popular branded goods. Though the whole range is sometimes given a generic title ("No-nonsense" or "Extra Savings"), they are not branded as we would think of it. These are given the designation "own product". Here again the situation is not entirely clear-cut; some retail chains do actually make their own products (such as cheap lines of cosmetics in discount drugstores or household cleaning products in discount hardware chains), but most "own products" are actually made for them by some specialised manufacturer. Indeed, very often the "own product" version sits on the supermarket shelf next to a branded product made by the same manufacturer.

It might be asked why (if own-brand and own-product items reduce the manufacturer's power over the retailer by offering an alternative to the powerful brands that manufacturers have spent heavily to promote), the manufacturers agree to provide them. Are they not cutting their own throats? The answer partly is that they have little choice. We have already referred to the complex and delicate negotiations that are needed to get the big retailers to list one's brand; providing a certain amount of own-brand or own-product may be one of the conditions the retailer insists on. Partly, though, it can be a favourable strategy for the manufacturer also. Manufacturers prefer to keep production schedules as steady as possible during the year but demand for branded products often fluctuates widely.
A clever manufacturer can capitalise on the consumer's willingness to pay a premium price at peak times (say Christmas, when one wants to be seen as having spent a certain amount of money on the gift, so buys a "good" brand of whisky). He does this by concentrating all his production capacity in August, September and October on the brand and advertising it heavily through October and November. Then, in November through to March, he might be happy to keep production churning steadily, but labelling it with the supermarket's name; he gets less profit for it but it makes a small contribution to his bottom line while maintaining his supply relationships and his workforce and amortising his factory and plant.

It may also be the case that a premium brand pays a handsome profit but isn't likely to be bought by enough people to justify keeping the production line going for long periods (which improves economy). Selling via a supermarket "own product" brings another class of purchaser into the market, admittedly at a lower profit, but without damaging the "expensive" or "superior" values of the branded product, while delivering the economies of scale needed.

The Retailer as the Brand

The situation is further complicated by the fact that some retailers have begun to develop a brand strategy on their own; not so much "own brand" as making the supermarket itself the brand and building brand values around it. Tesco and Sainsbury are excellent examples of this. Shoppers are encouraged to believe that simply being a Tesco or Sainsbury shopper is to "badge" oneself as a person of taste and discrimination, while still wanting a good deal on price. Everything the retailer does (the advertising, design of the store, signage, staff training, customer service, etc.) speaks eloquently of this brand and its values.

A writer on retail once said, "Shops have stopped being places where manufacturers could display their goods, and become instead places where consumers can display their tastes". Tesco and Sainsbury have capitalised on this idea. In such cases where does the idea of own brand or own product fit? Both are partially relevant. Own products must be made and labelled in a way that helps to consolidate the "shop brand", while the supermarket itself is, in a sense, the "own brand".

Conflicts

All of this of course adds to the complexity of the sales negotiations that the manufacturer's key accounts salespeople must conduct. It also means that manufacturers must be doubly careful to see that their advertising not only builds their own brand, but does not contradict or damage the retailer's (and vice versa). There are also numerous opportunities for public relations initiatives and sales promotions which build on the strength of both brands in partnership.

However, there will be times when the conflict between the retailer's agenda and the manufacturer's will be so problematic that some unusual and creative solution will be needed. This occurred a few years ago with Heinz, who found that their expensive brand-building promotional work was effectively being cannibalised by hard negotiations and own-products in the large supermarket chains. Their answer was to cut mainstream advertising back almost to nothing except for overall "umbrella" advertising (i.e. advertising the range rather than individual products) and then to use direct mail to target known purchasers with brand loyalty incentives. Thus, when shoppers went into the stores, there was some likelihood that they would end up buying the Heinz product and not a cheap substitute.

Review Questions

1. Define a brand.
2. What is a brand extension?
3. What is the preferred way to value a brand.
4. Why are brands important?
5. What is a Corporate umbrella brand.

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> "Brands are at the heart of marketing. When a company creates a strong brand it attracts customer preference and builds a defensive wall against competition". (Doyle, 2006) Discuss, using examples from an industry of your choice to illustrate your answer.

ANSWERS TO REVIEW QUESTIONS

1. A name, term, sign, symbol, or design, or a combination of these intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors

2. Using a successful brand name to launch a new or modified product in a new category

3. Use Interbrand

4. There are a number of reasons, these include:
   - Help maintain market share
   - Should achieve above average profits
   - Become assets in their own right
   - Represent low risk opportunities for the manufacturer and also represent reduced risks for the consumer.

5. This is where the name of the company is used as the main identifier e.g. Sony or Dell

Study Unit 12

The Promotional Mix

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(Continued over)

INTRODUCTION

The promotional mix refers to the combination of marketing communications, which are brought to bear on the promotion of a product. It is generally accepted that there are four aspects to this – advertising, sales promotion, personal selling and public relations. (This last aspect is less concerned with promoting a particular product as with the promotion of the organisation as a whole – a rather different type of product.)

In this unit we shall review the main characteristics of each of these elements of the promotional mix and consider how they may used in a strategic fashion – building corporate identity and image, communicating with different markets and market sectors – and be integrated into effective campaigns.

A. COMMUNICATIONS AND THE ORGANISATION

We begin with a simple proposition that everything an organisation does, communicates in some way to a wide variety of people.

This is easier to understand if you relate it to a single person, rather than an infinitely more complex organisation. Think about yourself. What kind of clothes do you wear? Almost all of us are aware that by wearing certain kinds of garments we give out signals about ourselves. Some people try to wear completely nondescript clothes in order to defeat this mechanism, but by so doing find themselves giving out another statement – "I don't care about clothes".

There are also various ways that you "badge" yourself and your property. Do you have your initials stamped on your briefcase? Or drive a car with a personalised numberplate? Do you carry a calling card? How do you sign your cheques?

What about your networks of social contacts? If someone knew that you belonged to a club, contributed to a charity, attended a church, temple or synagogue, sent your child to a particular school, used a gym or ate in a particular restaurant, do you suppose they'd begin to form a picture of the sort of person you were?

Of course, it is clear from all these examples that even before you have opened your mouth, you have been communicating all about yourself to anyone who will listen. Well, this is also the case with organisations. Even before they've begun to take part in those activities that most of us would think about when the word "communication" is mentioned (i.e. advertising, public relations, etc.), they have already committed a hundred acts of communication. They've communicated something about themselves through their factory location, its size and design, their letterhead and the style of their invoices, the colour of their packaging, the staff uniform, the way their name is painted on the sides of their lorries, the kind of car they give their reps to drive, the style of web site; and this list can just go on and on.

Corporate Identity and Corporate Image

If you put all these "cues" together, you will arrive at the organisation's ***corporate identity***. Unfortunately, there are still some organisations that don't bother to plan their identity; everything just happens haphazardly, with no-one in charge of how it is to be done. These are the organisations that wonder why no one-can remember their name in unprompted recall tests. Many organisations now, however, have come to realise how important it is that a coherent identity be presented to the world, and that it be a good one. Subsequently, the corporate identity is not just the name, but ***all*** the means by which the organisation can be known, visual, virtual and otherwise.

A term that is often confused with corporate identity is ***corporate image***. This is not the same thing at all. The corporate image is what people think and feel about the organisation.

It's the picture people have in their minds. Using the example of the individual again, if I know a man called John Brown and I know the colour of his hair and what shape his nose is, I know his ***identity***, which would enable me to pick him out in a crowd. But if I don't know whether he's a nice man, as that's not part of his identity, but the ***image*** I have of him.

It's often said that the image people hold of an organisation is the ***sum total*** of all the impressions they've ever received about it. But this (as Bernstein, one of the most percipient writers on this topic, has pointed out) ignores the way people react to impressions they receive. If you hear something good about someone, you tend to feel well-disposed towards them. If you then hear something rather less good, your estimation of them goes down. And so on. Bernstein says that it's better to think of the corporate image as the ***net total*** of all the impressions created – i.e. the good balanced out by the bad.

Clearly, the corporate ***identity*** is something that an organisation, if it is wise, can and will manage. It will call in consultants to help research what people are seeing and hearing of the organisation, and how they react to those cues. Based on that research, the organisation's consultants will carefully design a logo, a strapline and a set of corporate colours. They may, for example, suggest a staff uniform designed to convey a particular set of attributes (i.e. white overalls are often considered clean and hygienic whereas a tailored two-piece suit is often considered professional and dedicated). These are matters that the organisation can make rational, researched decisions about and which are under its control. But the ***image*** – what people ***feel*** about the organisation – is not controllable. Hopefully, you can influence it (through high quality products and good service, and a good corporate identity programme and public relations), but on the whole what someone thinks of you is not under your control.

Influencing Factors

We must be careful, however, not to give the impression that the link between identity and image is a simple one whereby one always powerfully influences the other. There are other intervening factors that come to affect how people form their image of an organisation. These include the following.

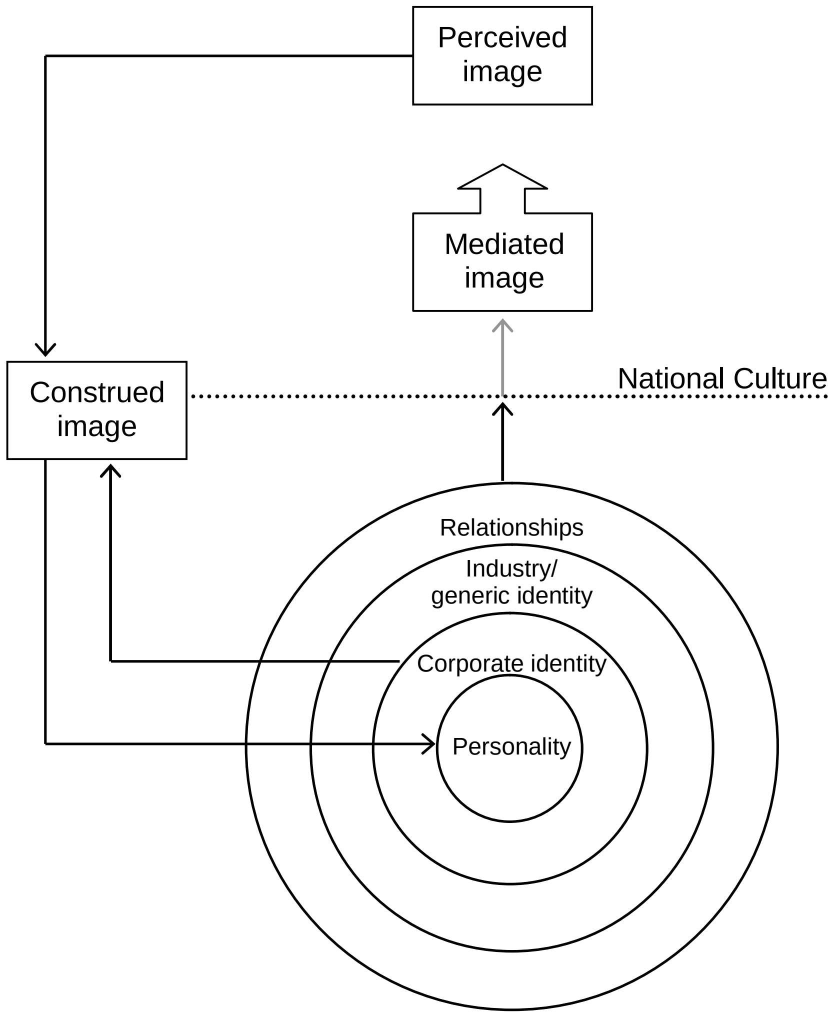
- For one thing, you are often judged by the ***industry*** (or other grouping) to which you belong. You may have worked extremely hard on your identity to make it project all sorts of good things, but if you are a motor-car manufacturer or in the nuclear power business, then for many people, your efforts to project a good identity will be reduced by the negative connotations of that particular industry.
- A further barrier occurs because, in the eyes of the customer, you are simply a ***business*** organisation. There is a great deal of ambiguity in people's feelings about business in the Western world. On the one hand, we know that it's essential for wealth creation and the provision of the daily needs of the world's vast population; on the other, we rather distrust business people, suspecting them of putting short-term goals like profit before proper concerns like safety, the environment, sustainable development and so on. So just to be a business organisation is to attract a certain amount of hostility. Even the best reputations suffer from this effect.
- We also have to consider how the average person knows what he knows about an organisation. The answer is nearly always, through the ***media***. And the media have their own set of ideas and interests and wish to pursue their own agenda. You might employ thousands of people, make steady profits, build a generous pension fund and make products that sustain a good quality of life, and never get more than a passing mention in a newspaper. But if just one of your trucks has an unforeseeable brake failure on the motorway, or a small group of disgruntled workers call a lightning strike in one small factory, it will be splashed all over the headlines. Your identity still has to try to shine through this rather grubby lens of the media.

The influence of corporate identity, so carefully planned and assiduously built, is diluted by these layers of prejudice or indifference. It is the light that is left, after passing through all of these lenses that shines out – and the resulting image in people's mind is the result, not just of the identity projected, but also of the distortions through which it has passed.

There is, of course, no point arguing that people have "the wrong idea". People's perceptions are what they'll base their opinions upon, come what may, and it's no use bewailing the fact. A sensible organisation will constantly research its own image in the minds of the audiences that matter to it and build future communication efforts on that basis – strengthening those that are weak, putting out strong corrective messages where people seem to believe falsehoods, downplaying those parts of the truth that the audience doesn't react well to and, occasionally, changing what the organisation does, in the light of public disapproval.

The process can be summarised in the following diagram.

Figure 12.1: Model of Corporate Identity and Image



Audiences for Corporate Communications

Most if not all organisations have a variety of audiences, all of which are watching what they do and all of which matter greatly. A list of such audiences that most corporate communications professionals would agree on, would look like this:

- Customers
- Staff and unions
- Neighbours and community
- Shareholders
- Our Banks and lenders
- The City generally
- Government (local, national and supranational) and other regulators
- Suppliers
- Distributors, agents and stockists
- Pressure groups concerned with our product/service
- Trade associations
- The media.

Most of us would accept without comment the simple proposition that the approval of all these groups is important to an organisation's corporate health and needs to be carefully nursed. Putting that into practice, however, is harder than it sounds.

Unfortunately, a major problem is that the interests of some of these groups conflict. Shareholders, for instance, want to see costs kept low, sales kept high and a good profit returned on their capital. Staff, however, would prefer rather more spending on a good environment in which they can do their work well. It is not impossible to reconcile these two, but it can be tricky. A further difficulty arises in that some people are simultaneously members of more than one group. Members of a pressure group may also be customers, a supplier may also be a neighbour and the trade union official may also be a fellow-member of the joint industry council.

Although it seems sometimes as if you're trying to carry on a battle on seven different fronts at once, it is important to try to devise a programme to build and maintain corporate reputation among all these audiences (or "publics"). Obviously, difficulty and cost multiply if you are sending different messages out to different groups, and there is a danger that the message meant for one group will "leak" to another. Telling the City that you're keeping a tight rein on costs and delivering a market-beating rate of return on capital may sound good to their ears, but it may not go down too well if your staff hear of it – especially if, the previous week, you were pleading for their loyalty in difficult times and asking them to do without a pay-rise this year.

The only really thorough solution is, of course, to be absolutely honest and to ensure that you can be honest because you're doing nothing you are ashamed of. However, in the modern business world, that may be a counsel of perfection and unattainable by most of us.

In the real world, the answer is to manage your communications so as to achieve the right results with the right people at the right time and this may sometimes mean limiting a message to a particular channel, targeted at a particular group of people.

Integrated Communications

Wherever possible, though, it's important to minimise cost and maximise effect by planning integrated communications. If two or more groups can be reached with the same message, it's clearly better to do so. If audiences can be persuaded to see each other's point of view, your corporate reputation will benefit. In any case, if you can't actually arrange things so as to be sending the same message to different people, you should at least try to avoid saying conflicting things.

This striving towards integration should be seen in all those activities we described earlier contributing to the corporate identity; logo, name, strapline, colours, uniforms and so on. A well-planned corporate communications strategy should aim for integration in all of these, so that they carry consistent messages which are reinforcing each other rather than contradicting each other. This will in turn have a chance of influencing people's thinking so as to produce a strong, positive corporate image. This strong image not only helps to keep all the audiences favourable but also provides an "umbrella" under which individual brands can gain favourable notice in markets.

B. METHODS OF PROMOTION

So far in this study unit we have been thinking about the utterances of the organisation as a whole and the various ways in which it communicates with all its audiences. However, there is, of course, a set of specialised communication activities with which we are particularly concerned. This is communication with, and within, markets. Communication of this kind needs to be well integrated with all our other communication activities, but this is an area where the organisation is particularly active. For this reason, it is often handled by a separate department, and so a particular duty of care is placed on the people in it to ensure that what they are saying is broadly in line with all the other forms of communication. Indeed, responsibility for all other "corporate communications" is perhaps best handled by a section within the marketing communications department so that this integration is encouraged.

There are a number of methods or approaches specific to marketing communications. Briefly, these are:

- Advertising
- Public relations
- Sales promotion
- Personal selling
- Exhibitions
- Direct mail
- Packaging
- "Point of purchase" materials
- The Internet and mobile telegraphy.

Each has its own virtues and strengths but equally, each has its own drawbacks. We will look briefly at each in turn.

Advertising

Advertising's central feature is that it is a means whereby the sender of the message ***pays*** to retain ***control*** over the message. In some of the other communications methods, you originate the message as you want it heard, but you are at the mercy of intermediaries who may distort what you intended and deliver something that is not what you would have wished. For example, a salesman, though well and clearly briefed, may put his own "spin" on the message or a journalist may use a prepared press release but alter it to suit his own purposes. When you buy advertising, you are buying the right to plan exactly how the message will be seen or heard and to have the plan executed faithfully.

The cost of advertising varies widely, but it is often quite expensive to initiate. However, it is almost always directed at a very large audience. A local newspaper advertisement, costing perhaps several hundred pounds, may be seen by tens of thousands of people. A magazine advertisement might cost thousands of pounds, but may well be seen by 100,000 people. A television commercial may cost £300,000 to film and £10,000 for "air-time" every time it appears in each of the regions (a total cost package for the campaign of something like £5m), but it may be seen five times by each one of 20 million people.

Thus, the cost per ***impact*** (one person seeing the message once) in each case will be measured in pennies, so although advertising is expensive in absolute terms (i.e. you've got to have a large sum of money to do it at all), it is very cheap in relative terms (i.e. the cost per impact is very low). It is therefore a suitable method to use where it is important for the same message to be sent to a large number of people at relatively low cost.

There are a number of vehicles (or "media") through which advertising can be done. Some exist for other purposes and advertising is given space in them incidentally as a way of boosting their income. Television, for instance, exists to produce programmes of entertainment, and newspapers exist to publish news and comment, but both allow some time or space for advertisements. Others exist purely as advertising media such as posters ("billboards") in the street or advertising "blimps" (hot-air balloons) floating in the air over a town.

A list of the more common types of advertising media might include:

- Newspapers (local, regional, national and international)
- Magazines (news magazines, general interest and special interest titles)
- Television (terrestrial, satellite, cable and interactive)
- Internet and mobile phones
- Radio
- Posters
- Transport advertising (ads on trains or buses, etc)
- Cinema
- Door-to-door (handbills, etc delivered to all houses in an area)
- Direct mail (advertising material specifically mailed to an individual)
- Ambient advertising (any other impact outside the home, such as an advertising panel on a parking meter).

Obviously, each medium has its own strengths and weaknesses; for instance, cinema is excellent for getting a message to young, single people, while broadsheet newspapers are good for a serious message aimed at well-educated people.

Public Relations

This much-abused term covers a number of activities whereby an organisation attempts to manage its reputation among all its audiences. People working in "marketing" tend to concentrate on only a few of the audiences – chiefly the customers, but also suppliers, trade distribution channels and the media. However, in some organisations the public relations department is responsible for "corporate communications" as well as "marketing public relations". In others, there is a distinct functional split between Marketing PR (practised by a group of people under the control of the Marketing Manager or Director) and Corporate PR, or Corporate Communications, a separate department, often under the control of the Chief Executive or the Financial Director.

PR is almost a mirror-image of advertising, since it suffers from the disadvantage that the message is at the mercy of the intermediary (as we described earlier), but also has a corresponding advantage. That is, whereas advertising is always obviously advertising (and therefore people can and do discount its message), public relations can achieve transmission of a message that ***seems*** to come from someone independent of the organisation. If you send a press release about your new product to a journalist, and he uses the story in his paper, it appears to the reader that a disinterested third party is making a genuine recommendation, or at least is reporting unbiasedly upon it.

A rather crude description of the relationship of PR and advertising was offered long ago:

> "*Advertising is what you say about yourself, while PR is what other people can be persuaded to say about you*."

The range of activities practised under the general heading of public relations is very wide:

- Media relations (press releases, facility visits for journalists, press conferences)
- Customer relations (after-sales service, complaints procedures)
- Sponsorship
- Exhibitions
- Community relations (supporting charitable initiatives or other programmes of general benefit)
- Staff relations
- In-house publications
- Crisis management (communicating to the various stakeholder groups who may need to be advised
- Corporate advertising.

This last item perhaps requires some elaboration. If it's advertising, why doesn't it appear under "Advertising"? The answer is that some advertising is not done for normal market-oriented advertising reasons (such as to raise awareness of a product or to educate consumers in the use of a product), but for reasons connected with corporate identity. Some petrol companies, for instance, occasionally take large spaces in the broadsheet newspapers to talk about how careful they are, when laying pipelines, not to spoil the countryside. Such an advertisement is not designed to make you buy petrol, or not today, at any rate. It is simply part of that company's efforts to keep its image favourable among opinion-leaders in society (hence the choice of the broadsheet press). BP has used this method to try to develop a "green" environmental image.

Sales Promotion

Sales promotion may be described as a set of marketing activities designed to encourage sales, to the trade and/or consumers, either in greater quantity, or earlier, than would otherwise have been the case.

There is probably (no-one has very precise figures) more money spent on this kind of activity than on any other in the range of marketing communication tools. In theory, it should be used to "trim" a marketing communications strategy, where the broad lines of action have been laid down but some small adjustments are seen to be needed. However, the high expenditure on it would seem to suggest that some organisations are using it rather more routinely, almost as a strategy in its own right. This may be easier to understand if we look first at how the books say it *should* be used; and then look at how some organisations may deviate from the norm.

(a) Aims of sales promotion

There are two immediate and very direct aims to sales promotion.

- ***Encouraging earlier sales***

  According to the theory, one of the uses of sales promotion activities should be to encourage sales earlier than might have been the case. Take the following example.

  A biscuit manufacturer spends a certain amount of money on marketing activities and, true to form, these deliver a certain volume of sales over the course of the year; let's say 10 million packets. The problem is that 3m of them are bought in the five weeks running up to Christmas, and 4m during the months of June to September, with the remaining 3m spread more or less evenly over the other seven months of the year. This becomes problematic because of the nature of the manufacturing operation. If the 10m sales were spread evenly over the year, factory capacity sufficient to produce 850,000 packets a month would be plenty. As it is, at certain times of the year the factory needs capacity of 2.5m packets, yet for over half the year this would be standing idle. Staff would have to be laid off, and taken on, in an irregular fashion and expensive machines would stand unused for weeks or months at a time. Suppliers would possibly not be willing to deliver small quantities of flour, sugar, butter, etc. for some periods of the year, and then suddenly dramatically increase the quantities required. Extra storage, both for raw materials and finished goods, might be needed. Transport headaches would multiply.

  Obviously, there is no point in trying to sell more or less product over the year as a whole. The solution is to find some way to even out demand. The answer may be a two-phase sales promotion campaign.

  Phase 1 would take place in September and October, and be aimed at the trade; perhaps an offer of a discount to retailers prepared to order more than a certain quantity during these two months. This, in effect, pushes the product through the channel earlier than usual, thus relieving some of the factory's production and storage problems. The same number of biscuits is being sold, but they're being stored in the retailers' warehouses rather than in ours.

  Phase 2 might be a "special offer" campaign, directed at consumers, during the months of January to April. Offering 10p off the normal price might encourage consumers to buy our brand rather than those of the competition, thus ensuring that demand remains buoyant during these usually difficult months. Of course, the consumer will return to competing brands, for variety's sake, once the offer has stopped, but we don't mind that. That will be in the busy summer period, when we will actually welcome a drop in demand and we can let the competition have the headache!

- ***Increasing sales***

  The other classic purpose of sales promotion is to encourage people to buy more than they otherwise might. Here again, an example will help. Suppose an airline has put on, for the first time, a regular flight from London to Tangiers. Received wisdom says that it may take up to two years for regular travellers in both directions to become aware that the service is available and to plan their business schedules around it. The airline cannot afford to run the flight half-empty for two years.

Once again, a two-phase sales promotion campaign is launched. A trade promotion offers travel agents enhanced commission if they will book business travellers onto this flight, compared with the commission they receive for the existing (and solidly booked) flights to Tunis. At the same time, a package deal is offered to holidaymakers in conjunction with a hotel and leisure park in Tangiers during the winter months. By this means, the airline has encouraged sales in greater quantity than might normally have been the case.

In these two examples, we have seen how an organisation might use sales promotion techniques to adjust or complement an existing strategy. In the first, the manufacturer is using it to even out an erratic production schedule; but the basic annual sales figure, towards which the whole of the strategy works, will remain unchanged. In the second, the strategic goal remains the same; that within two years of the launch, the new service will be running successfully with the appropriate number of passengers, but the temporary problem of under-use during the early period has been attacked by means of a sales promotion. In both cases the strategy remains in place and largely undisturbed, but sales promotion has been used tactically to deal with particular difficulties within the strategy.

We would assume that, if this classic pattern were generally being followed, expenditure upon sales promotion would account for a fairly modest proportion of the total spent on marketing communications activities. However, the fact seems to be (although again we have to acknowledge the lack of reliable information) that sales promotion expenditure comprises far and away the biggest slice of marketing communications expenditure in Britain; and there is some evidence to suggest that it may be even more disproportionately large in other countries, most notably the US. This in turn would suggest either that there is a good deal of unplanned, almost out-of-control spending on sales promotion, or that it is being used strategically, as a main component of some marketing plans.

(b) Causes of over-use

It has long been known that unscrupulous brand managers, in the middle years of their careers, have used price promotions heavily in order to massage sales figures for their own short-term advantage. By the time the damage is discovered, they have gone on to their next (and more senior) appointment. Certainly, some of the disproportion will be due to that kind of misuse. It is also probably the case that there is considerable over-reporting of sales promotion expenditure, arising out of the fact that mark-down values, or the worth of a "free gift", are based on retail prices that are frankly fictional.

If organisations are in fact using sales promotion as a major strategic tool, it would presumably be in highly price-competitive markets, within which promotions are used to encourage sales on the basis of (perceived) added value or reduced price. This, in turn, would seem to suggest a tendency to pricing policies which were illusory; the price is supposed to be so much, but no one has ever paid that much. This is not a welcome development, since it would tend to encourage cynicism among consumers and make it more difficult to build genuine premium-price brands.

(c) Varieties of sales promotions

It would be easy to fall into the trap of assuming that all sales promotions are price-based. This is not the case. There is a wide range of promotional tools available to the marketer:

- ***Price-based promotional tools***

  (i) Money off the retail price

  (ii) Money off the wholesale price for retailers buying in "case" quantities

  (iii) Commission deals for retailers

(iv) Commission deals for the salesforce.

- ***Non-price-based promotional tools***

  (i) Free "extra" offers – for example, 120 grams for the normal price of 100 grams

  (ii) Two-for-one offers (inelegantly known in the trade as BOGOF or "buy one, get one free")

  (iii) Banded offers – for example, a free toothbrush "banded" to the package of toothpaste

  (iv) Retailer loyalty scheme where the consumer will receive extra points for choosing our brand (funded by the brand manufacturer)

  (v) Competitions

  (vi) Free or reduced-price article, unrelated to the product, available via purchase of our product – for example, collect and send in three cereal pack-tops plus 50p for a popular DVD

  (vii) "Partnership" deals – for example, take out a subscription to a road-rescue service and get a discount on motor insurance

  (viii) Free trial offers – for example, have a mobile phone free for a month and either send it back or sign up at the end of the period – sometimes known as a "puppy-dog" promotion because the customer is thought to grow so dependent on the product that he can't bear to return it

  (ix) "Free" disposables connected with the product – for example, buy this digital camera and get a free memory stick.

(d) Strategic uses

All these techniques are available to the marketer to help regulate the flow of sales in one way or another, at different times in the product's life cycle.

- During the ***introduction*** period, sales promotion may be effective in ***encouraging trial*** among consumers who are unfamiliar with the product and what it offers, or in encouraging reluctant retailers to stock this item whose saleability they can't yet assess accurately
- When competitors are "testing the water" with a product of their own, sales promotion of our product can make their test results disappointing enough to discourage them from continuing with it
- When the market is ***mature***, and there are several powerful competitors, sales promotions may win shelf-space in the retail store or retain core customer loyalty
- And when a product goes into ***decline***, sales promotion may be used to reduce final stocks at a discount rather than at an outright loss.

Very often, as you will see from some of the above, sales promotion is actually used as a "spoiling" technique; not so much for what it can deliver to us and our product, but what it can do in diverting sales from competitors' products, or distorting a competitor's test-marketing. Properly used, sales promotions can deliver a range of benefits, but it is wise to use them sparingly and only over short periods. Otherwise they can seriously damage brand values that may have cost much time and money to build.

Personal Sales

Personal selling is the oldest form of marketing communication. Since time immemorial, people with something to sell have been making personal contact with potential customers and telling them what they have to offer. The pedlar, the hawker and the sales agent are all familiar figures in literature throughout the centuries and their craft is still practised today by very many people.

Personal selling is a mode of communication most suitable for use in situations where:

- The profit on the sale is high enough to cover the expense of personal selling
- There is a need to explain the benefits of the product
- There is considerable technical content in the sales message
- The customer needs encouragement to come to a purchase decision
- A long-term sales relationship needs fostering and maintaining
- Contractual matters need negotiation prior to sale
- The customer has to choose between a range of products and needs guidance.

Personal selling is the most expensive form of marketing communications. It may cost as much as £100,000 to maintain a fairly junior sales representative once salary, expenses, company car, commission, pension contributions, taxes, office back-up, etc are all taken into account. A senior salesman in an area requiring considerable technical expertise (such as arms, machine tools, printing or ethical pharmaceuticals) may cost twice as much.

When you consider that the representative has to spend time researching the market, making initial contacts, discovering who is the best person to speak to, travelling to and from appointments, keeping accurate records, processing orders, returning to deal with queries, sometimes training the customer or his staff in the use of the product, and a hundred other activities, it is dismaying to discover that the number of actual sales calls (s)he may make in a year may be only a few hundred. Of these, some (perhaps many) will not result in a sale. Let's say fifty calls actually yield a sale in the course of a year. You need to be making £2,000 profit on every sale just to cover the cost of the salesperson. This is why personal selling is not an appropriate method for small-ticket, low-profit items.

Of course, there are some lines of business in which the probability of making a sale is greater and where the representative can concentrate on a fairly small geographical area such as a single city or even one part of a city. Here the travelling is less, so more calls can be made, at lower cost, with a higher "strike rate"; but even in these scenarios, the cost per sale of using a salesperson is unlikely to drop much below £50. This means that we're still limited to a situation where the marginal profit on the extra sale generated by the representative must be at least that much, so the retail value of the sale would probably have to be at least £100.

Clearly, then, personal selling is not a method suited to items such as grocery, whose prices are mainly under £2 or to confectionery, bakery, housewares, and other very large sectors. These are best dealt with in retail markets where shops and supermarkets act as intermediaries.

(a) Trade sales

Even in areas where personal selling to consumers is not ideal, the sales representative is still needed to communicate with the shopkeepers, supermarket chiefs and wholesalers who supply small shops. Here the salesperson, though dealing in, say, washing powder, priced at £2 per packet, is doing business with people who may buy from him several thousand packets every week.

It is this aspect of marketing that is often forgotten by students. The most praiseworthy proposals to gain the attention and approval of consumers (perhaps through advertising on television or via public relations in the press) will result in precisely nothing if you are not also persuading retailers (or agents or distributors, depending on the nature of the business you are in) to stock the product. Sometimes you need them also to recommend it, to service it after the sale and to supply disposables (such as when a computer dealer stocks print cartridges, software, or floppy disks). This aspect (known as "trade marketing") is a highly important component of a marketing communications strategy and should never be forgotten.

(b) Managing the salesforce

The management of a salesforce is a highly specialised occupation. Sales Managers are expected to:

- Recruit suitable staff
- Train them, not just in knowledge of the product, but also in the basic techniques of selling, such as research, route planning, problem-solving and so on
- Maintain their motivation (every salesperson suffers from despondency sometimes, when hard work seems to result in very few results or rewards)
- Set targets
- Adjust remuneration
- Manage a fleet of vehicles
- Devise sales aids
- Monitor reports
- Co-ordinate market intelligence operations
- Liase with the other branches of marketing.

Sales Managers, therefore, are necessarily a peculiar breed and can often seem rather aggressive. However, a Marketing Manager should never lose control of the sales function. It is all too easy for a good Sales Manager to develop the attitude that, so long as his staff are selling, it doesn't matter what they're selling, to whom, at what price, or on what terms.

Of course, it matters greatly. A salesforce out of control can destroy years of careful work in building brands, heading off competitors, managing relationships with distributors, extending product ranges and nurturing corporate reputation. The Sales Manager must be kept aware of the need to work within the overall marketing strategy. In particular, marketers should be especially wary of any sign of unhealthily close relationships developing between sales and production departments. This is often the first sign of a reversion to a production orientation, which should be energetically resisted.

Instead, a positive relationship with the sales team is to be encouraged among all those working in marketing, and here again we can see the need for integration. It makes no sense at all, for instance, to plan an extensive advertising campaign, without keeping the salesforce informed of what is being said and what results are aimed at. They need to know just what it is you want this campaign to achieve and how they can best help. Equally, it is unfair to complain about salespeople adopting indiscriminate cold-calling tactics and selling uneconomic quantities of a product you're hoping shortly to withdraw, if you aren't running activities (advertising, PR, direct mail) designed to provide them with plenty of good-quality, "qualified" leads towards customers who want good quantities of your preferred products. If you have plans to withdraw a product, it helps if you tell them so.

A good, well run salesforce is not only used to drum up sales. There are a number of other tasks essential to good marketing communications which the salespeople accomplish as part of their normal routine. Here is a brief list:

- After-sales service calls
- Smoothing over problems caused by production or transport difficulties
- Training of customers in the use of the product
- Dealing with "returns" of damaged or unsuitable stock
- "Cross-selling" or "up-selling" (persuading satisfied customers to look at other items offered by the organisation, often by introducing a colleague or improving their take-up rate of products they currently use)
- Market intelligence (keeping eyes and ears open to discover what the competition are doing, or to find out when potential customers plan new ventures that might yield a new line of income).

Exhibitions

This method of promotion is worthy of note for the opportunities it presents across both the selling public relations aspects to marketing.

A well-run exhibition offers the opportunity to show actual products to a large number of people at once. If necessary, it offers the chance to show your product working, in an environment that is suitably conducive to sales. An exhibition therefore offers economies of scale and of logistics, making it possible to exercise a personal sales effort that might otherwise be uneconomical.

In some trades, exhibitions have become so central to the commerce within their sectors that attendance at the main shows has become mandatory. The toy trade, the bookselling trade, some branches of computing, agricultural machinery and hi-fi systems are all examples of trade sectors where a few exhibitions, held in the same places each year, are responsible for a large slice of all the business done. If you want to sell toys in Britain, you dare not miss Harrogate in February. If you want to sell books in Europe, you must not be absent from Frankfurt in the Autumn.

Design of the exhibition stand is of paramount importance. It needs to stand out from the competition, speak clearly about the organisation and the product, and yet not be so "glitzy" that it puts visitors off from looking around it. A particular skill of the designer is to create a space that draws people into it, without their having to cross psychological barriers (a very brightly lit area or a high step can be very off-putting).

It's also essential to book your space early so that you are allotted a place where there will be plenty of passing traffic ("footfall" as it is known). The salesforce will normally be expected to man the stand and well-trained salespeople are versed in the special techniques of exhibition work; welcoming reluctant visitors, encouraging interaction, offering hospitality, tactful extraction of personal information and so on. There will also need to be plentiful supplies of sales aids – brochures, catalogues, give-aways, presenters and price lists, and some of these will need to be specially designed and printed for a particular show. Some exhibitors use extra staff specially recruited and trained for the occasion. These are not tasks to be done cursorily at the last minute. A convincing presence at an exhibition is something that requires much planning and careful execution.

Packaging

Sometimes referred to as "the silent salesman", packaging is a much-neglected part of the marketing communications mix. A few highly-paid specialists are greatly in demand for their skills in designing packaging materials that serve all the many purposes that are demanded in modern markets. We may split the tasks that packaging must fulfil into two groups.

(a) Functional requirements

- Keeping goods hygienic
- Keeping goods fresh
- Protecting goods from damage in transit or in prolonged storage
- Allowing optimum quantities to be handled or transported (e.g. square or rectangular packages of juice or milk take up less space than bottles)
- Preventing tampering
- Allowing the purchaser to "pre-experience" the goods (e.g. by seeing through a cellophane membrane something that is hermetically sealed)
- Regulating the quantity packed according to international standards
- Regulating the quantity of use of the product (e.g. garden products with a measured dose mechanism or a household cleanser with a measure incorporated in the cap)
- Safety of the product in the home, especially where children are at risk
- Allowing attachment of tools or other aids for use of the product (e.g. a scoop for washing powder or a "key" for opening a tin of corned beef)
- Allowing a system of numbering or bar-coding that allows items to be traced and recorded, especially for re-ordering or quality control purposes
- Disposability or recyclability.

(b) Communication requirements

- Carrying the product name (especially important in the case of strong brands)
- Description of the goods (including descriptors of brand values, e.g. "new", "super", "luxury", etc)
- Illustration of the product where packaging is opaque or where the "made up" product looks different from its packaged state (e.g. showing a cup of steaming coffee on the label of an instant coffee jar)
- Price indicators (only in certain cases)
- Quantity indicators
- Instructions for use
- Use of colour to suggest product attributes or desirable qualities (e.g. yellow = modern, white = hygienic, purple = luxurious)
- Sales promotional mechanisms (e.g. competition entry form, coupons or special labels)
- Manufacturer's or distributor's place of business
- Guarantee or warranty
- Description of place of origin
- Mandatory information about ingredients, weights and measures, safety, etc

- Government health warnings (e.g. cigarettes, alcohol, food, traffic light symbols etc).

In particular, the central role of packaging is to make the product stand out, recognisably, on the supermarket (or other) shelf. This has become extremely important in recent years, where the power of big brands has increased so much that they dominate their own sectors. It is calculated that the sales effect per pound spent on advertising, for instance, can be up to six times as much, for a market leader, as it is for a weaker competitor. One of the reasons for this is that a well-known brand with effective packaging stands out on the shelf, so that shoppers who intended buying an advertised competitor are seduced into buying the market leader.

There are growing environmental concerns regarding packaging. In the UK there is a strong campaign to reduce the level of packaging. Perhaps the biggest offenders are supermarkets who use substantial amounts of packaging to protect and promote their merchandise. With the growing awareness by consumers of "green" issues many supermarkets are seeking to reduce the level of packaging. One way of doing this has been to stop providing every shopper with a carrier bag. In its place many now offer a "bag for life" Point of Sale Material.

Not to be confused with packaging, though sometimes fulfilling similar functions, point of purchase materials are those designed to give additional prominence to goods on display in shops, stores or other outlets. These may include:

- Dump-bins in the aisle
- Shelf-edgers (cardboard or paper strips fixed to the leading edge of the shelf)
- Presenters (cartons or other fixtures designed to display goods prominently on the shelf itself)
- Mobiles hanging from the ceiling
- Posters on the wall (e.g. behind the delicatessen counter)
- Special fitments (racks or rotating fixtures, specially adapted and highly illustrated cartons known as "dispensers")
- Special equipment (e.g. ice-cream or soft drink manufacturers sometimes hire refrigerators to shopkeepers at no, or low, cost if they will accept them prominently adorned with the manufacturer's name and illustrations of the product)
- Dummy products for shop-window display
- Shop-window display fixtures (e.g. shelf-units for jewellers, marked with the manufacturer's name).

Some may even be seen outside the outlet:

- Brand names associated with the name of the store (e.g. cigarette manufacturers used to pay for nameboards of newsagents and tobacconists to be painted, with the name of the shop-owner and the brand name of the cigarette given equal prominence. Newspaper publishers do something similar.)
- Display boards free-standing on the pavement outside the store
- Colourful stickers pasted to the window
- Dump-bins just inside the entrance
- Loudspeakers playing music to passers-by outside a music shop.

In both categories, the purpose is, obviously, to try to gain additional visibility and to prompt purchase, especially impulse buying. This can be of prime importance in highly competitive consumer goods markets and where the purchase of the item is discretionary and requires "low-involvement".

The Internet

The Internet has become an important marketing tool in a very short time. Smith & Chaffey (2001) and Smith & Taylor (2002) have summarised the main benefits as the "5Ss":

- **SELL**: can sell goods and services; potentially globally
- **SERVE**: The website can provide additional customer service and speed service delivery
- **SAVE**: Can reduce overheads in comparison to traditional forms of doing business
- **SPEAK**: Provides ability to enter a 1-2-1 dialogue
- **SIZZLE**: A well designed website can add something "special" to the brand or corporate image.

The success of Internet marketing is closely linked to the ability of the target market to access the Internet. Penetration is still evolving and growing. It is estimated that the number of users more than doubled between 2000 and 2004 in the EU. In the UK it is estimated that more than 80% of home Internet users are now accessing through a high-speed connection, so advertisers are now able to deliver far more creative and engaging communications. Almost every B2B organisation has a web presence. This has made the Internet a very effective tool for communicating with customers and target audiences.

Although the Internet is not a perfect adverting medium it is undergoing substantial growth. Indeed, it is forecasted that online advertising in Britain is expected to overtake the television market by the end of the decade. As can be seen below over 10% of all advertising is now online.

Figure 12.2: Advertising by Medium

Medium	Market share Jan/June 2005	Market share Jan/June 2006
Internet	7.3%	10.5%
Television	2.3.3%	22.7%
National press	11.7%	11.4%
Radio	3.6%	3,4%

Source IAB/The Times 5/11/06

Banners with links to the advertiser's website for further information are still the main form of Internet advertising.

Today, it is almost obligatory for organisations to have a website. The organisational website is a powerful tool for increasing interaction between the organisation and their target audiences and other stakeholders. Many firms use the website to post information about the company, including financial reports, press releases, catalogues and price lists and company policies (e.g., their corporate social responsibility policy). An effective website can be an excellent way to encourage loyalty. One of the great advantages of the website is its flexibility and the ease with which it can be updated; this makes it ideal as a sales promotion tool.

The Internet is by nature impersonal and is ideally suited for providing information, generating enquires and enabling a two-way dialogue. It is also used for personal selling.

Although many sales offers are from legitimate organisations, like retail chains and insurance companies, far too many are from questionable sources offering unregulated products. Such "spamming" gives online marketing a bad name and is generating calls for stronger privacy legislation.

Clearly, the Internet does need to be used carefully and should be integrated into the rest of the marketing mix. The opportunity should be taken to generate additional traffic and leads by featuring the web address when using the traditional communications mix.

So what of the future? It is expected that the Internet will continue to grow at a fast rate. Bandwidth will increase, enabling more powerful applications and real-time communication. There is likely to be much more integration between computers, television, mobiles and other technologies. For marketers this should provide the ability to target messages better and develop an even more personalised approach to acquiring and retaining customers. E-mail, wireless and interactive TV is adding a new dimension to integrated marketing communications. However, it is important to remember that new media opportunities will not replace traditional print and broadcast media but will supplement them.

Integrated Promotion

Once again we must stress that the use of these tools of marketing communications is likely to be most effective if it is fully integrated. There are several "directions" in which integration needs to happen.

The most obvious is integration between the tools of marketing communication themselves. It would clearly not be sensible to plan an advertising campaign stressing the premium quality of your brand and at the same time run a price promotion campaign to persuade people that this product was a cheap and value-for-money alternative to every other competing brand. The two activities would cancel each other out in terms of effect so it would be a terrible waste of money on both. More importantly, the consumer, receiving two conflicting messages, would not know which to believe so would most likely believe neither. Nor would he ever believe anything the same company said ever again. Such inconsistency destroys credibility.

It ought to be a simple thing to propose that a company should avoid such damaging errors. In the real world, however, they happen much too often and it is instructive to examine why apparently sensible business people can allow them to happen. Almost always, there is a structural reason. Perhaps the Advertising Manager works in a different building from the Sales Promotion Manager and the two hardly every meet. Perhaps the Advertising Manager reports to the Marketing Manager, while the Sales Promotion Manager reports to the Sales Manager. Perhaps each of them is intent on building his own little empire and regards the acquisition of a budget and the spending of money as evidence of virility. Perhaps neither of them has ever been encouraged to think hard about why they are there and what they are supposed to achieve.

The best practice, in the best companies, comes about when marketing communications are planned and directed by a single manager who can allocate budget and resources carefully among all the channels and who has a clear strategy in mind, to which all communications activities jointly contribute. This we might call "***promotions*** or ***communications mix integration***".

There should also be integration of internal and external activity. Too often, marketing communications plans are drawn up inside a company and then an outside specialist (an advertising agency, a PR consultancy, a sales promotion specialist or a sales agency) is hired. The instructions they are given are often brief and functional. No one explains the strategy to them. They are not encouraged to ask questions about the wider marketing plans. Not surprising, then, that they often come up with work that is brilliantly creative and perfectly executed – but a mile off what is actually required.

Neither can marketing communications be done in a vacuum. As we have seen before, each level of strategy derives from the level above it. There must be careful integration of marketing communications activity with the other elements of the marketing plan; price, place and product. There would be no point in planning to sell a cheap and cheerful product, available everywhere, if the Marketing Communications Manager then took it into his head to promote the article as a high quality, desirable product, stocked by carefully selected outlets. Marketing communications (or "promotion") is one element of the marketing mix and should integrate with all the others; hence the expression, "***marketing mix integration***".

Likewise, going one level further up the tree, marketing strategy must be planned in concert with the other functional strategies – production, finance and administration. There would be no point planning an expansionary marketing strategy if the financial director were simultaneously planning a retrenchment strategy. This we might call "***functional integration***".

At the very top, of course, all those functional strategies must, if they are to work well together, derive from the corporate mission. Hence the term "***corporate integration***".

C. COMMUNICATING WITH THE MARKET

Consistent, integrated communications is what we should be aspiring to; however, we should not fall into the trap of confusing integration with sameness. It is often necessary to communicate differently with two different groups of people but we should still strive for integration. If you were inviting a family to go for a picnic, you would talk to the children about the fun and novelty involved, while you would talk to their parents about the fresh air, the safety of the proposed site and the need for resilient clothing. It would not be the same message but it would be about the same thing. The words used would not be identical but the meanings would be consistent with each other and would contribute to the achievement of the ultimate aim.

Marketing communications is similar. There are several different groups of people involved in almost every marketing transaction and they each need to be informed, persuaded, cajoled or encouraged despite the fact that they all talk different languages, are reached through different channels, have different needs and begin with differing preconceptions. The same message, through a single channel of communication, could not possibly satisfy them all. Most marketing communication problems therefore demand a multi-dimensional solution and it is a common failing to concentrate upon the most obvious group to the detriment of the others.

We shall therefore look at each of the different ways in which an organisation might reach groups of people with whom it needs to communicate. These we will call "***marketing communications channels***".

Care is needed here not to confuse this with the different, but overlapping idea of ***distribution channels***. That refers to the way in which producers of goods and services can build channels of intermediary organisations through which their good can be brought to the end-user. Certainly, the people in these channels have to be communicated with, and the producer needs to open up ***marketing communication channels*** in order to do so. We shall explore these in a later study unit, but here we shall concentrate here on communication channels for consumers.

When we speak of "the consumer", we are talking about individual persons but we are talking about them in a very specific way. This is an expression that carries very considerable overtones and the single word "consumer" casually assumes over a hundred years of mercantile history.

The Concept of the Consumer Marketing

First, the word points to a particular way of viewing people and the society in which they live. Our grandparents were not "consumers" in the modern sense. They were "producers"; that is to say, the shape of their lives and the way they thought of themselves depended on what their occupation was, what level of education they had received and what social class they belonged to. If you "produced" something of value to your community, you were appropriately valued for it. A schoolteacher "produced" something more valuable than an artisan and was therefore more highly regarded by his neighbours (even though the teacher and the worker might well have lived next-door to each other, in similar houses, eaten a similar diet and been paid similar amounts of money).

Nowadays, we are not defined socially by what we produce but by what we consume. Labourer, artisan, technician or professional, we look at each other and esteem each other by the things we own and the amount, quality and variety of the things we use up. Someone who lives in a dwelling that uses up a great deal of land, bricks and mortar is considered more estimable than another person whose house is on a more modest scale. When the couple in the big house find themselves alone, when their children have grown up and moved away, you might think they would sell up and move into a smaller house, with less space, that is simpler to maintain and closer to its neighbours. That would be a rational decision based on use value (which is how economists persist in expecting people to behave). But of course, in ninety-nine cases out of a hundred, they do not. They keep the big house or sell it and buy another that, while smaller, has some other attribute that makes it visibly desirable and therefore expensive. They may have stopped ***needing*** so much space but they haven't stopped ***wanting*** their house to convey a powerful message about themselves, to others.

Consumer marketing, then, is a matter of offering goods and services to people, not on grounds of what the product is, its intrinsic quality or what it can perform for them; but on grounds of what ownership and consumption of the good says about them. It uses the language of aspiration and it plays back people's own social anxieties to them.

Price is a powerful differentiating element in consumer marketing and yet it is hardly ever overtly mentioned until the very point of exchange – and even then, discreetly. Look through a colour magazine at the advertisements for vacuum cleaners, hi-fi systems, fashion garments, china or holidays. You will search in vain for mention of prices. For contrast, look back at some old advertisements from the late 19th or early 20th century. You will frequently see the price of goods clearly stated as part of the overall appeal of the offer. Those were the days in which goods were offered to prospective purchasers on the grounds that the product was of good quality, effective in delivering benefits, cheap at the price and so on – product-centred marketing. Then, you were selling a view of the goods to the person whereas now you are selling to the person that person's view of himself.

Consumer marketing thus requires extensive knowledge of what people (consumers) are thinking and feeling about all kinds of things – the whole spectrum of "lifestyle". It is no longer enough, if you are trying to sell cars, to know a lot about engineering. You need to know how people feel about status, comfort, sex, choice, style, the family, freedom and a hundred other considerations.

Dealing with the Consumer En Masse

Early in the nineteenth century in England, some manufacturers discovered that the power of the recently invented steam-engine could be harnessed to the production of goods. Goods thus produced could be made more cheaply than previously but only if economies of scale could be achieved. You had to make and sell huge numbers of the item in order to make the enormous capital investment in a steam-engine and a factory worthwhile. Marketing therefore had to change to adapt to this new imperative. Previously, bringing goods to market had been a matter of suiting your offering to each individual customer. The blacksmith made each shoe to fit the foot of the horse he was dealing with while the provisions merchant measured out the quantity of flour or oats the customer decided she needed, or could afford, that day.

This could not continue if industrial-scale production was to succeed and repay its capital outlay. Shape, size and quantity all had to be regularised and usage rates had to conform to production schedules. The theoretically infinite choice of colour, pattern, style, taste and flavour available to the well-off individual must be reduced to a manageable, restricted range suited to mass production. Thus packaging came to be extremely important as a way of regulating the amount of product the consumer purchased, creating a visible choice-mechanism and conveying messages about the desirability of the product inside.

However, at the same time, people had to be encouraged to demand these goods from their local suppliers (shops and stores). So advertising was needed, to make people aware of the goods that were available and to ask for them by name. They would not do so unless they could be convinced that a product with a memorable name delivered certain valuable benefits, more so than any competing product. Thus began the drive to build brands by advertising.

Advertising was a small-scale business for most of the nineteenth century. Newspapers were small-circulation publications, many of them restricted to a particular locality. Posters were stuck onto every available space, such as house walls and omnibus sides, but each was seen only by relatively few people and each posting had to be negotiated with the individual owner of the house or vehicle. Extensive coverage of a whole region was a difficult and expensive task; to reach an entire nation was next to impossible. Then, in 1896, marketing communications took a great leap forward with the launching by Lord Northcliffe, in London, of the *Daily Mail*. This was the first truly industrialised newspaper. The investment (half a million pounds, an enormous sum in those days) was breathtaking. But it succeeded and was quickly followed by other national newspapers because it met the needs of a highly industrialised economy.

The *Daily Mail* was a strange paradox. It was itself an industrial product, needing a large and regular readership to survive and prosper. To provide its income, it depended (to some extent) on manufacturers' advertisements. But by providing a vehicle for advertising on a large scale, it allowed the industrialisation of more and more aspects of everyday life. All of this was achieved by standardisation. If people could be persuaded to think the same way about things, they would buy identical products in large numbers. So the *Daily Mail*, and its successors and competitors, set out on the task of ironing out genuine differences between people, in different areas and regions of the country. It appeared to speak to the individual, but in reality it was creating the mass. It spoke of choice, but was in fact narrowing choice to that which the industrial age could provide profitably.

Thus consumer marketing, through most of the twentieth century, has been mass marketing. New media, as they appeared, consolidated the process. Colour magazines, the cinema, radio (not until the 1970s in Britain, but from its inception in many other countries) and, most of all, television, carried and depended upon advertising for their income and provided manufacturers and others with the mass audiences they needed.

Fragmentation of Markets

This process began to go into reverse, to some extent, in the 1990s. The old monolithic audiences are beginning to fall apart and new media are providing smaller channels by which to approach smaller but better-defined audience groups. Industrial production itself has changed too. The arrival of cheap computing power has made it possible to automate factories more completely, reduce inventory, extend the product range and, to some extent, to customise production schedules to known customers' requirements. But this case can be overstated. The economics of manufacturing still demands a degree of standardisation. Most people in the developed economies will probably, for at least another generation, accept a restricted range of goods if the benefit is cheapness. Modern consumers buy their essential goods (food, drink and clothing) more cheaply than ever before, in real terms. They want that to continue but they have also heard the siren voices of those industries where a greater degree of bespoke production is possible, and they like what they hear.

The logic of consumer marketing is therefore to continue to address consumers in groups (though the groups are smaller than before) through standardised media and to present them with what looks like individuality.

Dealing with the Consumer or the Customer

A third aspect of the use of the word "consumer" is to distinguish the person who is the end-user of the product or service from the person who purchases it; to distinguish, in other words, the consumer from the customer. For example, a toddler who eats a bar of chocolate is the ***consumer***. It is his mother, who buys it, who is the ***customer***. With whom should you communicate, in order to bring your goods successfully to market? In this case, probably the customer, since it is she who has the decision-making role and the economic power to buy. But pester-power is a not inconsiderable force and some manufacturers of children's products (certainly manufacturers of products for the early teens) target the consumer, knowing that they have a degree of influence on the customer.

Consumers, of course, often live together in families. This leads to two further observations. Firstly, there is often one individual who is more responsible than the others for making the decisions about what shall be purchased for the family's use. Hence, the importance to markets of the "housewife" (nowadays defined, without reference to gender, as "the person who makes the majority of purchasing decisions in a household"). Secondly, we may observe that sometimes the household (family or other grouping) makes decisions jointly. Where to take this year's holiday, for instance, may be a matter of debate involving several individuals and, though one or two of them may have a "casting vote" in terms of budget or dates, the influence of the others can often be considerable.

The distinction between consumer and customer is even more pronounced in industrial markets, where the customer for, say, a computer, may be the Purchasing Manager or the Data Processing Manager, whereas the consumer (the person who actually uses the machine) may be someone in the accounts office or a designer. Whom should we target with our communications? Researching this kind of market requires great attention to detail. It is imperative that you discover the structure of purchasing decisions, so that you can aim your communications accurately at those whose opinion will inform the purchase.

Differences between Consumer and Other Communications Channels

From what we have already said, it should now be apparent that the direction of marketing impetus differs in consumer markets from that in most others. Marketing efforts aimed at the consumer are directed at creating a "***pull***" effect through the market. Consumers are addressed in particular ways so that they will demand a product (or service) from the appropriate intermediary, thus persuading the intermediary to stock it or make it available. By contrast, effort expended in other market sectors is more generally directed at creating a "***push***" effect, i.e. encouraging intermediaries to stock or to list the product, so that consumers (or customers) discover it on the shelf and purchase it. An integrated strategy is often designed to produce impetus in both directions.

We shall look at some of those other channels later in the course and how marketers should communicate with them. Here we should just make the simple point that very little "consumer marketing" in its traditional sense is done directly with the consumer. A defining feature of consumer markets is that there is almost always at least one intermediary, often more than one, between the original producer of a consumer good and the consumer herself. They need communicating with too. Hence, once more, the need for integration of marketing communications.

Targeting and Communications Channels

Because of the strangely close relationship we mentioned earlier, between the industrially-produced popular media and the industrial character of most manufacturers, a climate of research has grown up around the consumer sector of the economy. Media owners have to sell space or time in their media to manufacturers, and manufacturers will pay handsomely for it if they can be assured that large numbers of the right kind of people will watch, listen to, or read that particular medium. So media owners sponsor very sophisticated and extensive research about their audiences. This is produced in the form of analyses of the audience's class, income, age, education and geographic features. Manufacturers themselves will often research their own customers' characteristics and so a match can be made between "the kind of person that buys this product" and "the kind of person that reads this newspaper" (or whatever).

So much research has been done over the years that the relationships between media research and consumer research can often be combined, not just to the advantage of the media or the original manufacturers, but to others not directly involved. For instance, if it becomes clear that *The Observer* is read by people who go on foreign holidays more than average, that is useful information to *The Observer* (which can plan its editorial content to include pages on holidays and tourism) and to travel agents (who can advertise their services in the paper), but it may also be useful to manufacturers of luggage, foreign currency services or language schools – all of whom may advertise in *The Observer* themselves. Equally, they could plan their own products by designing them to appeal to other known characteristics of *Observer* readers such as a certain level of education, a taste for wine rather than beer, an adventurous approach to food, a certain level of income and so on.

To a great extent, then, the people in "consumer markets" have become very well known. It is possible to discover a great deal of very accurate information about them. Much of this information, if you are prepared to accept data that is a year or two old (and so marginally unreliable), is available in freely accessible sources such as public libraries and in statistical surveys and yearbooks. If you need data that is right up to the minute, you can commission a survey and there are plenty of firms that will do this for you at very reasonable cost.

This researchability is one of the key features of consumer markets in the developed world. The same level of research is not, though, generally available when you are dealing with channels other than consumer, such as industrial, retail or wholesale markets.

- For one thing, there is not the same motivation for media owners to research their readerships; neither can you necessarily link companies' purchasing behaviour (or other corporate characteristics) with media use.
- A second problem is that large firms worry much more than individuals about the information they disclose about themselves. If a researcher stops me in the street and asks what toothpaste I use and what band my annual income falls into, I don't mind telling her. But if the same researcher asks me what my company's profit was last year and how many tons of steel strip we use in a year, I am more likely to be evasive. My competitors, customers or suppliers might gain an advantage over me if I let that information out to a complete stranger. For this reason, industrial and other markets are harder to research.

Finally, you should not assume that research data is available in every country in the same way as it is in your own; or that the data available is necessarily compatible. In some countries, religious, cultural or social constraints mean that there are some questions that cannot be asked (asking a Japanese man about his income or a Moslem woman about her taste in underclothes, for instance). In some countries, media are not well developed and although you might find out about people, you could not tie that information to communications channels. Even where sophisticated research instruments are available, they sometimes treat data differently.

D. PROMOTIONAL CAMPAIGNS

The promotion of a product invariably involves an integrated series of activities designed to support the product over its life cycle. Each of these activities is designed to achieve specific objectives in the overall marketing and promotional plans, and as such each must be planned, implemented and controlled. The programme through which this is effected is the ***campaign***.

In this section we shall examine the structure and development of a promotional campaign by reference to advertising. Whilst we shall concentrate on this one element of the promotional mix, the principles involved are of similar application in the other elements.

The advertising business is a tripartite one; three parties work together (and sometimes against each other) in it. These are the advertiser, who has something he wants to communicate with an audience, the agency that works on the advertiser's behalf, advising him how best to find a channel to reach the audience and how to put the message across in the most effective way, and the media through which the audience is reached.

We shall be concerned less with the media and more with the processes involved as undertaken by the advertiser and the agency. Note that some or even all of the work of agencies may be undertaken in-house, although this is less true with advertising than with campaign aspects which apply to other elements of the promotion mix.

The Role of the Originator

We noted earlier that a defining feature of advertising is that it allows the advertiser to have control over the message and its presentation. It follows that ultimate responsibility for what appears in an advertisement lies with the person who originates it. This has several implications.

- Firstly, there is the ***legal*** implication that if anything illegal or improper is said or done in an advertisement, its originator will be held liable – either to the due penalty of the law, in the case of a statutory offence, or to the strictures of the various voluntary codes and bodies. There are some cases where the responsibility is shared with others, but never any case where the originator can escape responsibility altogether.

- There is also the straightforward matter of ***effect***. If the advertisement fails to achieve what it set out to do, the originator should not blame anyone else. If she agreed the final form of the advertisement, then she must accept the consequences – whatever they may be. However, this may not be so straightforward after all. The effect will not necessarily be judged merely on something as simple as sales results or profits. In many organisations, the way people think and feel about the organisation is as important a goal of advertising as any other.

  If the originator had commissioned a series of advertisements that produce a great queue of customers buying the product, but simultaneously caused large numbers of people to despise the company, this would be an undesirable effect. Hoover GB, which ran a sales promotion in 1996 offering free flights to New York to buyers of their domestic appliances, found that their corporate reputation suffered badly when they were unable to fulfil the demand.

- Clearly, it is also one of the responsibilities of the originator to ensure that any advertisement (or other promotional activity) contributes favourably to the overall corporate reputation. Following on from that is the ***strategic*** implication. It would be short-sighted indeed for a company to appoint a manager to oversee advertising activities, without ensuring that the individual was fully conversant with the company's strategy. There would be little sense in allowing someone to plan advertisements unless he was familiar with the firm's current marketing strategy and, by extension, with at least the bare bones of the company's overall business and corporate strategy. Much time, effort and money could be wasted by such a lack of co-ordination.

Using Agencies

A large organisation that constantly produces a very large volume of communications, (for instance, the Central Office of Information) may allow its Advertising Manager (or Brand Managers) to recruit specialist staff on a permanent staff basis. There is so much work to be done that it makes sense to employ one or more of these kinds of people, full-time:

- Designer
- Artist
- Copywriter
- Scriptwriter
- Technical author
- Printing platemaker
- Typesetter
- Print buyer
- Photographer
- Market researcher
- Computerised graphic designer
- Packaging designer.

However, it would have to be a very large volume of work indeed to justify employing most of these, and very few organisations do.

Instead, most organisations engage external agencies to undertake specialised work such as advertising, research, public relations, sales promotions, direct mail, exhibitions, and merchandising. Each of these agencies employs a staff of specialised and trained people, who do the same kind of work every day, but for a range of different clients. Thus the originating company is only paying the wages (and other costs) of, say, a designer or a copywriter, when there is a design to be done, or some copy needs writing. This is generally a much more sensible and economical way of having this kind of work done.

(a) The advertiser/agency relationship

It is a vital function of the originating company's Advertising Manager to ensure that the relationship with external agencies is effectively managed. Outside people, no matter how skilled they may be at their own trades, cannot be expected to know your business as well as you do yourself. Nor can they be expected to divine or intuit your exact requirements and expectations of each bit of work they do for you.

The Advertising Manager therefore has to spend time and effort in getting to know the people who are working for her in the agencies, explaining the company's policies, culture and strategy to them, and briefing them thoroughly on each assignment. She also has to remain in control of the work done in the company's name, and "sign off" each proposed activity before resources are committed to it. This expression can be loosely used simply to mean "approve". However, in most well-run firms, there is a requirement that every job given to an outside agency must be the subject of a written purchase order and a detailed briefing document. When the agency has made its proposal as to how they think the job should be done, the Advertising Manager literally signs the briefing form that carries the proposal, to certify that the work can go ahead and money be spent on it. If there is no signature on the briefing form, and the company dislikes what the agency produces, the agency will be unable to charge for the wasted time and materials. If the form is signed, the company must pay, even for work it doesn't like.

Most agencies have account handlers who are the day-to-day managers of the client's account and the essential link between the agency and the client. Theirs is, above all, a diplomatic job. They go to see the client and discuss how advertising can contribute to his marketing strategy, and together, the client and the handler distil that into specific tasks for the agency to achieve. The account handler brings those tasks back to the agency and explains them to the various departments in terms that they will understand.

When the first proposals are made by the agency creative team, the handler takes them to the client and explains, in terms the client will understand, why the agency proposes what it does, and seeks (perhaps we had better say negotiates) the client's approval. She returns to the agency, informs everyone of what has been agreed, explains why the client didn't like this, but did like that, wants a small change here – and then nurses the job through the agency departments, being available to discuss problems when necessary.

Some agencies also employ account handlers charged with, then, are people who are good at making and maintaining understanding between the client and the agency. They are agency people, who belong firmly to the advertising community, but they also have gained a fair understanding of business generally, and of their clients' business in particular.

There may be a wide variety of work needing to be farmed out to external agencies. Some companies argue, with reason, that they have neither the time nor the expertise to negotiate with, and manage relationships with, a plethora of outside experts. Accordingly, the Advertising Manager may ask the advertising agency to deal on her behalf with some of the "subsidiary" specialists. Thus the advertising agency may, on behalf of its client, commission photography from a library or photographer, original illustration from a freelance artist, market research from a research firm, print from a printer and so on. Here again, great care is needed to ensure that there is a system in place whereby the Advertising Manager retains control over what is spent, and how.

(b) Agencies as strategic advisors

Sensible organisations will ask their agencies to come in and talk occasionally about the corporate strategy – or at least about the marketing strategy (some would say it's the same thing). At the very least, the agency is skilled at researching a market, and can perhaps get into places and talk to people that the organisation itself cannot, so their knowledge is valuable input to the strategic planning process.

Even more valuable is to have the voice of a detached observer at your meetings; one who is accustomed to working in a variety of markets, who has seen many organisations and can recognise best practice. The agency can supply this and can give you the benefit of an outsider's view, while remaining faithful and confidential towards the organisation itself. It is a principle of advertising agency practice that an agency does not work simultaneously with competing clients, so you should have no fear about secrets getting out – at any rate, it is no more serious a danger than your own staff unwittingly giving away some sensitive information.

The bottom line is this. An agency that is involved in strategic discussions with its client will understand, when the time comes, not only what the client wants, but why he wants it – and so stands a chance of producing work that is both relevant and effective. An agency that is kept in the dark, and only called in to be briefed about each specific advertising task, will work according to its own ideas of what you're trying to achieve. If those ideas are at variance with your own, you have only yourself to blame. You could be paying for, and wasting, an awful lot of agency hours and costs.

Of course, there are some agencies that do not want to be involved in the strategy and planning; they regard themselves as technicians and only want to do a good job to your detailed brief. If you have an agency like this, and are happy with the arrangement, all well and good. But, of course, you have to accept the corollary; advertisements that turn out to be ineffective are your responsibility, rather than theirs.

Setting Objectives

From the moment the agency wins the new account (or, if they are already an existing client of the agency, from the moment the client notifies them that a new campaign is to be executed), a logical process must begin. It starts with the client's own marketing strategy, and ends, hopefully, with results that that strategy foresaw.

The client company will be working to a corporate strategy. This will be to do with how it sees itself (as a market leader, a dominant player, a quality manufacturer, or an international player?). Whatever the overall view is, the company must develop a strategy to achieve that desired status and the (financial and other) results that go with it. The corporate strategy will be broken down into the four main functional divisions – finance, production, administration and marketing. All four will develop their own strategy to achieve the individual objectives they have been set through the corporate strategy. The marketing strategy is about how to develop the most effective mix of the four Ps – product, price, place (distribution) and promotion. Of course, all these strategies cannot be developed in a vacuum, independent of each other. It only makes sense if they are co-ordinated and integrated.

Within the marketing function, the marketing director manipulates the elements of the marketing mix (the four P's) so as to achieve what he has been asked to achieve. One of them is marketing communications, and within that he will deploy an appropriate promotional mix of advertising, public relations, sales promotion, personal selling and direct marketing to achieve the communications objectives his marketing strategy has laid down. These, of course, have to operate in an integrated way also, if they are to achieve, efficiently and effectively, the communication tasks set out by the overall marketing strategy.

The one we are concerned with is advertising (though the ad agency may often be asked to devise work to support the other tools – perhaps the salesforce needs new printed brochures or shelf edgers are needed for a new sales promotion campaign). The advertising department will have been set objectives that contribute to the communications strategy laid down by the marketing communications manager. These objectives may require work on several different fronts. Perhaps the firm has several powerful brands, each of which needs handling in a slightly different way. Perhaps a new brand is to be launched, while others merely require maintenance, or perhaps the company is moving into new territories or new markets.

Each task will have to be listed in a set of objectives, specifying explicitly what the advertising is expected to achieve. It is these objectives that form the basis for the brief that the client company gives to the account handler.

(a) Advertising objectives

Objectives set for advertising should always be couched in terms of things that advertising can reasonably be expected to achieve. It's no use saying to your agency, "This campaign is going to raise sales of Brand X". Advertising cannot raise sales, except indirectly. Sales rise for only one reason – because people decide that they want to buy Brand X. It's a matter of free choice, except in monopoly markets, and advertising cannot compel anyone to do anything. What it can do, and do very well, is offer people a different way of looking at things. It can awaken mental associations that were perhaps dormant, or non-existent. It can change the mental climate in which an object is viewed. It can also contribute to a change in fashion and make something more appealing. It does all these things by playing back at the consumer their own values.

Good advertising, then, doesn't try to make you think something you wouldn't think for yourself. Good advertising finds out what its target audience values, and then plays those values back to them and shows them just how well it fits their agenda. A word of caution. Good advertising is also ***truthful***. If your bread does not conform to those old-fashioned values, there's no mileage in claiming that it does. There's an old saying in the advertising business: "Of course you can tell your customer a lie – once". Make claims that don't stand up, and your prospective customer will never trust your word again.

So the objectives that are set for advertising to achieve must be things that advertising is capable of achieving, such as causing or increasing awareness, generating interest, awakening desire, explaining, informing, changing attitudes, and bringing something into the orbit of something else. However, having said that, it is also the case that advertising objectives should be hard-edged. It sounds from what was said above as if advertising is to do with soft, vague, fuzzy things. Not so. It is absolutely necessary for the client to make it clear to the agency ***exactly*** what is required. "Raise awareness" is not enough – whose awareness? What kind of people? How many of them? Of what do you want them to be aware? What do you want them to think, feel and believe about your product?

In fact, just like any other objective, those handed down to the agency must be SMART: So it's not enough just to say, "The objective of the new ad is to generate interest in our product". A SMART advertising objective would be couched in terms such as these: "The new advertisement, to appear on TV and in women's press, will be designed to convince at least 80% of UK housewives, aged 35-65 and who are main grocery buyers for their households, that our 1200-gram wholemeal loaf shares the main characteristics of the home-baked bread they claim to remember from their youth, or fits the nostalgic description of such products that they have heard of from their parents and others, and to motivate at least 30% of housewives in this category to try the product within three months of launch".

(b) Strategic Objectives

The marketing strategy, from which are derived the marketing communications and subsequently the advertising objectives, will lay down certain objectives that advertising can play a big part in achieving. In order to help the advertising department and the agency understand how their work fits into the wider strategy, the brief may well include some description of these strategic objectives.

Bear in mind, though, that the inclusion of these in the brief should not be taken to mean that advertising is expected to achieve them single-handed, nor that the department, or the agency, can have a free hand in how they seek to achieve them. So if the Marketing Manager says to the Advertising Manager "I want you to devise an advertising campaign for our new wholewheat bread that builds the brand to a powerful position in the wrapped bread market", he is not expecting that advertising alone can do this. He is saying that whatever advertising does (generating housewives interest or conveying traditional values) should contribute to this larger strategic aim, and, because this is the case, the advertising people must make sure they co-operate with all the other marketing departments and the work must be fully integrated.

So what kind of strategic objectives are mentioned in the briefs to advertisers that contribute to wider marketing strategies? The two main types are as follows.

- ***Brand building***

  We have discussed in an earlier study unit the process of branding and discovered how important it is in modern markets as a means of providing competitive advantage and differentiation. You'll recall that we described it as a process by which a product is coated, so to speak, in a set of values. The consumer at the point of purchase is not just buying a bar of chocolate – any manufacturer could make one of those – she is buying the idea of wholesome nourishment or the idea of a treat or reward, or of opulence, luxury, quality or whatever. These (or something like them) are the values in which the standard commodity product has been "coated".

  This coating of values is achieved by several different marketing tools. The price that is set may convey an idea of quality or exclusivity, or of affordability. The packaging may suggest luxury, or naturalness, or hygiene. The place where the goods are available for sale says something too. If the product is only available in certain stores, it hints at snob-appeal or technical brilliance. All sorts of marketing mechanisms contribute to the overall impression created by the brand.

  However, the major player in the branding process is advertising. The tone of voice of an advertisement – (whether it is romantic and playful or learned and clever), the images it portrays (upmarket locations and famous people which hints of a luxurious lifestyle, or home-grown locations and domestic contentment), the music that accompanies it and the other lifestyle cues that appear alongside the product (shown in the perfume ad that shows a beautiful woman about to step into a Mercedes car and the after-shave advertisement that shows the male model wearing a Rolex). The typography (big chunky lettering, fine elegant script or cute "kiddy" writing) and all the other elements of the advertiser's art, all combine to create a discourse by which the reader, viewer or listener is assured that the branded product "fits" him or her.

  To build and maintain a powerful brand is a long-term process, determined strategically for reasons of competitive advantage and market share. The task given to the advertising agency may not, of itself, be a strategic one; it may be purely tactical. But, if the brand is to survive undamaged, continuing to deliver its immensely valuable benefit to the manufacturer, the little tactical task must be done in such a way as to continue to build the brand, to perpetuate the brand values, and that does nothing that might harm or damage the brand.

  The advertising brief should specify whether this is a new product that needs to be branded or whether it is an existing and powerful brand that needs to be maintained and enhanced or whether the client wants to change the direction of the brand. There should be a concise reminder of the key brand values, what kind of people are loyal to the brand and what kind of people are the "brand switchers".

- **Positioning**

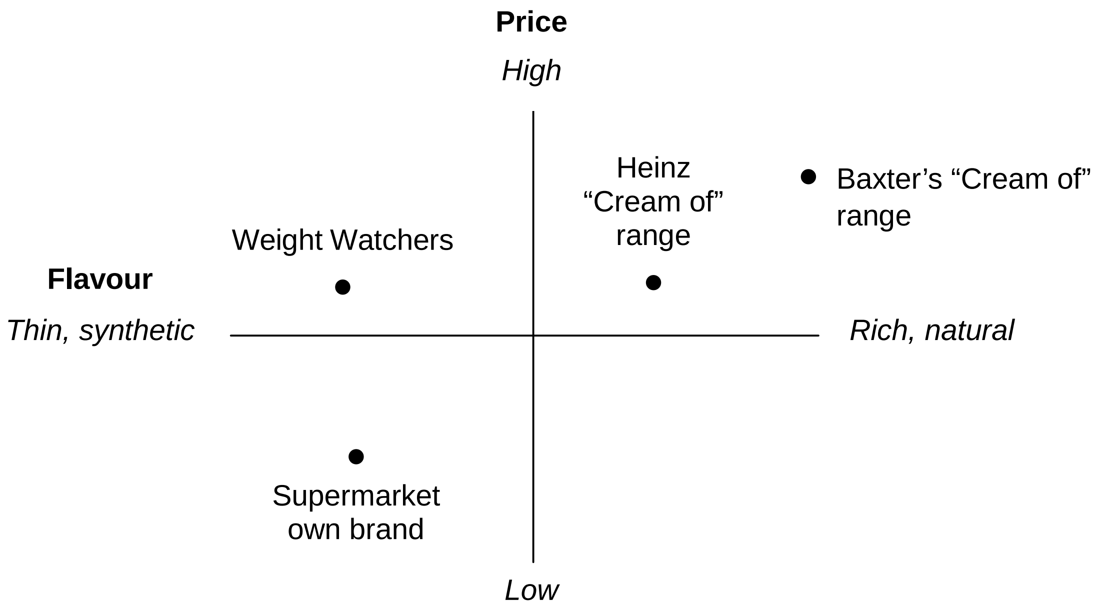
  As you know, this is a key part of marketing strategy.

  When people buy something (or choose to vote for a political party or decide which charity to contribute to), they do so as a result of a mental process of ***comparison***. In each category of products ("washing powder" is an example of a category) there are a number of products or brands known to the consumer. She has some knowledge of all of them and she has an opinion about all of them. The opinion is formed by her placing them, so to speak, on a mental map of the category, which she carries inside her head.

  The dimensions of the map are determined by the things that she feels are important about the category. For instance, the category "washing powder" may be mapped by reference to two things; one is performance (some powders get whites whiter and protect colours better than others) and the other may be its effect on skin (some powders are harsh and cause irritation, others are kinder). Many products have price as one of the dimensions. If you're buying champagne, it may be that price is only a secondary consideration. You make your choice on other factors such as age, dryness and provenance, whereas if you're buying motor oil, price may be the major factor in your choice. Marketers speak of this by saying that some categories are price sensitive while others are price insensitive.

Some products are so complex that purchase decisions are made on several dimensions. In choosing a car, price may be one important factory performance another, style another, comfort yet another, and there may still be others, such as economy, maintenance and ease of parking.

The planner's job is to try to discover how the target audience "maps" the product – to set out a visual representation of the way the consumer thinks. Let's take, as an example, canned tomato soup. The planner researches the target market and discovers that most of the consumers in it make their comparisons on the basis of two factors – price and flavour. She might then draw the map as follows.



On the map she then plots how the target market sees the various products that are available. (A positioning map that only shows your own product is useless; the key to the whole exercise is, as we've said, comparison.) A supermarket own-brand might be seen as low price, poorly flavoured and with a synthetic taste. Baxter's Cream of Tomato might be seen as relatively high-priced, but with a superb flavour. Other brands have their own position on the map.

Note here that it is not good marketing to speak of the products in one portion of the map as good and others as bad. The low-price, synthetic flavoured soup is an excellent product for people whose taste-buds are insensitive (or who just happen to like that taste) and who are working on a low budget. The important thing to remember, however, is that the map as we draw it (if it is to be of any use at all) should reflect accurately the preferences of the people we are most interested in – our target market. If ***they*** view one part of the map as preferable (the area from which they would instinctively choose) then that is the good sector to be in. All others are (for our present purposes) bad.

The planner then looks at where her own client's product lies on this mental map. A satisfactory outcome is to see our product occupying a position in the sector of the map our target market regards as preferable. If it lies anywhere else, we have a major problem, and the task of advertising may be to try to move the product into the preferred sector. Note carefully that we say ***try*** to move. A common fallacy among marketers is that we can always determine the positioning of a product. We can't. Positioning is something our target audience does inside their own heads. All we can hope to do is to influence it.

However, even if the map shows our brand in the right sector, there are still three other potential problems about the brand's positioning that may give cause for concern.

Firstly, the brand may be too close to another, competing brand. This was the problem a few years ago for Pepsi-Cola. They were in the right sector (higher than average price, but offering an intense, authentic flavour), while the supermarket own-brands and the other lower-price competitors were clearly in other sectors. But Pepsi-Cola were occupying virtually the same position on the map as Coca-Cola. This is a problem because if people can't see any genuine difference between two products, why should they buy one rather than the other? Coca-Cola had such dominance of the market (and particularly of distribution) that Pepsi-Cola inevitably lost sales to their rival. The problem for Pepsi-Cola was to shift their position; to give customers a real reason to prefer them and therefore make them go out of their way to demand it. No-one is going to "prefer" one product over another if it is not seen as essentially different.

A second problem may be that the position of the product may be unclear. Generally speaking, the nearer the product is to the middle of the map, the harder it is to frame a selling proposition that will prompt customers to purchase. A product that is middling in everything is likely to lose out to its more clearly positioned competitors. By trying to be "all things to all men" it ends up being nothing to anyone.

A third problem – and a very serious one – is incongruity. To go back to our canned soup example, there are some "no-go" areas on the map. A product that was seen as high-priced, but which didn't offer excellent flavour, would be a product no-one would buy. One that was low-priced, but which projected itself as full of delicious flavour, would attract suspicion, with the same result. High price and high quality, low price and moderate quality are the only two credible areas on this map.

The brief to the agency, therefore, should contain whatever is known about the current and desired positioning of the brand and the agency planner may well be required to deepen and broaden this knowledge, so that the creative staff can produce appropriate work.

Defining the Audience

This is one of the most important aspects of campaign planning, and yet it is one that is often skimped on. Low expectations of what can be said about the target audience result in very sketchy, unhelpful descriptions. All too often, a social class or age group is the best we get, such as ABC_1 housewives or men aged 25-54.

You can see why this is inadequate if you think for a minute about why the agency needs a definition of its target audience. There are two main reasons. Firstly, it needs to know what media to place the advertising in. Secondly, it needs to know how to talk to its audience – some people respond well to one kind of approach, others to another.

Neither of these key decisions will be well made if the agency is unaware of exactly whom they are targeting. Any number of newspapers will promise a healthy circulation among social classes AB. But not all of them are good at delivering significant numbers of people who will want to holiday in Sardinia. Every TV commercial break delivers a large number of housewives, but which programme spots deliver the housewife (of either sex) who is most likely to shop for parmesan cheese, or for a spray to clear water-scale from the shower-curtain.

There is much more we need to know about our audience than the blunt instrument of demographic surveys can provide. Here again, the planner will have to use intelligence and creativity to devise a programme of research that helps us find and understand our targets better.

Once again, we begin with the marketing objectives that have been handed down to us. Are we trying to talk to existing users, and get them to buy more, or more regularly, or stay loyal in the face of strong competition? Or are we trying to persuade non-users to try the product? Or trying to get occasional users to convert to being regular users? Once we know this, we can use various techniques to find out about the groups we are interested in. Focus groups, surveys, questionnaires, the Internet, shopper audits or omnibus surveys may all be appropriate.

If you're working for a client who takes marketing seriously, much of this work may already have been done as part of the marketing plan. All too often, however, ad agencies have to start with a more or less clean sheet.

If the brief is to encourage loyalty among existing users, we need to assemble a few focus groups of people known to be existing users around the country, and get them talking in ways that will reveal what causes them to be disloyal occasionally. This may uncover defects in the product offering that could be remedied or it may reveal some idea that our current advertising doesn't properly deal with – an itch that someone else's promotion sometimes scratches.

We also need to know what kind of people they are, so that we know how to address them. A question or two on the pre-focus group questionnaire, perhaps asking them to choose their favourite cartoon character, favourite comedian or favourite newsreader, may well give us useful pointers to how they like to be approached. It would also be useful to know where they shop for items such as the one we have in view.

Budgeting

Armed with all this information the account planner can now brief both the creative and media buying departments. However, there is one more piece of essential information both departments need before they can begin their work in earnest. How much can be spent?

The brief brought back to the agency by the account handler may well contain a specific figure that the client wants to spend on the task in hand. This may need to be challenged. Just as often, the client will have said nothing definite about a budget, but will ask the agency to come up with propositions which he will then agree, amend or reject. This is a wasteful method. Many hours of expensive work may be thrown away for no good reason.

In either case, then, it behoves the planner to spend some time calculating the economics of the task. This is something that can only ever be an approximation, but it should be done, in order to put everyone's thinking onto the right level. Budgeting for advertising follows a simple logic. There is no point spending money on advertising that you cannot hope to get back in increased sales.

Within the commissioning organisation, negotiations for a budget can be both protracted and difficult. For one thing, it may have to come out of a larger budget allocated to the Marketing Manager for marketing overall, in which case, in many companies, the Advertising Manager is competing for a share with other managers in public relations or corporate communications, personal selling, etc.

In addition, behind whoever is the larger budget-holder is a bigger budget-holder still – the financial director, who has overall responsibility for all money matters in the company and thus has to sanction the amount to be spent. This person will almost invariably be an accountant by training, and will bring to business life a particular point of view about advertising. He may be sympathetic towards it, and see it as an investment in the company's future, or he may view it as an optional extra, to be indulged in when times are good, and cut back when they are bad. He may even regard it as a cost, just the same as raw materials or electricity, to be reduced as much as possible so as to improve the profitability of the company.

Some of these attitudes are obviously less helpful than others. Whichever one he takes (perhaps even a combination of all of them), he will nevertheless be the sort of person who wants to know what the firm is getting for its money. This is never easy to specify. Advertising's effects are notoriously difficult to quantify and yet all the accountant's instincts arise in protest against spending money on something whose costs are alarmingly elastic and whose benefits are vague and ill-defined.

It is all too easy to be seduced into negotiating budgets on the basis of what sales may be achieved or what profitability might accrue. If advertising is done well, hopefully these factors will result, directly or indirectly. But no-one has ever found a reliable way of estimating the sales effect of an advertisement (except, that is, in narrowly defined special cases, such as "selling off the page" ads, where an item not available through any other channel is offered for sale by mail order, where the result of the advertisement is readily ascertained; but this is a very unusual situation, not at all characteristic of most advertisements).

It is therefore better to insist on an advertising plan which is directed towards some specific ***advertising*** objectives, and be prepared to be judged at the end of the period on whether those objectives have been met.

There are a number of ways in which advertising budgets can be fixed. Here we describe some of the more common ones, along with some comments on the advantages and disadvantages of each.

(a) History plus

In an organisation where advertising has been going on for many years, there is a tendency to rely on past estimates. "Whatever we spent last year, with a bit added on for inflation – that's this year's budget."

This has an attractive simplicity that commends it to many executives, particularly those who lack confidence in their own understanding of what advertising is and what it does. However, there are some serious flaws in the method.

- Firstly, what is there to say that last year's figure was right? Last year we may have been worried about the cost of building our new factory or had to pay an increased dividend so that our shares could continue to be competitive on the market. Everything else had to be cut back so the amount we were allocated may have been inadequate. To use that poor figure as the basis for this year's planning (now that the new factory's completed) would be a terrible distortion.
- Secondly, even if last year's was a good figure, and well founded on objective fact, who is to say that the situation this year is comparable? It may be that last year we were launching some new products or a range extension. This year is to be a year of consolidation and we therefore may not need anything like the same level of funds.

(b) A/S ratio

A/S stands for "advertising to sales". Every industry sector has its own A/S ratio, arrived at by taking the total amount spent on advertising in the year under review, by all the companies in the sector and dividing this amount by the total sales achieved by those same firms.

Thus, a company making drinking chocolate might look at all the money that was spent last year on advertising drinking chocolate, by itself and all its competitors, and discover that it totalled £14 million. It might then look at the sales of drinking chocolate in the same year, and discover that all those same firms sold drinking chocolate worth £300 million at retail prices. This gives an A/S ratio for the sector of:

$$\frac{\text{£14 million}}{\text{£300 million}} = \text{approximately 4.7\%}$$

If, then, our firm is hoping for sales next year of £20 million, it might estimate its advertising budget by applying the A/S ratio of 4.7% to the projected sales figure of £20 million, like this:

$$\frac{4.7}{100} \times \text{£20 million} = \text{£940,000}$$

The advantages of this are that it is easy to understand and to calculate and that it pays some attention to what the competition is doing (some methods ignore the idea of competitors altogether). It also prevents unrealistically high budgets being set and so sparking an advertising "war" (which a small company will almost certainly lose).

On the other hand, its chief disadvantage is that it assumes a direct proportion between advertising expenditure and sales, which is by no means justified. There is also persuasive research evidence to suggest that in a market where there is an established market leader, the sales effect of money spent on promotion is much greater for the leader than for the followers. Some writers have suggested that a market leader may gain up to ***six times*** as much sales effect for every pound spent as that gained by market followers.

Hence, if this method is used by a market leader, the budget set might be much more than is really required, whereas a market follower using it might plan much too low a figure.

(c) Share of voice, share of market

How much money did we spend last year on advertising? That's a relatively simple question to answer. How much did all of our competitors spend? That's rather more difficult to find out. There are various sources of information, however, which can help us to find out. The biggest in the UK is a commercial service run by the A C Nielsen organisation, called A C Nielsen MMS. For a relatively small fee (a few hundred pounds for an "off-the-peg", broad-brush sector report, or a couple of thousand pounds a year for a multi-media analysis of a sector by individual brands and broken down by media), a company can request ongoing analysis of the expenditure on various media by its direct competitors. The level of detail obviously varies according to the fee the client is prepared to pay. The most recent data can also be supplemented or compared with accumulated data from several years' past.

Companies that are working with smaller budgets can buy a single, ready-made sector report covering a fixed period (perhaps the last year), which gives rather less detailed, summary data.

The very smallest companies might go to public or commercial libraries and look up reference books that would give fairly broad indicators of marketing expenditure, and base their calculations on these (always bearing in mind that it would be an unreliable basis). The Advertising Association's "*Advertising Statistics Yearbook*" is an example. In this you can find details of the expenditure on press and TV by 22 categories of product, such as food, pharmaceutical and the like.

If you can get some figures on your competitors' spending, then you can calculate what is known as ***share of voice***. Suppose you are a manufacturer of a brand of shoe polish, and last year you spent £500,000 on advertising. You discover that all competing brands of shoe polish spent, in the UK, £3.6 million last year (including your own expenditure). Your share of voice is therefore:

$$\frac{£500{,}000}{£3{,}600{,}000} \times 100 = 13.9\%$$

You now need to perform a similar exercise, comparing your own sales in the same period with the total registered by the sector. Let's suppose that you sold shoe polish worth £5 million in the UK, out of a total sector UK sales figure of £48 million. This means that your ***share of market*** was:

$$\frac{£500{,}000}{£48{,}000{,}000} \times 100 = 10.4\%$$

There is a fairly consistent relationship between share of voice and share of market. Broadly speaking, and unsurprisingly, it seems that small brands (i.e. small in share of market terms) need to spend more on advertising to gain or retain their share of market than large brands. This is even more essential for new brands (which tend to be small by definition).

(d) Distribution Index

Simon Broadbent (probably the advertising industry's leading thinker and writer on financial matters) has suggested that in certain circumstances, it may be prudent to allow certain factors (other than direct communications objectives or sales information) to influence the budget calculations, such as, as Simon Broadbent has suggested, the size and scope of your distribution network.

Take the example of a bathroom fittings manufacturer selling things like basins, baths and so on, through builders' merchants, DIY stores and specialised retailers. Until recently, this company has sold mainly through small outlets, but the key accounts salesman has, in the past three months, managed to tie up contracts with the two biggest DIY chains in the country, and with the third-largest chain of builders' merchants.

We calculate that last year we spent £300,000 on advertising and our goods sold through a total of 1,500 outlets. Next year, with these new channels opening up, we shall be selling through 2,100 outlets. We could therefore set a budget figure by finding out how much we have been spending on advertising per store and increase it to cover the new, bigger number of outlets. For example:

$$\frac{£300{,}000}{1{,}500} = £200 \text{ per store last year} \times 2{,}100 \text{ stores this year} = £420{,}000$$

This can only be, of course, a first rough estimate, upon which further calculations and negotiations will be based. But it does have the advantage that it takes into account an important factor, certainly where consumer goods are concerned, in budgeting; what we might call ***trade requirements***. This refers to the fact that, especially where you are trying to get your goods "listed" (stocked) by the large multiple chains, part of the negotiations will centre on what marketing support you are prepared to provide if the multiple agrees to stock your goods. In other words, they are not prepared to "list" your brand if you won't spend some money "pulling demand through the chain" by advertising (or some other form of promotion).

The method might also be appropriate where, for instance, your goods are sold mainly through sales representatives, following up leads that have arisen from responses to advertisements.

(e) The Task (or objective) method

Advertising practitioners almost universally favour this as the most sensible method of determining an advertising budget, although their approval may have something to do with the fact that it often produces a higher figure than the other methods! It is based on an apparently simple and admirable principle. Decide what you want to achieve in communications terms, work out what type and volume of advertising you will have to do to achieve those, and then cost out that volume to give you your budget.

Here's an example. Our company has been selling round about 200,000 vacuum cleaners a year for the last few years, in a relatively stable market. Next year, when our new plant comes on stream, we hope to be able to produce and sell an extra 40,000 units (an increase of 20%). Market research tells us that if we stop housewives (of the kind that are our most likely customers – social classes B and C_1) in the street and test their knowledge of our sector, only 30% of them give our name when asked to name any brand of vacuum cleaner (this is known as "unprompted recall"). We therefore hazard the tentative supposition that if we could improve our unprompted recall from 30% to 36% (a 20% increase) this might lead to the sales increase we are looking for.

In past years, we have advertised on TV, and most of our campaigns have had a weight of 500 television ratings points (TVR). It would seem sensible to suppose that if we increase our "weight" by 20% (i.e. from 500 TVR to 600 TVR) we might achieve a similarly higher unprompted recall.

We now go to the TV contractors (we've decided that TV is still the best way to get our message across) and ask them to give us a price for a 600 TVR campaign (that is, a campaign in which our commercial will continue to be shown until audience research figures tell us that the defined audience has seen it, on average, six times each). The audience in this case is defined as "social classes B and C_1 main shoppers across the UK". The contractors say they want £1.3 million to guarantee that kind of audience at that rate of repetition. The commercial will cost an extra £150,000 to film. Add a bit for agency costs, plus some posters as reminders, sited near to upmarket electrical retailers and the total cost of the campaign will come to £1.6 million. That is the budget we ask for.

It all seems perfectly sensible, even scientific. We've decided what we want to achieve (our objective), decided what needs to be done to achieve it (task), costed the task, and that cost supplies the figure for our budget. Unfortunately, it isn't always as reliable as it seems.

For one thing, it's based on a number of assumptions, which may turn out not to be true. We are assuming that unprompted recall and sales are proportionately related (i.e. achieve better unprompted recall and you'll get more sales). This may not in fact be the case. It may be that whilst many people know about our brand, only some of them live near enough to an electrical store that stocks our brand to travel there and buy it. They may recognise our name, but they are not about to go seriously out of their way to buy it instead of another, similar brand. Our problem, did we but know it, is actually a distribution problem rather than an advertising problem.

Even if we are right that improved recall will result in improved sales, how do we know that increased weight in the TV campaign will achieve greater recall? It may be that lots of people are seeing our commercials already, but are not remembering the brand name when they come to purchase, or are not being convinced by the message we are putting across. So we have not got a budget problem, but a creative treatment problem.

The more you examine this method, the more you realise that it depends crucially on several logical links that turn out to be of dubious logical value after all. Nonetheless, the method does at least have the virtue of looking outwards at the market rather than inwards at our own history (which some of the other methods do not), of setting communications targets rather than sales targets, of acknowledging that media costs can change, just like any other, and of asking the media owners what they will charge for their product.

(f) Other methods

There are many other methods of setting budgets; too many to mention here. We have given the few most common or most reliable ones, but others include:

- The **affordable method** – where the organisation works out all other costs likely to be incurred at a forecast sales figure, estimates the level of profit to be kept back, and then allocates whatever is left out of projected income to advertising
- The **inertia method** – where you repeat last year's figure exactly unless someone can think of a good reason why it should be changed either way
- The **competitive parity method** – where you spend the same amount as similar sized competitors). None of them is without its virtues, but conversely, none is without its flaws either.

In reality, it is likely that most organisations use more than one method in combination to arrive at a final budget figure.

Developing the Campaign

Once the agency has been briefed, it should soon come up with some ideas about how the advertisement is going to get the agreed concept or idea across, and about where and when the advertising will appear. This is the final stage before the campaign actually runs and it is crucial to discover whether the treatments proposed actually do convey the idea accurately and whether the media provisionally chosen help or hinder the process. In addition, we need to look at whether the customary audience to those media are the right kind of people, and will receive it in a way that is effective.

Naturally, it would be pointless spending vast sums on finished advertisements, only to discover that the readers or viewers don't like what they see. In the case of radio or simple press ads that are mainly reliant on text, the problem doesn't exist; you can show people more or less exactly what you are intending. But the more complex the medium – or the more the idea relies on something expensive, like a particular location or a famous actor – the more wasteful it would be to go to finished work before testing was complete. In these cases, then, it is necessary to find ways of conveying as accurately as possible what you intend, without going to the expense of actually doing it. There are several such methods that work with varying degrees of success.

TV and cinema advertising are the most problematic, for obvious reasons. Here, the approach is to show test groups – focus groups – mock ups of the treatment and elicit their response to see whether the agreed concept is coming across as planned, or whether people are taking from the treatment a quite different idea, or set of ideas, of their own. The same group may be shown two, three or even more treatments of the same theme to discover which they respond to best. Alternatively, different groups may be shown different treatments, or parallel groups may be shown the same group of treatments, but in varying order.

When researching for press, the same principles apply, but the execution is simpler. It is much easier to mock up an advertisement that will look pretty well exactly like the finished advertisement will appear – especially in these days of cheap computing power, extensive photo libraries, and clever software for editing and manipulating visual images and text. Groups or individuals can be shown such mock-ups, perhaps only for a short time (to simulate the attention-span they usually receive) and asked for their responses – How much do they see? How much do they remember? What message is coming across?

When the tests are complete, the proposed advertisements will either be judged a success, and taken on to finished artwork/film, or changes may be made and testing done again. Once the creative work is in its final, agreed form and signed off by the client, the agency's role in the campaign is more or less complete. However, a sensible agency will want the campaign evaluated during its run and afterwards – especially if there is an intention to run it again or to develop it further.

Campaign Strategies

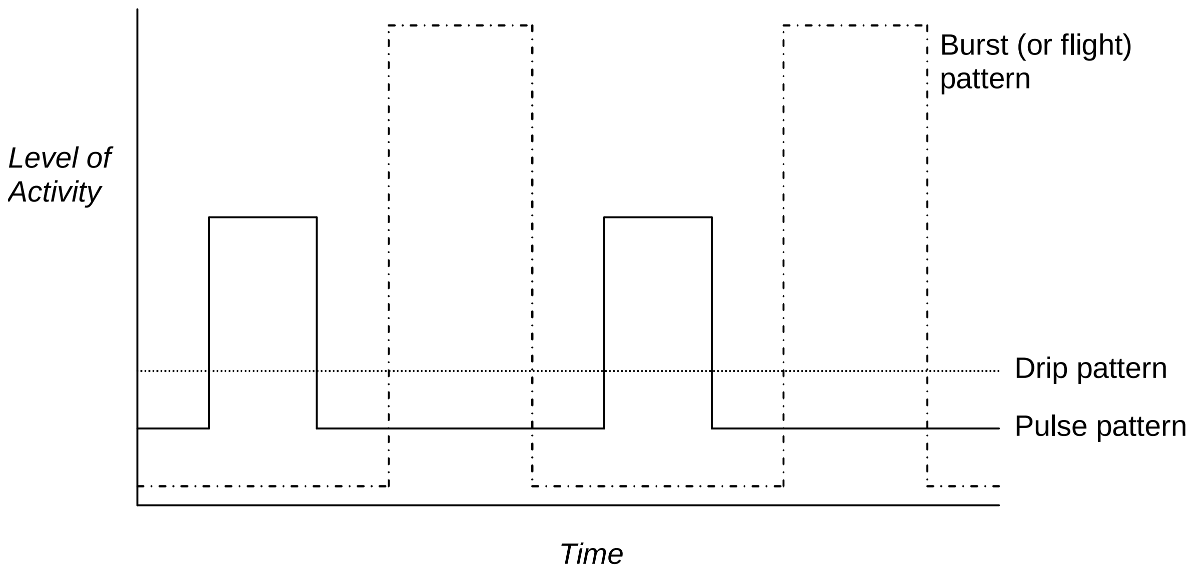
How long should a marketing communications campaign last for and how should the pattern of activity be structured?

The answer will vary with the product and with the type of activity. Public relations is very often an ongoing, background activity, with bursts of extra activity here and there. Sales promotions, by contrast, should always be for limited periods, especially price-based promotions. Personal sales work is pretty constant, but again a product launch or reformulation nearly always requires a spurt of activity, cancelling of all leave and long hours on the phone and on the road.

The basic choice is between a "***burst***" of activity over a relatively short period or a so-called "***drip***" pattern over a longer period. Which is better probably depends on what the communication objective is. If we're using PR to enhance our reputation among (say) politicians and the City, then a gentle drip of stories and lobbying activity over the course of a year or so may well give acceptable results. If, however, we are about to launch a new product, and we want the distribution trade and potential innovative customers primed for the launch day, then a burst of activity for a few weeks leading up to the launch is probably the best plan; perhaps a trade and press launch event followed by regular news releases followed by a ceremonial unveiling in some public place on the great day.

Some advertisers (and those using other methods too) try to have the best of both worlds, in a pattern the Americans call "pulsing". This means maintaining a low-level background presence throughout the year, but raising the level of activity once or twice a year for a short period; probably not reaching as high a peak as would be attainable if a straight burst pattern were followed, but, with the aid of the ongoing background level, possibly just as effective.

Figure 12.2: Burst, Drip and Pulse Patterns



For existing products and brands, a steady drip of activity at maintenance level is often adopted. However, there may be a case to be made for a "burst" pattern even here. If sales have shown a slight decline, a burst of activity may revitalise them. If a sales promotion is planned, it may need advertising back-up. If there is a seasonal upturn in the market, a burst of activity may capitalise upon it.

Advertising works best in a drip pattern. If you intend to use these low-level campaigns, you will probably have to decide how often you want your audience to see the advertisement. An old rule of thumb says that your pattern of transmission should match the consumer's pattern of purchase. If the product is one that people buy every week (staples of the supermarket shelves such as bread, coffee or margarine) then they should have the opportunity to see the advertisement once a week. Other products bought once a fortnight, or once a month, should have a similar pattern. However, the weekly reach pattern would probably be quite expensive, so here you might decide on a burst pattern, a few times a year.

Where burst campaigns are used (either for the reasons given above or for events such as new product launches) the trick is to provide an acceptable level of repetition, without going to the other extreme and wearying people with excessive repetition. Research suggests that fewer than three repeats does not generate secure awareness in the consumer's mind and that nine or more repeats can cause irritation.

Generally speaking, heavy TV viewers can tolerate more repeats than lighter viewers (which is just as well). Heavy ITV viewers tend to be among the social classes C_2DE. Many products are advertised to appeal to the better-off ABC$_1$ classes, so the norm is for a campaign that will deliver about five OTS (opportunities to see). Hence, using the TVR system of booking, we should aim for a popularity of 500 TVR. Between 400 and 600 TVR is considered a mediumweight campaign. Under 400 TVR is thought to be lightweight (better for maintenance) and over 600 is heavyweight.

A typical mediumweight TV campaign can be accomplished fairly easily in three to four weeks, so this is the most common pattern. On posters, two weeks is average (four weeks is tending towards heavyweight). In national newspapers, four OTS is generally acceptable, as it is on radio also. Cinema commercials are most frequently booked for two weeks, although some are booked for a month (bear in mind that some high-selling youth products might keep a presence throughout the school holidays). A magazine campaign might suffice if the readers see the advert three times in a weekly or fortnightly title; twice in a monthly.

Bear in mind that not all readers of a newspaper or magazine buy every issue. So if you're advertising in a magazine that has an average issue readership of 60% of the target audience, and you want each target person to see the advertisement at least twice, you will need to advertise either three (a slight shortfall) or four (a slight overshoot) times to achieve the OTS you have set. Suppose you decide on four insertions and suppose that the pattern you are using in this and other media is maintenance rather than burst. In a magazine that appears monthly, your four insertions might appear over a period of seven or eight months. For a burst pattern, you might only use this title twice, in consecutive months, but supplement it with several insertions in a weekly title.

Review Questions

1. What are the most common types of advertising media?
2. What is integrated marketing communications?
3. What methods are available for setting promotional budgets?
4. What is crisis management?
5. Who are the main audiences for corporate communications?

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> You have just been appointed as the marketing manager of a new Internet Marketing Company specialising in marketing communications for the pharmaceutical industry. Outline the factors that you would consider when constructing an online campaign for any drug of your choice.

ANSWERS TO REVIEW QUESTIONS

1. Newspapers, Magazines, TV, Radio, Posters, Transport, Cinema, Door to door, Direct mail, Ambient and the Internet and mobile phones.

2. A process which involves the management and organisation of all agents in the analysis, planning, implementation and control of all marketing communications contacts, media, messages and promotional tools focused at selected target audiences in such a way as to drive the greatest economic, efficiency, effectiveness, enhancement and coherence of marketing communications effort in achieving predetermined product and corporate marketing communications objectives (Pickton & Brodrick 2001).

3. History plus, Advertising to sales, Share of voice, share of market, distribution index and the objective and task method.

4. Organisations routinely and increasingly face threats that could damage or destroy their business. They, therefore, need to prepare for the unexpected and the events that may result. The objective of crisis management is to help organisations avert crises with contingency plans or more effectively manage those crises that may occur. PR is often used to communicate with the various stakeholders who may be affected.

5. Customers, staff, shareholders, financial institutions and the city, the government, suppliers, distributors and stockists, pressure groups, trade associations, the unions and the media.

Study Unit 13

Direct Marketing

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INTRODUCTION

In recent times, manufacturers of products and services have come to realise that it can be very beneficial, in some markets, to deal direct with the customer, not just by direct mail but by various direct communication methods, and to establish a relationship with him or her.

It is expensive, risky and sometimes disappointingly unrewarding to trawl for anonymous customers, deal with them at once and then have to repeat the same costly process, as happens with many marketers of consumer goods who use TV advertising. It has been calculated that the expense of doing business with a known, previous customer can be as little as one-sixth of the expense of finding a new one. Well managed, satisfied customers will "breed" by introducing new people (such as their families and friends) especially if they are given incentives to do so. (Schemes to encourage this are often known as MGMs or "Member Get Member" schemes.) Satisfied customers will buy more, as time goes by, will grow more loyal and can also be sold other products or services. As you get to know more about them, you discover all kinds of facts about them that help you to target new customers more closely, or that help you in new product development or in determining the optimum time to re-approach them.

The technique of "direct marketing" began with extensive use of postal services as a form of advertising (direct mail), but it doesn't stop there. Direct marketing makes use of any and every kind of communication tool through which people can be contacted and known – press or TV advertising with response mechanisms such as coupons or freephone response numbers, telephone sales, canvassing (where a researcher stops people in the street or at an event and asks them questions about themselves, later picking out the ones that seem most promising and approaching them with a sales proposition), logging the personal details of customers at a shop, running a competition or lottery draw and recording the personal data of all those who enter, recording the details of all those who visit your stand at an exhibition – and hundreds more.

Note that direct marketing is not simply selling direct. It refers to the targeting of marketing communications at the individual – the actual buying transaction may take place directly with the producer or it may take place in outlets such as retailers, wholesalers or online.

In this unit we shall examine the scope, growth and strategies of direct marketing, the importance of databases, its application to different types of goods and services, and the use made of different media.

A. THE BASIC PRINCIPLES OF DIRECT MARKETING

Originally direct marketing described a form of marketing in which products and services moved from producer to consumer without passing through the hands of an intermediary, such as a wholesaler or retailer. Later it came to be thought of specifically as direct mail and catalogue mail order. This narrow definition has been superseded but it still holds good to some extent, particularly as greater use of interactive media affects distribution. The basis of direct marketing is now considered to be ***personalised communications***, and these are by no means confined to direct mail.

Direct marketing is based upon:

- A channel of personal communication with a named individual or company, where no competitors' messages distract from your own
- Targeting and discrimination – sending the message only to those who are most likely to respond productively
- A medium that carries a response mechanism

- A medium that allows you to use "long copy" – a quite complex sales message which would be off-putting and useless in, say, a short TV commercial
- And above all, a medium where the response itself can be designed to elicit more information about the customer, which will make future targeting even more precise.

Defining Direct Marketing

Definitions of direct marketing abound. The Institute of Direct Marketing (IDM) says:

"*Direct marketing produces or uses data from interactions with customers or prospects in order to target marketing activity, generate continuing business and maintain control over marketing expenditure.*"

The Direct Marketing Association defines direct marketing as:

"*The advertising process by which a company communicates directly with a customer or prospect in order to stimulate an action; usually by mail, telephone, couponed advertisement or leaflet.*"

Graeme McCorkell, in "*Direct and Database Marketing*" (IDM), offers his own definition:

"*Direct marketing is the process in which individual customers' responses and transactions are recorded and the data used to inform the targeting, execution and control of actions that are designed to start, develop and prolong customer relationships.*"

You will notice that in all of these definitions, the key element required is ***interaction*** between the marketer and his or her customer or prospective customer.

McCorkell develops this by stating that direct marketing is based on four elements – targeting, interaction, control and continuity (TICC). At the centre of the process is ***interaction***, which describes the relationship between the effort made to elicit a response from our target markets and the replies we receive, which we try to attribute accurately to our stimuli. This forms the basis to the continuing effort to improve efficiency in ***targeting*** (the selection of recipients, be they customers, "prospects" or "suspects"), ***control*** (management via objectives, planning, budgeting and evaluation) and ***continuity*** (communicating with customers to keep and develop them).

In summary, it can be said that direct marketing is a decision to do without intermediaries and to focus most promotional resources on activities that deal direct with target customers, such as personal selling, telemarketing and direct mail. Direct marketing has recently experienced rapid growth, mainly because of the changing nature of the customer, the marketing environment and in particular technological changes. This growth is likely to continue with more direct mail, automated call centres, personal selling, leaflet dropping, tele-shopping, direct response TV advertising and the use of the Internet and mobile technology to contact potential customers.

Targeting, Continuity and Data

Keeping customers is a great deal less expensive and more rewarding than finding new ones ("conquest sales"). There is much evidence to suggest that it costs about five times as much to secure a new customer as it does to sell to an existing one. Why then, you may wonder, is so much effort placed on finding new customers? Direct marketers prefer whenever possible to look first for the most economical "early returns" among their established customers.

Direct marketing uses the past behaviour of customers to predict what customers and prospects will do in the future and it can calculate this with typically 90-95% certainty. The information to achieve this is processed individual by individual and is analysed individual by individual, even when there are millions of people to be considered. This ability to record and measure interactions with customers removes dependence on assumptions about cause and effect in, and hence vague generalisations about, customer behaviour.

The beauty of it is that, the more business you do with a particular person or organisation, the more you are getting to know important information about them; their circumstances, preferences, chosen methods of payment, creditworthiness, size, shape, family, ages and so on. As you get to know your customers better, you can tailor your approaches to them; offer them more goods that suit them better, cross-sell, up-sell, invite them to recruit other new customers and offer an incentive to do so.

When you have a sufficient number you can begin to look at them en masse, and discern features that may help you predict what kind of other, as yet undiscovered, people might behave similarly; the readers of a certain newspaper on a particular day of the week, for instance, or customers of a particular kind of shop, or purchasers of a certain product. This knowledge can help you to recruit yet more, and the process begins again with these.

This detailed work is complemented by conventional marketing research, which benefits from more accurate sampling. It is used both before and after campaigns.

Apart from this increased influence over selecting the targets for offerings, direct marketing also allows personalised and customised messages to be sent at much more precise times (i.e. just before the customer is likely to make another purchase). This helps to build better and more continuous relationships with customers.

Direct Marketing Communications

In their campaigns, direct marketers select from the full range of marketing communications available in order to secure a measurable response and to sustain dialogue with customers. It is most important to distinguish between response and conventional awareness – all of us are aware of many products and services in which we express no interest whatsoever. Both television and radio are broadscale media (i.e. incapable of targeting particular recipients) and are used in customer ***acquisition*** campaigns. They link naturally with telephone, radio and the Internet to assist customer response. For ***retention*** purposes, the telephone, mail, the Internet are ideally suited, while broadscale media are inappropriate. Understanding this area of response media is very important to direct marketing and is different to the conventional awareness basis because it ***facilitates dialogue***.

This approach has a number of important implications for marketing communications, including the following.

(a) Call to action

The first and most obvious implication is that advertisements and other forms of initial communication must have mechanisms by which the prospect can respond. Indeed, the whole style of communication changes when relationship marketing is adopted. Adverts that aim simply to make purchasers aware and desirous of a product they can buy in the shops tend to be simple, striking and uncluttered. The anxieties, problems and questions attending the purchase will be dealt with in the shop or store when the customer can see, touch and smell the product or when a sales assistant can deal with them. Dealing direct means that these questions have to be answered before the response is requested. Thus direct marketing advertisements tend to carry more copy and make a much more persuasive case for the customer to respond. Have a look at TV or newspaper adverts and see if you can see a web address.

(b) Dealing with respondents

Proper arrangements must be made to cater to the response when it comes. It has been estimated that 75% of all the responses to a television advert carrying a freephone number will be received within ten minutes of the advert appearing. Coping with that pattern of response is not a matter for the "9 to 5" telephone switchboard girl – especially when the ad appears at nine o'clock at night. Sophisticated call centres, dealing with both inbound and outbound telemarketing, are now available.

B. THE GROWTH OF DIRECT MARKETING

The key driver of the explosive growth of direct marketing in recent years has undoubtedly been the increasing availability of cheap computing power. Without it, most of the tasks involved (such as storing large amounts of data, retrieving them in a logical order, analysing them for similarities and trends, personally addressing them in letters, organising mailing, packaging and delivery programmes, etc.) would be well nigh impossible. However, there are other factors that have helped to fuel the growth. There have been immense social and demographic changes in the last 50 years and this has changed patterns of buying behaviour in virtually all types of market – for example, people (especially women) have less time for shopping and therefore anything that will save them time and yet still allow them to browse sales offers, is welcome. The ready availability of credit (in the form of credit and debit cards, telephone banking services and cheap loans) has also encouraged a much more adventurous approach to purchasing. The widespread ownership of telephones and more and better delivery facilities have also helped.

We shall examine some of these factors in more detail in a later section when we consider the application of direct marketing to different sectors of the economy. However, now, it will be helpful to trace the history this form of marketing and pick out some of the key factors which have propelled its growth over the years.

A Short History of Direct Marketing

Our story starts in the Golden Age of mass marketing during the middle of the 20th century, when new products advertised on television became market leaders within weeks. It was a time when washing powder manufacturers were seen to know all there was to be known about marketing. They were the experts, who divided consumers very simply into housewives, women and men.

To the mass marketers of fast moving consumer goods (FMCG) like washing powder, the world was divided very simply. According to them you were either under 35 or over 35 and you belonged to one of four socioeconomic groups, known as AB, C_1, C_2 and DE. These were designed to indicate how well-off you were and in retrospect they were over simplistic.

Those halcyon days for the mass marketer had to be numbered. Economic recovery following World War II was fostering increased choice which grew faster than did disposable incomes. That had two simple consequences for each product; weakening customer loyalty and falling market share.

We were all a lot more questioning about what we bought, particularly the "big ticket" items. During the Seventies the continuous television exposure of brands that had dominated for 20 years or more became uneconomic, a sure sign of the changing times.

(a) The development of segmentation

The marketers responded with segmentation, by which specialised market segments were identified which enabled goods and services to be produced that were more clearly related to the requirements of particular types of customer. No longer would all customers be seen as a homogeneous mass. The new task for marketers was to identify customer sub-groups whose precise needs could be met more effectively and who would require its own unique strategies in product policy, promotional strategy, pricing, distribution and direct selling techniques.

Segmentation was not a new concept. For many decades there had been a widespread recognition that certain types of people tended to buy particular sorts of products depending upon their circumstances and needs, and relative wealth or poverty. However, seldom did producers put much effort into selling to particular types of people.

To meet the evolving conditions, marketers had to know their markets a whole lot better. By the 1950s they were obtaining comparatively sophisticated data, notably in groceries and pharmaceuticals, where they undertook market research of both qualitative and quantitative types.

(b) Mail order

While mass marketing had done the trick for most products, there was one way of doing business differently – mail order. This dates back several centuries, but the key development came in the 1870s with the establishment of first Montgomery Ward and then Sears Roebuck in America. Their catalogues carried money-back guarantees, a revolutionary innovation that narrowed the gap between the customer's perception of the potential risks and rewards in this type of purchasing. The British company, Freemans, followed shortly afterwards in 1905.

Could mail order hold any clues for mass marketers? The mail order companies at least knew how much it cost them to acquire each new customer, by the simple expedient of including coded reply coupons in their advertisements. Their problem was knowing how each new customer might buy in the future.

They monitored each other's ads to see what worked best for each of them, and that was useful, as it is still, but the sheer scale of the labour involved in trying to track every customer's purchases and payments behaviour remained impractical.

(c) Specialised mail order

Another specialised sector had emerged during the century, namely that of the book club. The first, The Book of the Month Club, started in 1926, to serve a reading public that was already accustomed to buying magazines on subscription and soon subscription purchasing was extended to embrace a series of products, such as books and records. Continuity marketing had arrived.

Here no money was required in advance, and hence no money-back guarantees were offered. Instead there was the prospect of ***free approval***, by which customers continued to receive products until they decided to cancel or payments ceased.

Now marketers of this type of product, unlike mail order people, could calculate how much each customer was likely to spend in the future. They called it the ***lifetime value of the customer***.

The mass marketers, therefore, knew of several areas of marketing which were thriving on their knowledge of individual customers and on having ongoing contact with them.

(d) Credit

The next big step came with mail order credit. When the mail order companies started to assess their customers for credit ratings, the technology soon hastened the appearance of "plastic money" via banks, credit card companies, department stores and multiple retailers.

People in the business of granting credit soon realised that assessing credit status informed how they approached their markets; knowing whether someone might develop into a good customer or a bad debt was a powerful guide to deciding if and how to make an approach. By pre-scoring people it became possible to accept almost all credit applications from responders to direct mail, a level of accuracy in targeting hitherto unknown.

(e) Improved segmentation data

Another significant development was the adoption of the postcode system, which initially many people loathed because it seemed so complicated. The codes, of which there are about 1.3 million, greatly refined area marketing data.

In the absence of customer lists built up by specialist operators, the mass marketers turned to published directories and the electoral register. They also started renting lists of people who had responded to direct mail or response advertisements. Soon this census data was being combined with customer knowledge and credit ratings.

Next came the application of the American ACORN (A Classification of Neighbourhood Types) system to the electoral register. ACORN introduced cluster analysis which identified the types of neighbourhood that occur throughout the land. The aim was therefore to match neighbourhoods that were most closely similar. The new system also offered another advance, by dividing the electoral roll into its smallest component parts, the enumeration districts, each of which comprised around 150 households.

(f) Improved technology

The growth of computing and telecommunications over the past 30 years has allowed huge strides to be made in the collection, analysis and application of the data on which market segmentation is based. In particular, it has enabled more and more personalisation of that data – both in respect of understanding buying behaviour and in developing individualised responses to it.

In addition, the growth of technology has permeated all aspects of life and consumers are increasingly accustomed to its use. Thus, whereas once there was only the mail service available for direct communications, there is now a plethora of channels which can be used for personal communications – telephone, the Internet, even television (through the growth of specialised channels, including those devoted to home shopping).

C. DIRECT MARKETING STRATEGIES

Direct marketing is most familiar in the guise of telemarketing or direct mail, when we see the telephone or the post being used for marketing communications. No wonder then that direct marketing looks to all the world like a form of personalised sales promotion that is designed for securing short-term tactical gains.

The problem with impressions is that they can mislead. Direct marketing is about knowing our customers as well as we can through gaining information about them of a depth and quality that we can manipulate and exploit in order to achieve a true customer focus.

Acquisition Strategies

The purpose of direct marketing is to secure a response from immediate potential buyers. Some businesses and organisations rely solely on securing such a direct response by only using direct marketing. Examples include entertainment, some low cost airlines and some types of insurance. In most cases direct marketing is one of several areas of influence, that include advertising, public relations, retailing and sales promotion.

(a) One step and two step approaches

Some people argue that people only respond to advertisements when the immediate gain in responding exceeds the risk or cost of responding by an acceptable margin. It must also appear to be easy to respond. This risk to reward equation is a sensitive mechanism and direct marketers have developed ways to help customers with this. The offer may be made at a single stroke or it may be in stages. The one-off approach is very familiar ("buy now"). Multi step mechanisms are more subtle and work on the basis that sooner or later the customer will have to make a decision, so let us help that along by successively reducing the apparent risk.

The one-step process is the more popular method. The cost of sales is higher but customers may be more loyal. They are certainly braver and further one-offs may be met with increased confidence.

A two-stage process can cost more to the direct marketer. There is, however, usually a much larger initial response because it does not immediately entail expenditure by the customer, but the average quality of replies tends to be lower. These initial enquiries cost less than advertising and the more compelling the follow-up offer, the greater the probability of increased trade compared to the one-step approach, both in the number of orders received and the average value of each order.

Some offers clearly would benefit from an "easy as it goes" approach. Few people, after all, buy expensive products on a one-off proposition, and many of us prefer to know more about the product anyway, almost on principle. This is particularly so when the product or service is complex or looks like it might be, and where a trial or a demonstration, like a test drive, is an obvious first step.

(b) Critical success factors

There are further important factors to be considered. Some people who are genuine prospects may reject a one-off offer. Two-stage customers, for example, may delay purchase out of caution. Product returns and recommendations, as well as loyalty, are key variables.

There are six critical success factors involved, usually in this order of importance:

- ***Product***

  The concept of added value may apply where the core product is enhanced with features that add to its value, for example, the computer that comes complete with software and a printer.

  This is a familiar example, but it has also to be remembered that some products lend themselves to a degree of customisation, including computers, whose main components may be selected by the customer against a specification designed for his or her particular wants and needs. Similarly, most car models are available in about 18 variations.

- ***Targeting***

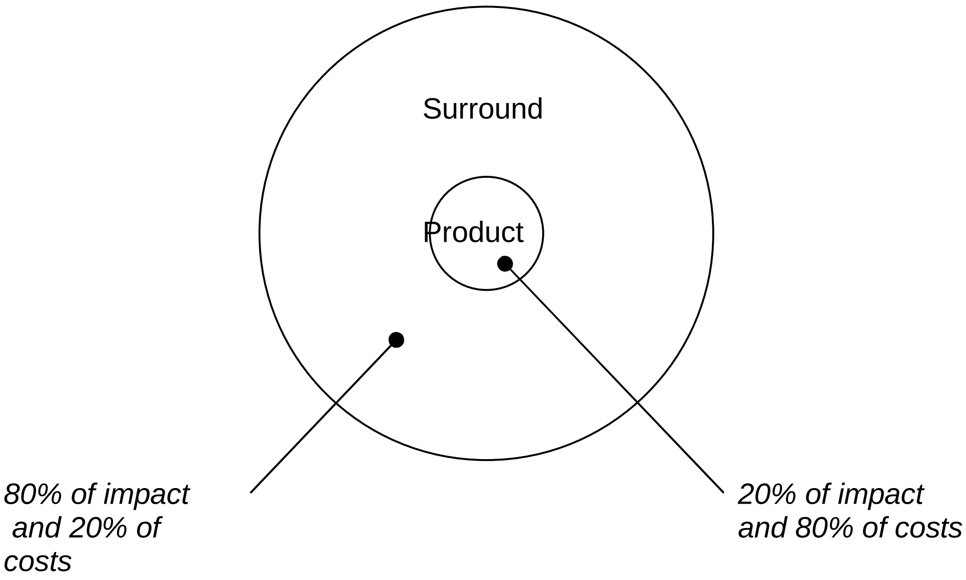
  This refers to the accuracy with which potential customers are identified – through the use of appropriate information – and the suitability of the choice of media used for the approach. We shall consider these factors further in later sections.

- ***Offer***

  The concept of the "product surround" has some application here. Functional performance of a product is perceived as being surrounded by a host of other elements, which can account for as much as 80% of its added value and impact. Often they take only about 20% of the costs, whereas the reverse is often true of the core product.

  When a customer buys a product whether he or she is a consumer or a business buyer, a particular bundle of benefits is being acquired which are perceived as satisfying the needs and wants of that person or organisation. The technical performance and functional features are, of themselves, insufficient. Many customers regard them as "givens" and look beyond them to see what further benefits make this particular product appropriate.

Figure 13.1: The "Product Surround"



Similarly, in direct marketing the offer will include features that can be added to enhance overall attraction. These may include, for example, free approval, entry in a prize draw, a competition, a gift or easy payment terms. Clarity is essential to maximise the impact of the communication and great care is needed with the product and offer – if they are weak no amount of superior presentation will save them.

All such elements are designed to reduce the risk and increase the reward to induce customer response. It follows, therefore, that by the same measure the company increases its own risk, to levels that it judges to be acceptable against the rewarding prospect of likely responses.

- ***Format***

  The size and appearance of the communication are also important. In direct marketing small tends to be beautiful because the central purpose is to generate response and the information to achieve that should be direct and succinct. Doubling the size of a print advertisement increases response by less than 50%. Print is preferred to broadcast, particularly for single stage offers as these ads can handle complex or long messages better and they are easily referred to later.

  Communication is made also through the mailing package, comprising the letter and supporting material, such as a brochure, leaflet or photograph. A personalised approach to the reader counts heavily and seemingly glossy presentation will often deter. Loose inserts and "tipped-on" (glued) inserts in magazines offer flexibility and provoke impulse response.

- ***Copy***

  This is the creative presentation of the message and response devised in words, pictures and sound, with the emphasis on ease of reply.

- ***Timing***

  When the communication is made may depend upon the seasons, upon calendar events or customer anniversaries. Some timing seeks to benefit from periods when response rates are known to be better, such as early January and early

September, Mondays and Tuesdays and during non-peak daytime television and drive time radio.

The overall order of these six factors (product, targeting, offer, format, copy and timing) may have to be changed in some circumstances – for example, in some situations, timing may become increasingly important and gain a few places in the order.

Customer Development Strategies

Direct marketers prefer to maximise the return on their efforts by concentrating on the existing customers first where that is practical. In fact, they go further, by deciding which existing customers offer the best prospects and focusing on them first, before moving to the next most promising customers, and so on, until it is time to enter the more expensive, higher risk business of finding new customers.

Having acquired the response, there are four principal strategies with which direct marketing is concerned.

(a) The welcome cycle

This is the first stage of responding to the customer's decision to purchase, often even expressed an interest. Customers are welcomed and reassured about their choice of supplier. Of course, such reassurances are more beneficial and relevant in some circumstances than others, but the overall purpose is to start ***building loyalty***.

This involves learning more about your customers and thereby constructing the database, and identifying any opportunities to offer initial benefits over and above the initial purchase.

This can be a most valuable period, because customers are not feeling particularly committed unless they have already entered into a long-term contractual undertaking and we may know very little about them, so are not in a position to develop the relationship.

(b) Uptrading

involves trying to encourage a customer to buy higher-value products or services than he or she has done up to now. Uptrading examples would include buying a dearer car in the company's current range, a superior credit card to the one presently used, or a multiple pack of something we normally buy individually.

Knowing when to make such offers is determined by reference to the individual customer histories, by testing and by assessing the likelihood of response by each customer against analyses of test results. As living standards continue to rise and as companies and organisations grow and expand, the opportunities for uptrading multiply.

(c) Cross-selling

This also aims to change customer behaviour and the results are relatively easy to measure. Examples here would include a second car for the family, a home shopping service or wine club for a credit card holder and a music collection for a book club member.

Loyal customers have to be rewarded and one means of doing this may be by giving some incentive in both uptrading and cross-selling. Rewarding loyalty is important, but it is always harder to justify spending on our existing, loyal customers than on the acquisition of new ones. The more loyal the customers, the lower the loss rate and the greater the challenge to make such expenditure produce a return.

(d) Renewal

Among the loyal customers are some who will not defect and for whom an offer designed to keep them is unnecessary. The quantity of customer data and quality of modelling techniques is therefore vital in being able to predict behaviour with sufficient accuracy to minimise the cost of trying to avoid defections.

The risk is that disloyal customers may receive more favourable treatment than loyal ones. The expenditure on trying to bring about changes in behaviour may therefore seem more appropriate than spending our budget on persuading customers to simply go on doing what they are doing already.

As we calculate the approach of renewal we need to test the length of the ***renewal cycle*** to achieve the optimum results for the least necessary expenditure. At this stage, inducements to reward loyal customers for their continued presence are cost-effective. This renewal cycle will include a number of relevant communications for, say, three months before the renewal date, on the date itself and for a period following that date. Beyond the final renewal cycle date, the customer has entered the land of the lapsed, although that may not, of course, be the last time we communicate. The effort to retain however must not be so intense that it endangers or even impairs the customer relationship. We must therefore always consider the relationship between the true marginal cost and the benefit of the effort.

Retention Strategies

There are a number of ways in the above strategies may be fulfilled.

(a) Communications

Communications to retain customers and develop their custom, and to retrieve lapsed customers, are of two main types.

- ***Seasonal*** – where the timing is chosen by general demand or a supplier's requirements, such as January or summer sales, fashion shows, exhibitions and magazines.
- ***Series*** – communications which relate to specific events, such as anniversaries or particular periods of time after an event, such as a purchase. This event-driven type relies on sound knowledge of the customer and statistical calculation. Regression analysis, for example, may be used to predict the relative value of sending a specific message to alternate customers.

Decisions for or against despatch are automated and have to take account of customer realities. We all know of the company or organisation that, newly equipped with a customer database, starts pelting its customers with messages and keeps at it until many have been driven away or have risen in united protest. Unfortunately, such absurdities still occur and some are well documented. Any system that decides against a score being allocated to each customer is at risk of selecting the same people repeatedly unless it knows better.

Handled properly, series communications have three main benefits. They identify the most appropriate customers at the optimum moment, they are highly relevant and therefore impactful, and because their despatch is a steady, continuous process, they are readily supported by follow-through telemarketing. Their accuracy complements expensive, carefully directed outbound telemarketing and they can also be conveyed as part of inbound telemarketing, when the operator does the job in the course of taking a call about another communication.

Despite this, there are some disadvantages. Apart from the greater need for customer data, serial communications are more expensive than seasonal communications and you have to avoid sending both types at the same time, for example, recording a second anniversary of a car purchase that happened on December 20 just as a Christmas card is also despatched.

Their accuracy of targeting also raises the penalties for making mistakes. None of us like people claiming they know us when they reveal the opposite and, by their very nature, they may not meet present objectives in relation to current market conditions.

In business-to-business markets, the communications may vary according to the status of the recipient, with senior managers receiving occasional seasonal mailings, while middle managers (who are likely to be the primary contacts) are more likely to be sent frequent series communications by post and telephone, and perhaps even fax and e-mail, which are prompted by the customer conduct of the relationship, in terms of enquiries, orders, amendments, deliveries, invoicing and cancellations.

The senior manager needs to be kept informed of developments while his or her junior has more routine concerns, but both may also appreciate seasonal mailings, such as magazines and newsletters, which are enjoying strong popularity in some sectors, and invitations to, for example, trade events technical briefings, farm walks, seminars and conferences, exhibitions, and informative talks that also offer networking opportunities.

Seasonal communications may also be conveyed, very economically, in the company of routine correspondence and items such as confirmations of orders, delivery notes, invoices and statements, when the message may be inspired by some aspect of the document it accompanies. This may not be quite so well targeted, but communication costs seldom come lower.

(b) Automatic payment

Direct debit is part of a group of automatic payment methods that includes standing orders and any other type of continuous authority to take regular payments, such as covenants. These payment methods are particularly popular with charities, clubs and purchasers in a crowded marketplace of products that are difficult to noticeably differentiate.

In many ways, with regard to direct marketing, the ultimate commodities are found in the power industry. The strength of the utilities must surely lie in their regularity of contact through invoicing, which provides a welcome platform for dialogue. They are heavy users of the direct debit system for securing monthly payments from customers' bank accounts, and this provides an enviable and strong cash flow for the company and represents continued loyalty as the easy option for the customers.

Some customers resist paying by direct debit and will even pay more to avoid it, choosing to settle quarterly bills as they appear. Such customers reason that the direct debit system surrenders too much power over to the seller as they can vary the amount to be paid in each instalment, whereas with the alternative standing order system the customer always remains in control. Suppliers are, however, obliged to give adequate notice of any intended variation so that the customers may respond before the changes are made, and this is satisfactory for most consumers. Trust is key to successful relationships fostered by direct marketing.

(c) Credit

Those involved with direct mail first hit upon the idea of extending credit to their customers and it is now difficult to recall the days before credit accounts and store cards became such a feature of life. Retailers like these cards because their customers do. The cards bring loyalty and are very effective at retention ("why bother to buy elsewhere when buying here is so easy?"). However, over 50% of monthly bills are settled in full, so the majority of customers are primarily interested in attractions other than just short-term credit.

"***On appro***" popularly describes negative option marketing and this is another powerful retention device. This involves the customer agreeing to buy a continuing supply of products that they receive at agreed intervals on "free approval". This means that you sample each item and then decide whether you want to settle the accompanying invoice or return the product.

This device is suitable for bulky commodities, in the home or business, but is most often used by book and music publishers and vendors of collectables, such as china figures and miniatures.

Customers can usually cancel any time, but with the "clubs" that sell books and other such products there is usually a minimum purchase requirement. In these cases, the initial offer can be very generous to reflect the required customer commitment to purchase a minimum number of further products over a succession of months. Those subsequent offers are invariably less generous although there may be an option to miss an offer or take an alternative.

Some agreements ask the customer to pay in advance for goods that will be delivered over a future timespan and to pay on invoice again once the initial period has expired. These "till cancelled" arrangements are not common owing to the popularity of direct debit.

(d) Special promotions

The oil companies are keen on promotions, where customers are encouraged to collect tokens by which you end up with several free assorted items you never thought you needed, given to you as an inducement to collect more. Popular gifts include drinking mugs and glass tumblers.

More appreciated are the coupons that offer a discount on repurchase, which work well for garages, given that petrol is a utility for most customers. Some retailers also hand out stamps (remember Green Shield?) that you collect and redeem when you have reached a certain quantity.

The Preferred Supplier

Since few customers are totally loyal we want to know as best we can what proportion of their total spend comes our way. This is called ***share of customer*** and it particularly applies in retailing with packaged goods and in business-to-business, where loyalty may be very short term, so much so, in fact, that we may be thinking specifically about share of ***current*** spend.

This can be more profitable than securing an increase in market share, and if greater customer dependence can be created, we increase the probability that they will stay with us.

To gain a bigger slice of each customer's spend we aim to become the ***preferred supplier***, which will hopefully extend the length of our relationship with them and improve our prospects for selling other products. Multi-product purchasers also tend to be more loyal than those who buy only one product.

Although this is the ideal situation, we may have to settle for being one of several preferred suppliers, as customers usually buy from a selected group of suppliers. This is typical of heavy users of FMCG and "shopping" goods (i.e. retail goods which are not FMCG, such as toys) and also of business purchasing. Branding is critical and in business-to-business markets ***intermediaries*** must be in the group of preferred suppliers if that is how the supplier is expecting to reach the end-user customer.

The picture is further complicated where the buyer has in mind a combination of preferred products/brands and intermediaries, for example in retail travel. Here just a few agents may be contacted to talk about the products of certain package holiday producers. The aim here is therefore to get on the list and then work to gain a stronger preferred position. As we have seen, some holiday companies have opted instead for sole dependence on direct marketing.

Loyalty

One source of new customers that are usually most welcome are the friends and relatives of existing customers who decide to buy on recommendation. This happens quite frequently with consumers, although too seldom do business customers offer such rewards. In order to be truly effective, however, this support by loyal customers needs to be managed.

Loyalty is a precious flower that blooms over time – but like a precious flower, this blossoming can only occur given the correct conditions. The relationship with the customer therefore needs to be handled very carefully for the simple reason that the feeling of loyalty is something only felt in the mind of the customer and may be different from the behaviour they are expressing.

This may seem trivial, but it is not to the consumer. Sometimes if existing customers feel they have been treated badly by a company, even if they are traditionally loyal, they may rebel by buying elsewhere in order to assert their independence, before returning to the fold.

To strengthen loyalty it is therefore necessary to reinforce and develop positive attitudes and associated behaviour among those customers who are most likely to respond, either through providing something different especially for them, or offering them some sort of incentive, or both.

We want loyalty to achieve an increased "share of customer" and to effect a continuity that makes renewal of the relationship appear seamless and so far beyond question, that it is not even an issue in the customer's mind. We also aim for a quality of data that will reinvigorate and better inform how and why we do what we do.

The specific objectives of a loyalty programme may therefore include an intention to arrest a decline in the rates of repurchasing by our best customers. These objectives have to be quantified, so that you can later evaluate the success or otherwise of the strategy (i.e. they should follow our SMART rules). Quantification might include some form of testing or research to give us some indication of those aspects of the marketing mix that will be most effective in reinforcing and building loyalty.

Loyal customers are more likely to be forthcoming in offering this information because they should already trust you and expect you to know how to be discreet with the information. They also expect you to obtain that information during their transactions with you and to use it to their benefit. They often think their loyalty is rewarded with better service, so we should look for ways to provide a package that acknowledges their loyal status and make sure that we recognise this whenever we make contact.

Loyalty strategies must be based on an agreed recognition of what loyalty amounts to in any particular context. Some markets have reduced their products to commodities that cannot be differentiated, either through marketing or delivery, but even here incentives to reward loyal behaviours may succeed.

D. MAJOR MARKET SECTORS

Direct marketing is practised in virtually all sectors of the economy. However, its role and approach will vary with the particular sector and the nature of the goods and services offered.

The Consumer Sector

Consumer markets are becoming ever more fragmented, which is partly attributable to the greater and better use of database applications. The more we strive to satisfy the needs of the individual, the greater the fragmentation process and the keener the desire of consumers to be respected as individuals. The more compelling this process becomes, the stronger the competitive urge among providers of goods and services to sharpen their direct marketing skills.

These may extend well beyond accurate targeting of one-to-one communications to include business as well as marketing planning that is firmly founded on the detailed customer information held in the management information systems.

The fragmentation process produces ever more "mini-markets", each with its own characteristics. The term "demassification" has been used to describe this period of adjustment, in which we make ever more effort in adapting to the needs of consumers as individuals instead of seeing customers only en masse.

The trend towards reaching the individual consumer is supported by more than simply the development of database and communication technologies. Those millions of heavily-courted "housewives" are gone; about one-half of women are in the workforce now, whether they operate away from home or are based within them. Either way, they enjoy a level of independence and status that is far removed from their predecessors. Meanwhile, women who might still be described as "housewives" have found a new recognition that well transcends the patronising assumptions of yesteryear.

Other social issues can have a significant impact on direct marketing. The cost of petrol is on most people's minds. We are told by the government that 93% of all journeys are undertaken by car, and sometimes you have the feeling that the moment you take a journey almost the entire 93% are out doing the same. Traffic congestion and pollution are powerful arguments for "home shopping" or indeed ***any*** possible way to save a bit of life for more purposeful use.

The Government also says that 17% of us use the railways, but most people dislike their inflexibility and expense. Perhaps the long promised improvements in public transport will come too late for most consumers to think that hopping on a train or bus is any more convenient or sensible than taking the car to do some shopping. Here again the "home shopping" approach has a powerful appeal.

Another important thing to consider is the number of consumers who reside and work in what is left of the countryside. Still less than 12% of the UK is built upon and there are some fairly remote places left. How, for example, must it feel to know that your nearest big brand supermarket is 20 or 30 miles away, i.e. 40-60 miles round trip every time you want to refill the fridge and kitchen cupboards? Such people not only have to pay for the additional petrol, but often they may also have to pay premium prices for the goods they are buying and public transport is usually poor or absent.

Direct marketing is therefore making its greatest advances in markets where each customer may be readily identified and evaluated, although even in fast-moving consumer goods markets (such as food) we may expect to see changes, as ever more marketers ask themselves whether they should be taking products to the customers instead of bringing people to the goods.

Other factors are also at work in supporting the trend. Large retailers may emphasise the number of "lines" they "carry" but consumers know that the slower selling items have a way of being difficult to find. Direct marketing will play an ever increasing role in supplying these under exposed products to meet individual requirements.

The flexibility of round-the-clock, 24-hour access by telephone, websites and e-mail to obtain information and place orders, and the willingness of carriers to deliver during the night as well as in daytime is another major influence. Consumers are demonstrating a growing taste for out-of-hours shopping. If it can be made to work without neighbourhood disturbance, presumably taking delivery at such times will prove attractive for every consumer in households that are vacated during the working day.

The Retailing Sector

Do you have a card issued by a department store or other major retailer? The probability is that you do and that you are happy in exchange to give the retailer some information about yourself. These account cards and membership schemes tell the retailer about their individual customers, provided, of course, that the customer will play ball; those that do not want a card create gaps in the system.

Not that the larger retailer is bereft of information if you do not have his card. He has after all his electronic point-of-sale (EPOS) terminals, which tell him quite a lot about every transaction for accounting and stock control. We are well used to this now and expect to receive our itemised printout, even if we never refer to it again.

Some stores make sure they know all their customers by the simple expedient of operating a compulsory membership scheme, usually in exchange for substantial price discounts. You find this kind of arrangement, for example, at "cash and carry" and trade-only outlets.

The use of the word "membership" is appropriate. Such information can be used to generate loyalty by consulting customers on aspects of store service and thereby foster a feeling of belonging. This is serious brand generation and it works. People feel they have had a personal involvement in the planning and improvement of services and loyalty is generated as a result.

The topics for consultation are likely to be sufficiently general to attract widespread interest, such as the opening hours, home delivery, parking arrangements, the provision of trollies and baskets, quality of lighting and labelling, width of passageways and waiting times at the check-outs.

In America some stores have taken this a lot further, even to the extent of forming regular customer panels that each meet with senior management weekly for several successive weeks to discuss their total shopping experience. Managements report a rich return for their efforts, with customer insights gained through these encounters that have directly led to profit-improving changes. Clearly, for this level of goodwill to be present among their customers, these stores must already be enjoying a substantial commercial relationship with them that both sides regard as rewarding.

So what does a retailer do about the customers he does not know? Since customers come to the products, it follows that there must be a catchment area. This is a territory within which customers will make the journey to the store, a distance which they judge tolerable and acceptable to them, given all the expense and time consumption of frequent or regular travel.

Drawn on the map, this territory may well look amoebic, with some people coming much further in some directions than in others. Sainsbury's has declared its intention of establishing an outlet within 10 minutes drive of every household, an ambitious target given city road congestion and rural distances, but interesting for what it says about how far customers are prepared to keep travelling for what they may see as routine purchases.

Few of us are loyal to any one store in each category. We may swear absolute loyalty to a particular store and strongly identify with it, as if it were an association or club to which we belong, but at the same time we firmly believe in our absolute right to shop at its competitors if that suits us. For example, often the most ardent clothes customer will only commit at most one third of his or her annual spend to the favoured store. We like to shop around, have a change of scene, combine activities, link shopping with calling in on friends, and so on.

In search of unknown customers, the retailer segments the primary, secondary and tertiary parts of the catchment area and starts by concentrating his offers and other messages on people in the primary zones. He has a profile of the preferred customers and knows which postcodes relate to the more prosperous neighbourhoods.

How? Well, stand in any busy supermarket and you will observe how much more families spend, particularly the younger ones with several fast-growing mouths to feed. Much the same applies with clothes, household goods, sportswear and equipment, leisure goods, holidays and many more items.

The postcodes may seem trickier, but the retailer with EPOS knows better. The transactions will indicate well enough from which leafy neighbourhoods and exclusive retreats come the customers with expansive attitudes. In fairness, it is only an increased probability that these areas will spend more – there are bound to be some exceptions.

The Packaged Goods Sector

Manufacturing still accounts for 17% of the country's gross domestic product (GDP). When demand for a manufactured product changes it takes time and expense to make the adjustment. There is seldom scope for a quick change act of the kind that is now so familiar with non-manufactured products. Physical distribution is also relatively expensive and time consuming. The presence, in most cases, of retailers and distributors between the manufacturer and the customer leaves the producer dependent to a substantial degree upon these intermediaries' marketing and merchandising decisions. For "dependent" we might substitute "at the mercy of" because the fight for shelf space, or display, is critical to every product's prospects.

These products include FMCG goods, such as food, household toiletries, pet food and janitorial supplies. FMCG manufacturers traditionally use sales promotion but the weakening results and growing expense of coupon distribution are encouraging the adoption of direct marketing methods to identify heavy users, stimulate repeat purchasing and exploit cross-selling (whereby customers are tempted to purchase other products as well).

TV advertising, which was also popular with FMCG producers in the early years of ITV, is a growing problem, as costs rise while coverage and frequency fall. As the cost of IT-based marketing continues to fall, direct marketing is seen as an alternative means of strengthening existing customer loyalty and reinforcing brands.

What about the manufacturer whose products are excluded from the shelves? These products will find sales increasingly through direct marketing channels, such as magazine inserts and via the web. The fact that these products are hard to come by may also serve to secure future purchases; people who consume products that are not readily available tend to delight in finding reliable sources and reward them with steady purchasing.

For manufacturers of domestic appliances, the challenge is to establish and maintain a relationship through a cost effective dialogue, in the sure knowledge that their products are likely to be replaced only every seven to ten years, and sometimes not for very much longer when in the possession of careful owners.

Retail display and occasional media advertising is insufficient of itself. A typical household may contain as many as 10 to 20 large and small appliances, quite probably more, and a number of these may very well have come from the same manufacturer.

Corporate brand recognition plays an important part in building loyalty. When the need to purchase a new fridge or washing machine or similar "big ticket" white goods item arises, most purchasers are inclined to favour repurchase of the same brand to keep it simple, provided their experience has been favourable.

The maintenance of a dialogue with such customers is designed to counter intense competition in a crowded marketplace full of loud claims.

Do-it-yourself products also have a long life and can come to be regarded with almost affection by their owners for their solid and enduring qualities. Here, too, manufacturers may see opportunities for establishing one-to-one relationships, perhaps through practical advice and help in the use of their products.

Similarly, there are products which have a direct connection with the customer's greatest investment – his or her home. The expense and upheaval of replacing a kitchen or bathroom, both major purchases, is not lightly forgotten. High hopes of enhanced value of our home, as well as improved amenity and appearance accompany our spending decisions. People even swap anecdotes about their experiences with their home improvements, such is the level of continuing interest. In all these product areas, therefore, there is plentiful scope for developing and maintaining fruitful dialogue.

The motor industry makes heavy use of direct marketing within an integrated marketing framework. Substantial expenditure on television advertising builds brand loyalties and product awareness and heavy press advertising reinforces those messages and provides much more detail. As a result smart dealer showrooms proliferate round almost every corner. When the time comes to replace the car most owners think of the brand, or marquee, they own already. The dealers who have maintained sound relationships with their customers ever since their last purchases take substantial credit for this.

When push comes to shove, the after-sales service offered, the handling of routine servicing and any enquiries of the dealer, the issuing invitations to dealer events, and any dealer offers or promotions, all contribute heavily to the overall marketing impact.

When the book clubs appeared, they prospered on the long established familiarity with subscription buying of magazines and heavy demand for fiction. The club brought together choice and value in a format that continues to flourish and has been extended to also include the successful marketing of music and film. Books also came to be sold "on appro" (on free approval) which was later extended to embrace other products, such as records, tapes and limited edition prints.

The Leisure and Tourism Sector

This is a very wide sector when all elements of it are included. Indeed, claims are made that tourism is the largest industry in the world, but this must surely depend on what you count and how you choose to do it. However, the sector certainly takes in all forms of personal transport, accommodation and holidays that are packaged or customised.

Suppliers include airlines, railway companies, hotels and holiday operators, all of which gather significant amounts of information on their customers.

The airlines play a key role in the delivery of packaged holidays, which were first sold through highly illustrated catalogues in the early 1960s. Current research today suggests that if we came by an unexpected "windfall" the majority of us would opt for a "good holiday" above all other expenditures, including a new car (which is the second most popular).

Airlines are committed to direct marketing. Marketers rate very highly the efforts of Easy Jet, British Airways, Virgin and other operators which sell direct their scheduled services and holidays as well as providing charter flights for the holiday and tour operators. There is also unprecedented demand for luxury sea cruises, which offer operators enviable opportunities to develop meaningful relationships with their passengers during protracted contact.

The remarkably high levels of customer loyalty experienced by them are evidence of this. Although they tend to be very expensive, massive new cruise liners are now in service. Databases of cruise customers' interests and preferences provide exceptional detail, and this type of holiday is substantially customised.

I-ssues of distribution channel management and control have impacted on the economics of direct marketing for package operators. Many consumers are buying direct rather than going through travel agents and bookings are often made online. This has changed, quite substantially, the role of many travel agents who now are tending to provide more "bespoke" holidays. Reducing intermediaries in this fashion is referred to as ***disintermediation***. Hotels also now often sell direct and understand the value of direct marketing. Many concentrate on business travellers and on attracting conferences and exhibitions, which offer strong cross-selling opportunities. As with packaged holidays and car hire, a large share of business is in the hands of relatively few suppliers, so the potential for database development is very promising.

Motoring organisations have adopted direct marketing so wholeheartedly that they have come to resemble mail order businesses even more than specialist insurers. The presence and visibility of directly employed field staff continues to be an ace card in maintaining brand awareness and loyalty and for securing direct sales. The large membership lists offer generous scope for testing and analysis.

There is a wide range of further suppliers who specialise in one form or another of leisure provision, such as visitor attractions of various types and theme parks, theatres, cinemas, dance halls, night clubs, betting shops, amusement arcades, bingo halls and much more. Even shopping centres, photo processors and publishers might qualify for inclusion. Wherever such businesses want to know more about their customers' behaviours and preferences, the adoption of direct marketing to find out about them in detail is under way.

The Financial Services Sector

The rate of growth in the banking, mortgage lending for home purchase, insurance, savings, investment, pensions, and credit and charge cards sectors is one of the miracles of the age and retail banks have been in the forefront in integrating direct marketing into their overall marketing strategy.

This rate of growth is set to continue because of basic changes in society. Our incomes are rising, in real terms, year on year, so most of us are becoming progressively wealthier, and the wealthiest among us are becoming seriously rich. All of this is happening at an ever quickening pace. We are also generally living longer, so much so that deaths occurring at ages which only 25 or 50 years ago would have seemed "normal" are now looking distinctly premature.

Most of us are retiring earlier, in many cases much earlier, so the sad stories of people dying without any time to experience retirement are becoming rare. Successive governments are doing their best to reduce by gradual stages the state provision of safety nets against life's mishaps. We are therefore becoming generally wiser about improving the management of our personal finances, partly prompted by the industry and partly by government.

With so much at stake, competition among suppliers is keen, with many marketing services in more than one sector. There is a relentless drive to cut overhead costs in search of higher profits, and the gradual decline of the traditional high street presence is well established.

The banks are especially well placed since by the very nature of their business they already know a lot about their customers and have ample scope to develop databases for marketing products with optimum efficiency. These products may not even necessarily be within the ambit of financial services.

The proprietary credit card, such as Mastercard and Visa, plays a key role in customer identification which, in addition to facilitating transactions and credit, constitutes a distribution channel in its own right. The widespread acceptance of the credit card in payment for goods and services is a powerful inducement. There is a tendency for the user to both spend more and do so more often than when relying on cash settlement for each purchase.

The use of these cards provides a complete account record of transactions, including purchase preferences and lapses or variations in usage. The credit card company, like the bank, has plenty of data on which to know its customers.

Direct marketing of the principal consumer insurances has become commonplace in recent years, most notably with car insurance and health care. This serves to widen choice and intensify competition.

The Business-to-Business Sector

When one company or organisation sells to another, it may sell direct to its end customer or there may be a middleman distributor. In practice most inter-business transactions are directly between smaller "enterprises" (as the EU calls them) and the preponderance of operations employing fewer than 10 people in this country. As approximately 94% of all businesses employing fewer than 10 people this gives some indication of the likely scale of direct selling activity.

Selling to a company can be very complicated and is generally reckoned to be poles apart from selling to individuals. For a start, there is something called the ***decision-making unit*** (DMU). This is where a group of people is responsible for the purchase decision rather than an individual. These are plagued by "group dynamics" which a marketer neglects to take into account at his or her peril. It may be very clear how to satisfy the needs and wants of an individual, but this is not so easy when you may have five or six different people, each with their own, sometimes conflicting, needs and wants. There is also the problem of knowing who exactly is in the DMU at any given moment. DMUs are also likely to differ by type of sector, company or organisation size and culture, the degree of formality in purchasing, and whether the process is centralised or delegated to component parts. There is no typical or average business customer, but most sectors have a handful of larger operators who may well account for 80% of the market by value and these people are usually (although not always) identifiable.

This makes such business customers clear targets and it may even be possible for would-be vendors to calculate their potential value in advance. Such calculations are a cornerstone of much business-to-business marketing, for the targets are relatively few compared to the consumer sector and the stakes are accordingly that much higher.

Where there is an existing trading relationship, the supplier will maintain a record of all transactions and endeavour to calculate how the customer's purchasing is distributed among the supplier's competitors. This too is fundamental to business markets and is intended to help identify opportunities to sell more, through a straight rebuy (where the customer buys the same item again), a modified buy (where the customer buys a similar item), or to sell new. This can take much time and effort for the vendor because the purchaser's DMU may well have grown a lot larger to reflect the perceived enlarged risk that is being contemplated.

Some DMU members will be readily identified, but the decider may prove difficult to spot and he or she is critical. Telemarketing or salespeople may be assigned the task of locating these shadowy figures and accuracy is supremely important. It can be immensely frustrating, because the characters keep changing and moving around – either their roles are changing within the DMU or they may be leaving the DMU altogether. Added to this, some parts of the target company or organisation may not have any scope for making purchases.

It is a fact that direct marketing does yield some unexpected, albeit hard-earned bonuses, when defecting contacts invite the supplier to visit them at their new location. Effective direct marketing can result in defecting company executives who have been customers in their former employment, inviting previous suppliers to tender for contracts with their new employers. Often, new recruits much prefer to purchase from suppliers previously known to them.

Sometimes effective direct marketing can result not only in the acquisition of a "new" customer by this means but also in the retention of the existing customer, because the defecting executive's successor decides to continue purchasing from his or her company's existing supplier. In such circumstances the marketer has doubled his or her clientele on the move of one executive between employers.

The problem of intermediaries also arises in the business-to-business sector. What can be done to identify indirect business customers where the intermediary offers poor product information? One way to build at least some information about these companies is through offer redemptions to the wholesaler.

There are many occasions when intermediaries are so powerful in the supply chain that reaching around them to identify the end users may imperil valued relationships. In "*Enterprise One-to-One*" Don Peppers and Martha Rogers argue for marketing that is finely attuned to the changing needs of each customer on a scale that requires enormous investment in data and systems. Their one-to-one approach is probably best suited to large suppliers and intermediaries, where individual customers may yield a rich flow of data and there is strong mutual inducement to achieve closer relationships.

Manufacturers, for example, may aim to maximise their relationships with their wholesalers individually, perhaps with customisation (of packaging, delivery, promotion, settlement terms, etc.) and through collaboration through electronic data interchange (EDI) and just-in-time (JIT) stock replenishment.

Any organisation involved in utilising direct marketing needs to think carefully about how to obtain, store, analyse and use data that has been captured about decision makers and the buying centre. Care must also be taken to assure the accuracy of the database and to adhere to all issues associated with privacy and data protection.

The Charity Sector

Marketing for charities is fundamentally about fund-raising and in this world some causes have a great deal more appeal than others. It is a fact that, for example, the issues of old age, mental illness and poverty do not appeal nearly so well to donors and sponsors who are the "customers" in this context, as do the issues of children, animals and natural disaster victims.

Government policy in recent times has been to encourage the voluntary sector as a means of reducing state welfare service commitments. In consequence, charities have proliferated and so has the competition between them to attract funding.

The sheer diversity of charity interests is a strong characteristic of the sector and most appeals are necessarily designed to segment the giving public, institutional and corporate sources and charity funds in order to improve the accuracy of targeting.

There are some major charities that are markedly similar in size, substance and structure to substantial businesses. They use direct marketing to develop and sustain dialogues and relationships with donors that are intended to literally extend giving beyond even the grave (via bequests). This is a fiercely contested area in which solicitors act as key intermediaries who exercise considerable influence, particularly with childless couples and people who have a personal connection with a particular disability.

These major players have diversified by entering markets that are related to their charitable purposes, for example publishing, retailing and insurance. Their marketing spends are substantial, with direct response press advertising being highly prominent.

Those that specialise in overseas aid and relief work benefit from distribution channels for their appeals, such as bank and building societies and retail outlets. Very many and varied businesses are prepared to accommodate appeals promotion and collection within their offices, factories, warehouses and similar premises, the annual Royal British Legion Poppy Day Appeal providing an outstanding example of this type of co-operation.

Some charities owe their success to a widespread feeling that, "There but for the grace of God go I" and their marketing places emphasis on keeping their customers informed in some detail of current diagnostic research and other relevant developments.

This requires an advanced application of the database to maximise the quality of the relationships with donors. Just how much is conveyed and how that is used in order to time appeals, is weighed against the risk of invoking "donor fatigue" which has come to plague some charities of late.

With so many good causes hunting for funds, retention and development of donors is central. This is made all the more urgent by the tendency of more generous givers to support several different charities. For this reason, charities extensively exchange mailing lists and make heavy use of direct mail.

For some charities direct marketing can be exceptionally rewarding because many or most of their fund contributors **want** to keep in touch and some may even volunteer to be proactive in developing contacts with the organisation. This may occur, for example, with hospices and hospitals for children, managed residential rehabilitation centres and special needs schools.

E. DIRECT MARKETING DATA

Direct marketing data comprises customer, and potential customer, information organised so that it may be accessed on the basis of sets of characteristics as determined by the characteristics of a particular target market. The production of lists is common – essentially names and how to contact them (typically addresses, telephone numbers and e-mail addresses) – and these may be created from the organisation's own database for a particular campaign or may be purchased or rented on a one-time use basis.

Marketing Databases

The Institute of Direct Marketing defines a marketing database as:

"*A comprehensive collection of relevant and interrelated data serving multiple applications allowing timely and accurate on-demand retrieval or manipulation of relevant data and having a data management system independent of applications*."

The ability to better understand customer behaviour comes top of the list of benefits offered by a marketing database. Analysis is critical to developing appropriately targeted campaigns, with communications that are more relevant and appealing to the target audience. By profiling the customer database, segments will be identified that can be given particular attention. This enables us to identify and target the best customers with the greatest effect.

(a) The impact of databases on marketing strategy

Companies that have dealings with very large numbers of customers, usually consumers, (for example, the large supermarkets) are looking all the time to see where and how they can improve customer relationships while at the same time reducing their costs.

This need is driven by the intensity of competition. If they are not satisfied, customers' expectations will be met by competitors and people are coming to expect more, better, faster and cheaper service. They want information about offers, availability and current transactions. They may also want to know the state of their current relationship, in terms of current bank accounts, credit facilities and investments.

The means to satisfy these requirements lies within the database, and heavy use is now made of the database in specific relation to the customer. The old direct marketing measures, such as establishing a cost per sale, still have their validity, but the growth of the marketing database has revolutionised our capacity to develop specific objectives for customers, evolve relationships and forecast their progress with very much greater accuracy. Our plans are monitored closely on the database as they unfold and we now have the ability to make meaningful adjustments to them as we go along.

All of this is significant and it makes the established measures look a bit dated. These dramatic advances in direct marketing made possible by the database depend upon three key factors – the data being accurate, up to date and accessible.

The central idea is that a piece of information is stored so that we can get at it from several different directions, depending upon the nature of the enquiry. For example, we may want to know about everyone in a given place who has spent above or below a certain amount with us. Then we might ask when they have spent this (i.e. which month, quarter, season or year). Maybe we want to know more about where or how these purchases were made (in our shops, by telephone, mail, e-mail, cut-and-clip response and so on). You can see very quickly therefore that the original information on the purchasers can be viewed from a variety of perspectives for a number of reasons.

Our ability to know so much about our customers and to build mutually beneficial relationships works both ways. Customers are thinking about the relationships too. They may wonder why they have not heard from us, for example, or why an offer which we made to their friend has not come their way. Customers are increasingly feeling that they want more control in the relationship and this is a measure of our success in engaging their interest. It is also an indication of how far direct marketing has come in recent years and how the database empowers us to increase our contribution to marketing in the years to come.

(b) Database information

There are five categories of data held on a marketing database.

- ***Personal***

  To answer the "who" question, we need to know how we may contact the customer, preferably by addressing him or her individually. This requires us to have their title, name, address, postcode, plus daytime and evening telephone number, fax number and e-mail address. For the business customer, a "must" is also the correct job title and a division or department name for good measure. We will find this customer by reference to the company.

- ***Classification or profiling***

  To tell us more about the "who" question we need information about the geodemographic or lifestyle categories into which the individual fits . This is used in analysing markets, for summary reporting and in profiling and it enables us to match customers with people we do not know yet so that we can anticipate the behaviour of these prospects.

  For businesses in the UK, we require their Standard Industrial Classification (SIC) code. This system, used across Europe, allocates codes appropriate to the particular business activity – dividing commercial activities into very precise sections, subsections, classes and subclasses.

- ***Transactional***

  To answer the "what" and the "how much" questions, we must record all the transactions, bringing together information from accounts and everyone involved in processing the orders through to distribution, covering every detail, including dates, journeys, order values, payment method, settlement periods and so on.

  In cases where there may be numerous transactions, summaries may suffice (for example, bank account monthly opening and closing balances and turnover). We can deliberate on lifestyle details, but the hard facts of the transactional record are of paramount importance.

- ***Channel***

  The answers to the "where" question tell us which channels our customer uses to buy from us. These may be several, including a call centre or a branch, from a salesperson, through the mail or by computer.

- ***Promotional***

  In search of answers to the "why" question, we want to know how we found the customer and the details of all the applicable follow-up mailings and incentives. We should record every message sent out and every message received, including use of hotlines and responses to promotions that have not been specifically addressed to the customer, such as response advertising or money-off coupons. We need to know exactly how much we are spending on our addressed messages to each customer and to analyse the targeting and timing impact achieved.

These five categories should not be seen in isolation. For example, when we contribute what we know of a customer under classification/profiling, transactional and promotional we may begin to understand why a particular purchase occurred.

Each and every contact with a customer adds to and updates our information. An order attaches value to the customer, and so does the information that comes wrapped around that order (such as the customer's address, title, preferred method of payment, etc.). This provides a basis for forecasting the likely future value of that customer and allows us a foresight into why the order arose. Knowing which promotion prompted which order permits accurate evaluation and allows us to employ sound assumptions, provided we keep complete records. This will also allow us to detect any disruption in purchasing frequency which will highlight any problems that need to be addressed. The ***lack*** of transactions, therefore, also needs to be noted.

The basic sources of this information are internal – deriving from the interactions of individuals with the organisation. The main types of such interaction are responses and enquiries, and actual order details. In addition, information may be collected from such "non-order" transactions as:

- Service reports
- Complaints records
- Details of products returned
- Salesforce documents
- Applications for credit or insurance
- Promotions records
- Returned warranty cards.

List Acquisition and Management

An organisation's own database should provide full details of existing (and former) customers, as well as information about others who have been in contact with the organisation for whatever reason. However, it cannot provide details of other potential customers. The solution to this, now that the direct marketing industry has grown much more sophisticated, is to buy lists of names and addresses, including e-mail addresses ("mailing lists") of persons who meet the characteristics of the target market.

These are available from two kinds of source.

- One is from firms that have begun to build up a mailing list or database for their own purposes, but are prepared to sell it (or rather hire it out) to other firms for a fee.

Other sources of these types of list are public bodies who will often sell such databases as electoral rolls, personnel in schools or hospitals, etc. and directory providers such as Yellow Pages.

- The other kind of list is not compiled by someone in the course of their own business, but one built up from a variety of sources of information by a list specialist. There are now a number of these specialist "mailing list houses" or "list brokers". They use a variety of techniques to build their lists – for example, buying information from other businesses or canvassing consumers through surveys, knocking on doors or including a questionnaire in magazines or newspapers.

  These lists may be compiled against virtually any criteria felt to be desirable. Data obtained against one set of characteristics is often refined by cross-referencing with other key characteristics, such as lists of County Court judgments for debt (to eliminate "bad risks" and identify postcode areas where default is common). Information may also be analysed in a variety of ways to produce further refinements of socio-demographic groupings – for example, forenames may be used to identify areas where people of a certain age group live (lots of Traceys, Sharons, Deans or Jasons indicate large numbers of people under thirty whereas a preponderance of Wilfreds, Ethels and Doreens indicates a high proportion of over-seventies).

There are plenty of mailing lists (over 3,000 in the UK alone) covering almost every activity and interest of consumers and business people. Sometimes owners sell their lists, but the general practice is to rent on a one-use only basis. Extended use is available to a lesser extent.

As you would expect, the cost of lists varies with their type, the recency with which they were compiled and the level of detail they offer. A straightforward list of 100,000 people who have given their occupation as "accountant" in various circumstances during the past three years may be available for as little as £100 per thousand. A wealth list such as the one described above, guaranteed updated every three months, might sell for £500 per thousand. On a one-use only basis, business lists are more expensive than consumer lists to rent (around 50% more per 1,000 names).

The number of names on the list is taken as the actual number of names mailed after the list have been "***deduplicated***". Deduplication is intended to avoid mailing the same person twice, eliminate unnecessary expense and waste and prevent confusion. This process usually reduces the original total by about 15%.

Lists can come complete with a range of problems including obsolete addresses and missing details. Causes are many and varied and include people simply moving home, deaths and changes in occupation or in status. For lists of businesses, there are numerous changes, including mergers, acquisitions, start-ups, relocations and discontinuance. The need to update ("merge and purge") regularly is therefore obvious. In addition, care also needs to be taken to ensure that variations which relate to a single customer are identified; otherwise long established customers may be treated as newcomers. These problems can arise if one customer buys a number of times or two people who live together each purchase separately.

Response-generated and regularly refreshed lists are obviously the most accurate. Compiled lists need to be assessed according to their updating schedule and procedures. They are often less expensive to rent than response files and may offer targeting opportunities not readily available elsewhere. Many lists can be selected by reference to television broadcast regions.

It is estimated that some 40% of all "cold" direct mail is addressed to business people, selling a diverse range of products, such as training courses and vending machines. Over 80% of direct mail received by businesses is opened and read; it is therefore generally perceived to be an important source of business information. Very large databases containing very in-depth information on companies and their employees may also be rented, to assist in targeting DMU members whose buying profile matches existing customers.

F. THE MEDIA OF DIRECT MARKETING

There are a wide range of direct response media used in direct marketing. About a quarter of the weight of spending in direct marketing media is dedicated to telemarketing, over a fifth to direct mail and the remaining major media include the national press, the regional media, magazines the Internet and door-to-door distribution. However, before going on the examine the role and approach of the principal media, we should note the value of integration.

Integration

The importance of achieving integration in direct marketing cannot be overstated. Integrated direct marketing has been described as a multiple vehicle, multiple-stage campaign. For example:

- A press advertisement with a direct response mechanism, followed by
- A direct mailing to enquirers who responded to the advertisement, followed by
- An outbound telemarketing call 48-72 hours after the mail has been received (the purpose being to seek an order), or an e-mail followed by
- A face-to-face sales visit for those who requested one, followed by
- On-going communication.

This is known as ***response compression*** and the underlying idea is that deploying several different types of media with precise timing increases both impact and awareness of the message and generates greater incremental sales, while offsetting incremental costs. The response obtained from use of a single medium is therefore greatly enhanced when two or more media are used together. Ernan Roman in "*Integrated Marketing*" (McGraw-Hill) claims that a typical 2% response to a mailing rises by between 50 and 125% with the addition of a freephone line and that skilfully integrated outbound telemarketing can add another 500%. In other words, a 2% response has grown to 13% or more, simply by the integration of three media.

The value of the integration of media is very well established and because we are primarily concerned with the quantity and quality of response, we need to have a flexible attitude to choice of media. Direct marketing media planners are perfectly happy to consider some ideas that no conventional media buyer would entertain if they believe that, in a given circumstance, they will provide them with the result they require.

Media Planning

This is a key difference between media buying generally and media buying specifically for direct response. Media buyers think in terms of market coverage and frequency (cost per 1,000 and so on). They ask what combination of media will perform best within the budget and they may also have secondary objectives to satisfy, such as establishing awareness. The approach to media planning for direct marketing, however, is driven by deciding quite simply what will give us our largest return. We therefore work on systematically allocating our budget carefully to successively less promising situations until any further expenditure seems likely to be unprofitable, or we have to give up because we have spent the budget.

Direct marketing media planners use hard data to map out their market by reference to the stage people have reached in their purchasing. They place the committed customers at the centre, and then extend out to the trialists (those who have got so far as to, for example, test drive or sample on free approval). Beyond them, they reach the prospects and finally the suspects.

Contrast this with the conventional description of a market (for example, North West, C_1C_2 women, aged 15-25), which is arrived at by media and product category research. The direct marketers' view of the market reflects a determination to maximise the return on every penny spent. In practice we may also consider those matters which concern "traditional" planners, but, if we do, they will not be the prime considerations.

There are two more important differences. Direct marketing media planners work on past results. Unless the circumstances have changed, they expect the past to be their guide to the future. They closely scrutinise results, save the resultant data and use it to plan ahead. This is the key to successful planning and media buying for direct marketing. Where they are trying a new medium and therefore have no past results to go on, they regard this as a test in its own right. If it does not give them the return they want, they drop it. If they can re-think their approach or maybe reduce the cost, they might try again. If that does not work, they drop it.

Another key aspect of direct marketing provides the third difference. Every campaign comprises a succession of individual events, each one of which has been invested in on the basis of a carefully calculated return. Every single step of the way they must see the appropriate returns coming through. If they are not happy with their progress, changes are due.

Direct Mail

The most effective direct mail communications continue to demonstrate the power of this medium and serve to dispel misplaced scepticism that dismisses it as "old fashioned". Periodic examination of the direct mail we receive attests to the diversity of companies and organisations using this medium. Some 9% of all advertising expenditure goes on direct mail, coming in third behind press and television.

Direct mail is addressable, so target markets can be approached with precision, and this accuracy is reflected in its superior effectiveness at securing response. However, direct mail is relatively expensive and can cost £250-£500 per 1,000 items despatched. Even more modest mailings (at, say, 50 pence per item) represent significant expenditure, requiring particular care and selectivity.

Waste must be avoided by making sure lists are fully de-duplicated and properly maintained. Accidental duplication not only raises cost, it can also irritate the customer. The appropriate frequency of communications must relate to the frequency of purchasing. For example, mailing several times a year for a product that is only bought at most a few times in a whole lifetime may actually deter customers, whereas products that are purchased routinely may warrant frequent communications without prompting any adverse reaction by customers.

Direct mail is particularly successful at generating new business, whether through obtaining enquiries or in securing orders, applications or requests for free trial. But why are these recipients so much more likely to respond? A direct mailing can unfold its story in words, pictures and samples. It may even use sounds and moving pictures. It can take its time in the telling and its tale can be revisited at the customer's time of choosing over and over again.

Some 84% of all consumers who receive direct mail shots open them and 70% read the contents. Perhaps even more interestingly, 32% hand them on to someone else to see. Human curiosity is such that most people cannot resist taking a peek, and many spend several minutes reading most, or even all, of the contents. The more the different items are examined, the greater the impact and the likelihood of response.

The areas that raise greatest response from consumers include insurance, motor cars, general financial services, durable goods, charities, mail order catalogues, magazines and (to some extent) investments.

Businesses are interested in direct mailings too, with an estimated 90% of items being opened and nearly all of those scrutinised for business intelligence gathering purposes. At least a quarter of all mailings received are passed by recipients to colleagues for their interest and 20% are either responded to or filed for possible future reference. Business-to-business mailings achieve the highest response rates for various business services, office sundries, magazines and exhibitions, and, to a lesser extent, for books, consultancy and office equipment.

Whether the mailing message can be recalled later depends on its relevance, which in turn reflects the accuracy of the targeting. The greatest impact is achieved where the recipient is chosen because we have used what we know about their previous purchasing behaviour to fashion our communication. Direct mail also scores heavily when a mail shot has an obvious and strong relevance to an aspect of the customer's lifestyle, social or business interests or proximity to the supplier.

Since direct mail is relatively expensive, you may think that the aim is to keep mail packages fairly modest, and certainly the most extravagant-looking are seldom the most efficient. But it is not so simple as that, as you might suspect.

There are plenty of mailings which hit the bin faster than the discarded toast, because they fail to excite, look boring or expect you to start tearing here and peeling there, only to be confronted by some illegible text that has been perforated or an illustration so distressing it threatens your digestion.

In every successful direct mail communication there is usually a direct, polite and personalised letter. In fact, the more it looks like a conventional letter, the better. It gives the impression that someone has taken the trouble to write to you, and most of us like receiving correspondence, even if we may find that a bit difficult to admit. The letter can be so powerful that there may not be any real need for the brochure or leaflet that accompanies it. This belief that every letter has to be escorted through your letterbox by printed items can therefore be misplaced. In reality, they may not add anything and only by leaving them out will we be able to test their real contribution.

Creativity is more than just the sum of its parts; it is the words, pictures and sounds which together make the communication. Just how creative direct mail can be is illustrated by the winning campaigns in this medium of the annual Direct Marketing Association Royal Mail Awards. There are four categories (high volume consumer, low volume consumer, high volume business and low volume business).

The motor industry, in particular, uses direct marketing very effectively within its integrated marketing. A good example of this is the application of low volume direct mail by car manufacturer Hyundai to encourage the loyalty of a key group of customers. The company despatched a consultation pack to 768 owners of its coupé model, who had purchased their car at least two years beforehand. The pack sought customers' views on proposed changes to the model and included a design portfolio, detailed questionnaire and the offer of a limited edition numbered print. This was followed by a feedback pack. This is a collection of printed materials which is designed to elicit information from recipients that will provide useful feedback to the sender.

Meanwhile, detailed leadsheets were forwarded to Hyundai's dealers, to equip them to answer any customers' questions and requirements. Leadsheets are sheets of paper supplied to the salesforce which provide information that recipients can act upon in their search for sales. Typically, this information will include basic information, such as name, address and telephone number of someone who has made an enquiry. For those customers who hesitated to participate, an event was held by their local dealer so that they could test drive the car that they were being asked about. The campaign generated a 47% response rate and some impassioned reaction (90% of the respondents requested the signed print) and the return on investment was 7:1.

A simpler but highly effective example of high volume consumer direct mail securing results was the National Blood Service's campaign to meet its shortage of blood and overcome its dated brand image. A mailing costing £33,000 featured a personalised letter accompanied by three leaflets with the theme "Do something amazing today". The mailing generated a 19.5% response rate and 6% of respondents became blood donors. The cost worked out at £8 per activated donor.

Direct mail offers generous scope for creativity borne of lateral thinking. What more obvious solution, for example, when wanting to communicate with school managers who refuse to open direct mail than to send them an exercise book? This award-winning creativity worked for Barclays Merchant Services, who achieved a 16.45% response from nursery schools when they piloted their credit/debit card machines, which, research indicated, managers thought irrelevant to their circumstances. The communication comprised a letter together with a bound exercise book containing handwritten texts, headings underlined in red and line drawings, accompanied by a blue book mark offering a free prize draw. This humorous approach was supported by telemarketing, which identified review dates, decision makers and barriers to purchase, which would be addressed in further direct marketing activity.

Telephone

This is the second main addressable medium, and is used heavily in acquisition campaigns for fulfilment, following up with further information after other media have generated enquiries.

The telephone is a very practical medium which facilitates two-way communication – provided the moment is right. Consideration of the recipient's privacy and convenience are uppermost in timing outbound calls, particularly for acquisition purposes. The very effectiveness of this medium makes the avoidance of customer dissatisfaction hugely important.

Probably the single most valuable use of the telephone is for making absolutely sure you have identified correctly the business person you intend to mail. Reception staff seldom refuse to co-operate and if they do there are usually other people in the company who will help you.

Given the complications and ever-changing composition of the DMU, the potential values of business customers and their comparatively fewer numbers, you might suppose that using the telephone in this way would be second nature, but all too often mailings to businesses either fail to find their target or fail to address them correctly, in title, name or position.

The more effective business communications usually end on a "call to action" in the form of a promised follow-up call. Received wisdom is that a call no later than three days after receipt is essential, although timing may vary according to circumstances (for example, it is often suggested that you should never call on a Monday morning or a Friday afternoon). These pre-announced follow-up calls are also made in consumer markets, particularly for expensive products, such as conservatories, gazebos, pools and tennis courts.

The telephone is also widely used for qualifying enquiries. This is an especially valuable application where the next stage is to commit a salesperson's time to making a visit to the prospect, whether consumer or business. The telephone is widely used to book sales appointments.

The popularity of the telephone for seeking information and placing orders is reflected in the extensive use of 0800 (freephone) numbers for generating response. Sometimes response can be so heavy and concentrated that it can even exceed the call centre's capacity to cope. It should be noted that this can rebound badly on the organisation and not being able to "get through" can provoke any number of a broad range of emotions. It can also serve the call centre poorly as the full benefit of the response has not been obtained and lost calls may not have been recorded.

The telephone is also commonly used for marketing research and delivering quality customer service generally that is aimed at building customer loyalty.

Television and Radio

Direct response television is growing, as ever more advertisers invite viewers to call a telephone number, visit a website or write to an e-mail or postal address. The advertisers who rely on selling "off-screen" using off-peak airtime are being superseded by major advertisers who seek dialogue, mostly through 0800 lines to call centres.

Television is a non-addressable medium that may offer a choice of response channels and the easier it is to use, the more effective the commercial is likely to be. However, it cannot provide a permanent source of reference later. As a result of this, television commercials often refer across to another medium where this is possible, such as Teletext or a directory.

If television is used without reference to other media the direct marketer has to decide whether to convey all the information that would be in a typical space advertisement (which may take from one to two minutes), or simply use the medium to put across a telephone number and/or contact point for response to an offer for information. That short and snappy approach might take no more than 10-15 seconds and, given the cost of advertising on television, it is probably not hard to imagine which might have the greater appeal. However, the success of a brief commercial like this will depend on a strong image, the fast recognition of an established brand or a simple concept.

One of the best aspects of radio is its ability to reach listeners so quickly, cheaply and effectively through a wide choice of stations. Radio is considered to be one of the lesser media for direct marketing but it has leapt in usage in recent years. Owing to its distinct characteristics, radio is generally used to raise enquiries or as the informative first stage in two-step offers. It is also often used as a support medium.

Many of the considerations that apply to television are equally relevant to radio, most tellingly that there is no permanent source for future reference. Nor can it be considered ideal where showing a product or service is as important as talking about it (for example, with innovative products which might need detailed explanation of how they work).

Newspapers

Some people buy newspapers, others merely read them. The circulation of any one publication is therefore likely to be less than the total readership. Circulation is calculated by reference to sales, whereas readership estimates are arrived at through research. The distinction between the buyer and the reader is important. The first puts down money for the privilege of reading the paper while the second does not. Perhaps not surprisingly therefore, the reader may not respond so readily to direct response advertisements.

Media audience research is directed at the relationship between the cost of coverage, the audience profile and the quality and quantity of response. It assists in the measurement of coverage and frequency which seeks to identify where readerships overlap.

Prospects who respond on first receiving a message outnumber those who need three or four sightings before expressing interest. Obviously the former are to be preferred, so for best results we want to obtain the maximum possible coverage with the least possible frequency.

Unfortunately, the newspapers cannot oblige us that readily. Their readers may buy and/or read more than one paper and they may be fickle purchasers, regularly changing their choice of newspaper. Accordingly, there is an element of overlap in readerships between one title and another, and it is necessary to bear this in mind when calculating the average frequency, or number of times, that the average reader sees an advertisement.

Newspaper response advertising is obviously a non-addressable medium whose effectiveness in generating response rests on how easily the reader may reply and keep a record for future reference. Typically this translates into providing a telephone number and e-mail address plus a reply coupon. The telephone number or e-mail address are unlikely to be remembered but this is not important as the advertisement survives as a permanent reminder.

Usually acquisition programmes are mainly non-addressable media. In general, the more effective the non-addressable medium is in generating response, the greater the charge per 1,000.

Press space advertisements provide a particularly economical vehicle for conveying and requesting information that is seldom beaten, but regional newspapers are usually effective only on behalf of local or regional advertisers, which is a recognition of their commercial strengths.

Provided that it says everything that needs to be said for the reader to respond, an advertisement's effectiveness does not increase proportionately to any increase in its size. Nor is increased frequency likely to improve effectiveness. One or two advertisements appearing close to each other in the same medium are likely to be most effective, but even the second is likely to generate less response and any that appear thereafter will perform successively less satisfactorily. Increasing the size or frequency of an advertisement therefore risks encountering diminishing returns.

This flies in the face of the theory that the effect of advertising is enhanced by repetition and therefore offers economies of scale. In direct marketing, the acid test is how many responses were generated by this or that specific advertisement? It is the advertising cost set against the resultant sales values that provides the most clear-cut means of evaluation. By taking a sales value figure of, say, £100, £500, £1,000 (or whatever else is most appropriate to the circumstances), it is possible to compare one advertisement's precise effectiveness against another.

It follows that relative differences in circulation between different titles used may contradict the effectiveness test. An advertisement in a lower circulation paper may outperform one in a larger, owing to greater targeting precision obtained in the lesser purchased title.

Magazines

"Off the page" is an apt description for space advertisements, particularly those that seek cash-with-order response, which are placed primarily in magazines to sell clothes and household products. These advertisements prompt the reader to reach for scissors to cut out and complete, then mail, a request for information or purchase coupon, or perhaps write a cheque or telephone to purchase by credit card or go on to the website and purchase direct. In many cases, these advertisements aim initially to provoke attention and interest to achieve requests for catalogues, from which in turn sales will result later.

Most direct response advertisers use a combination of media formats and incentives to reduce their exposure to risks raised by constant change in the relative performance of different types of media and diminishing returns from any one repeatedly used medium.

Consumer magazines proliferate and by no means all titles survive and prosper. They are usually classified, for example as home interest, and the vast majority deliver well-described readership profiles. Many seek to serve clearly defined market niches, made possible by the impact of technology advances on print production costs. There are also a substantial number of general interest titles which are lifestyle-based vehicles for reaching customers who guard their privacy and may therefore evade targeting at an acceptable cost by other means.

There is usually some scope for negotiation against publisher's advertising rates, which are likely to be influenced more by market conditions than production costs. The direct marketer who has used a particular title before will be in a position to calculate the value of each proposal with accuracy and view the rate card accordingly (i.e. the piece of card with the advertising rates and charges and accompanying sales information on).

Our evaluation of each advertisement's efficiency may not, of course, simply rest on advertising cost against the value of resulting sales. We may prefer another measure, for example looking to the future value of new customers resulting from an acquisition programme.

Business titles also proliferate and are likely to deliver many prospects who are not otherwise readily accessible. This explains the growth of consumer advertising in non-consumer publications. They can offer remarkably good value because they lie around in business premises for protracted periods and may even be indexed and stored in a firm's library. The readership tends to be substantial for every copy sold and the quality of that readership may be considerably higher than to be expected with secondary readers of a newspaper.

Additionally, many professional and trade bodies, and some other organisations, publish magazines for the benefit of their members or customers that fail to attract advertising or only obtain very little advertising. Usually this is because they are thought to be arcane or limited in their appeal, or of insufficient size (format) or distribution (quantity). Some make little or no real effort to attract advertisers and most offer very cheap rates to attract any advertising. For direct marketing, this can be very useful if the focus of the publication is inappropriate. Typically, these include institutions or associations whose publications are primarily funded from membership subscriptions.

Inserts

Business people often complain that inserts fall out of magazines and never survive internal circulation. They reason therefore that they must be poor value and should not be used. They are mistaken. They may fall out, but whether loose, bound-in or tipped-on, inserts provoke an impulsive response and are extremely effective for enquiry lead generation for a whole variety of products.

Inserts come in all shapes and sizes, thanks to modern printing technology. They range from simple postcards to small mailing packs and they present scope for incorporating novel devices, such as panels that release scents when their surfaces are scratched and tokens that can be peeled off their mountings. This flexibility offers the scope for creativity and heightened impact and by their very nature they are convenient to use and keep.

Despite the extra cost involved, inserts can be more effective than space advertising and generate high levels of response from the very same media where ever larger advertisements are bringing in diminishing returns which raise the cost-per-response.

These high performers increase response more and more rapidly without raising cost-per-response but, given their power to provoke a response on impulse, the overall quality of response may be lower than is to be expected from a space advertisement.

Door-to-Door

Household distribution offers advertisers the opportunity to be highly selective about the choice of location. It is normally used for generating leads or enquiries very economically, being only about one-tenth the cost of direct mail.

Provided the targeting opportunities fit the target market, door-to-door distribution of inserts may prove more cost effective than placing them in newspapers or magazines. This will help to counter the duplicated coverage problems of inserts resulting from their ability to draw high response rates.

The low cost of door-to-door delivery leaves little possibility for negotiating discounts because the price is closely related to the actual costs of performance. Analysing results is done by reference to post code sectors or postal regions to assist in identifying patterns and explaining results.

Electronic Media

The website address has become commonplace in direct response consumer advertising, both in the press and on television, and it is a familiar element of business-to-business communications. It provides both a source of further information and the means to purchase or communicate directly. As such, the Internet performs as an important ancillary or auxiliary medium.

It is probably too early to appreciate the full potential impact of some of the recent developments but the growth of the web, online marketing, wireless and e-marketing gives marketers the ability to reach large target audiences cost effectively while retaining the targeting power of direct marketing. The challenge facing us is to understand the full potential of these relatively new and fast changing areas, to consider how they will fit into the mix and to execute them effectively.

Today the Internet plays an important role in how companies communicate and do business. Some business sectors like travel and leisure, banking and financial services and insurance have adapted to electronic trading faster than others, however, almost all businesses are now involved to some extent.

The growth of the Internet has been phenomenal. In the UK most consumers and almost all businesses now have access to the Internet. Although, initially, sales generated in relation to number of visitors was disappointing, with growing bandwidth and greater familiarity through usage, the number of online shoppers is expected to increase dramatically.

The Internet has a number of important advantages that many organisations are seeking to exploit. A website is relatively cheap to set up, it provides a global presence and is flexible, so changes can be made instantly. Even the smallest of organisations can usually afford a website. Installing an e-commerce platform in order to trade online is also relatively cheap and easy to do. Although ease of ordering is also perceived as an advantage, concerns over credit card payments and identify fraud do fuel some concerns, which need to be fully addressed.

The Internet provides a number of important roles, these include:

- **Service online:** Perhaps the best example is online banking where customers can service their accounts from anywhere in the world. This not only provides additional customer benefits but also has enabled banks to reduce the cost of their branches, service centres and individual transactions. Another example is the airline industry where frequent flyers can access a wide range of services online.
- **Information online**: The Internet is an excellent platform for research and information search. A wealth of information is now available online through numerous search engines (e.g., Google) and databases such as Euromonitor. You can even access newspapers and magazines online from anywhere in the world. Many organisations now place their catalogues online (see next section).
- **Transactions on line:** Almost anything can now be bought online I am sure that most of us have bought airline tickets, books, holidays and insurance online. We can also buy from e-shops, e-malls and e-auctions and sell on e-bay. Businesses do substantial business online – e-procurement is a rapidly growing activity. Delivery can also be made online (e.g., airline tickets, music, computer software, insurance policies).

E-mail is used to develop a dialogue and is remarkably inexpensive. It is now used throughout the UK and has largely replaced the letter. It has become an important and effective CRM tool used by business to maintain regular contact with customers.

Wireless through mobile phones, SMS and WAP and interactive TV (iTV) provide further information delivery gateways that, although still in their infancy, are providing important additional two-way communication platforms.

In the future, as technology improves, the marketing uses of electronic media are likely to become more sophisticated and consumers and businesses alike will come to regard it as a very important marketing tool.

Catalogues

During the 1990s there was growth in the catalogue market but there are now indications that future growth will be primarily in smaller, directly targeted catalogues rather than the large agency type such as Freemans and Littlewoods. Examples of the small specialist catalogues featuring such items as furniture, sports wear, garden furniture and holidays can usually be seen in the UK Sunday papers where they are often distributed as inserts.

Society is changing and with greater use of credit cards and online shopping, as well as a wider selection of goods in the high street, it is likely that the large paper based catalogue will remain in decline. The Internet has been described as an electronic mail order catalogue that is a lot easier to use than an unwieldy, heavy, bound, paper printed version, which to many people because of the volume of paper used, is now seen as environmentally unfriendly. The web alternative appears more attractive, highly flexible and a substantially cheaper option.

G. FULFILMENT AND CUSTOMER CARE

Once we have prompted a customer to respond we must make absolutely sure that we handle their enquiries, requests and orders to their optimum satisfaction. This fulfilment, as it is called, is critical to success and should never be given less than our best effort.

There is more to fulfilment, however, than sending a brochure or despatching the goods. Customer care issues are raised. Many companies and organisations talk about customer care but demonstrate contrary attitudes when a customer comes into sight. We all know, for example, how often retail bank personnel do their utmost to avoid responding positively to even the most minor customer enquiries and requests, yet banks are among the heaviest users of direct marketing.

This is not to say, of course, that all customers are attractive to us. We know the ones we prefer and the ones of whom we would like to have a greater share, yet in some circumstances we may actually quite want to lose some particular customers. This ***attrition*** may be necessary to reduce the level of existing customers who do not re-purchase, either because they have left the market for one reason or another, gone abroad, or taken their custom elsewhere. In any consideration of retention and development it is important for us not to lose sight of attrition. Too often we overlook it, as if it might sound negative and should therefore not be mentioned. There are, though, times when it is important to know when to stop communicating.

The Importance of Fulfilment

Fulfilment may be evidenced by a sales visit, invitation to a showroom, test drive, telephone call, e-mail, attendance at a sales conference, visit to an exhibition or an order being placed for a product or service. There are many different routes that an enquiry can take and the acid test for fulfilment is that, whatever the specific form it takes, the customer is satisfied with the conclusion.

To appreciate just how important this is we have to recognise that satisfied customers are not the same as committed ones. They are still quite capable of accepting an offer from a competitor, as we mentioned in an earlier study unit, and it has been found that generally the more competition there is in a given market the more likely customers will purchase from different sources. So the aim is to provide ***complete satisfaction***.

Customers have relatively simple basic requirements. Apart from the product or service offering that would be expected from any supplier in a given marketplace, the customer is looking for what happens once they respond and how a supplier then differentiates itself from its rivals.

A lot has been said and written about exceeding customer expectations and delighting customers and many a mission statement is built on such well-meant and ambitious aspirations. In cold reality, however, most customers are perfectly happy to obtain a "decent" service and many are wary of anything that begins to be a little over-familiar.

Customers want to know that they can get assistance, and that what is described as such is worthy of the name. With all but the simplest items, anything that also adds value, such as tips on obtaining more applications or greater ease of use, is recognised and usually wins a few Brownie points.

Sadly, we can all have purchases that go wrong, sometimes horribly wrong, and customers like to know that should there be a problem there will be a no-quibble means of recovering the situation in a sympathetic manner. This is a very sensitive area and directly relates to reputation because it tests the quality of the relationship.

It should also be remembered that this applies as much to ordinary, low-tech, everyday products as to complex high-tech processes, sophisticated safety equipment or professional services. If you buy half a dozen tall-stemmed wine glasses and the flat circular bases of two of them shear off without warning within a fortnight, you would expect the supplier to replace them without argument. The company takes your word for it that you have handled the glasses carefully. You have already experienced inconvenience and you are also likely to be wondering about the quality of the replacements and their other glassware. It may be that only the knowledge that the faulty products will be replaced promptly keeps you even prepared to contemplate the possibility of further purchases from that source.

Customers are increasingly "marketing aware" and do not expect extra-ordinary service, or usually seek it. If the product or service appears therefore to be customised to them, their complete satisfaction is all the more likely. This tests the concept of one-to-one marketing to its limit, in which each market segment comprises an individual customer.

We have considered how, in reality, customisation can be very difficult to achieve in some customer markets. Nevertheless, if we really do know what our customers want most, we should be able to deliver complete satisfaction.

We already know that there are customers who can be loyal and customers who may defect, but there are two more categories, neither of which is likely to result in the customer being very, much less completely, satisfied. They are:

- ***Hostages*** – those who are committed by a formal binding agreement, perhaps for credit, or stick around for lack of a competitor to which they may defect); and
- ***Mercenaries*** – those who can always be bought off by a competitor.

Hostages can make demands that can never be satisfied, no matter what effort is made for them and the mercenaries are best lost.

Fulfilment Systems

The media used for response and fulfilment are as follows.

(a) Post

The postal service continues to provide the means not only to forward requested information and products to customers, but also to receive enquiries, requests and orders. It is an economical system that provides a two-way channel for every single address in the country and it appeals to many consumers who prefer to put some distance between themselves and their suppliers. It is true to say that the post can be used for assertive direct mail, but nonetheless it retains hints of an old world image of measured communication and reliable familiarity at charges which still look like good value.

For the direct marketer, the post offers the means to obtain accurate orders using order forms cut from mailing packs or advertisements by consumers and formal orders on headed stationery from businesses. It is the means to securing completed questionnaires and running promotions, prize draws and other contests. Some now refer to it as "snail mail" but much of the traffic is of a kind that can be efficient within the service's timescales, the only complaint being the persistent incidence of first class mail being delivered second class.

The "freepost" system is designed to encourage a response. The company pays in advance for an estimated number of replies and a licence, and if this estimate is exceeded, they then pay the balance. The remaining direct cost is the stock of specially overprinted envelopes. It should be noted, though, that whatever claims are made for the use of freepost, it is not always suitable, particularly in some business-to-business markets.

(b) Facsimile

Should the "snail mail" prove too slow (perhaps where urgent requirements arise), the fax machine offers a prompt alternative which still provides the means to making sure all details are supplied. Many companies use fax machines to forward orders, often following up with a duplicate by post. Faxes, incidentally, are accepted as evidence in court, and in civil litigation for the recovery of bad debt. Once the urgent faxed order is received, it may be satisfied by urgent despatch couriers, which bypasses the relatively slow parcel post. In reality few organisations in the UK, except perhaps the legal profession, still use faxes. Most tend to communicate with e-mail, using attachments where necessary.

(c) Telephone

The most popular fulfilment medium is the telephone, with its much greater suitability for satisfying those faster, cheaper, better demands we touched on earlier. The consumer likes to use the telephone, particularly for home shopping and contacting service providers directly, most notably in the financial services, travel and leisure markets. It panders to our declining interest in writing and our growing demand for fast service.

This popularity has been assiduously cultivated, with talk of "magic telephones" that can do anything (customers using them to buy, request information, obtain answers, complain, file claims or even pay compliments). The more loyal the customer, the greater the propensity to use the telephone to make contact and the greater the desire to start managing the relationship with the supplier.

Many companies and organisations appreciate the burgeoning role of the telephone as a fulfilment medium and the flexibility it offers in capturing enquiries and orders around the clock. In short, it enables them to give a better service. For the telephone to meet its potential the link with the customer database is key, because it enables the customer to make decisions based on information provided from the database at a time that is most convenient to the caller.

Bringing information to the customer, rather than vice versa, is just as time-saving as bringing the products to the customer. The information may relate to a bank account or stock availability, for example. Whatever the subject matter, the principle holds good; the customer's time is being respected.

Telephones also provide the means for conversation, even if it is without, as yet, the benefit of seeing the other person. This is a great help in covering a lot of ground quickly, raising all the questions, providing the answers, dealing with any supplementaries, and handling transactions promptly.

Call centre staff should have the means to locate all they need for dealing with queries and they should be given the power to compensate customers for minor service lapses. The indications, however, are that many call centres fall short of this, but the intention is clearly there. Call centre performance is steadily improving, through training, internal monitoring and by external mystery shopping, sometimes by real customers, because how well the staff appear to be working influences how the customers think of the company overall.

(d) Electronic media

The Internet, e-mail and SMS (texting) together constitute the fourth major fulfilment medium. With the rapid increase in Internet and mobile penetration, the expansion of high-speed access, greater confidence through usage, and advances in technology, the majority of consumers and almost all business use the Internet and mobile messaging as major communication channels. Indeed technology is such that many people now have access to their phone, Internet, e-mail and can view pictures or spreadsheets and access databases via their Blackberry in real time.

With such technology there has been a rapid decline in letter writing and landline telephone calls; indeed the future of the landline in the UK must be questionable. With expected technological advances, electronic media is destined to become a major information and transactional medium.

The Internet is now also an important distribution channel where products such as tickets, software, insurance policies and music can be delivered online, often reducing distribution costs and providing almost instant delivery.

Customer Care

Most customers know what is to them – the minimum acceptable relationship – and what level of care they would like to see. They may also have perceptions about the level of customer care they currently receive, which of course, may not be accurate from the supplier's viewpoint. Nevertheless, the warmer the relationship the more positive may be the perception of each communication.

How these factors are handled is important. Over-attentiveness (for example, immediate call centre response or the operator talking quickly and assertively from the opening script), may seem intimidating and off-putting, and may discourage the caller from making future contact. Some customers may criticise when standards seem to fall below what they require, but should matters improve to meet what they think is required they may begin to take that new level of relationship for granted. Customers form their requirements and perceptions from experience of the supplier, the competitors and by whatever other relevant company or organisation with which they are familiar.

Customers are surprisingly tolerant of lapses by suppliers provided their past performance has been well rated. The time taken by a customer to become aware of the lapse, assess it, decide to move on (if that is judged necessary), and actually make a move to a competitor provides the supplier with the opportunity to recover and maybe make amends.

Word-of-mouth recommendation is usually expressed in terms of levels of satisfaction, and customers who are completely satisfied will often recommend to others who are dissatisfied with their present supplier. For consumers, this can involve perceptions of status and a desire to demonstrate quality suppliers as a lifestyle feature. Interestingly, customers who have been dissatisfied and then had their problems resolved can become the most ardent and vocal supporters. This is therefore hugely important, because in business and consumer markets any piece of information about the experiences of others with a certain company or organisation is highly valued, sometimes perhaps excessively so.

We all think that we are short of time, and in truth some of us may be. Customers therefore like to think that suppliers are saving them time. In reality, this may not be so, but in direct marketing we are very much in the business of making life easier for customers through remote purchasing that brings the goods to them.

Saving time is a benefit of the relationship, although older people under less perceived time pressures appreciate a slower pace if they see it as being helpful, particularly when buying an expensive product. Over and above their basic requirements, customers have a few specific expectations of "decent service". These should not be treated lightly, although, unfortunately, this advice is not always followed.

In thinking about fulfilment we considered the need to reassure our customers, with the prospect of fast and effective solutions should any problems arise and the availability of assistance as and when required. The customer wants convenient and easy access to the appropriate person, first time, and does not like feeling "fobbed off", whether or not it is a justified complaint.

As the relationship progresses, the demands are likely to increase. A customer expects the supplier to recognise the length and history of the relationship and to accord special privileged status to them as a result. Some companies that benefit from stable customer bases seem, at times, reluctant to acknowledge this and on occasion they may suffer the consequences, as when a rich customer quits a bank, doing damage as he or she goes, by virtue of the business itself and/or the social connections they offered.

The customer wants communication and contacts to be appropriate in his or her eyes; a friendly two-way dialogue and sensible anticipation of their needs. We well understand this, and know that the database provides us with the means to meet these requirements. Again, we are back to thinking about fine tuning our offers to meet customers' needs.

Review Questions

1. Define direct marketing.

2. What are the four principle development strategies which concern direct marketers.

3. There are five categories of data held on a marketing database, what are they?

4. There are five types of Internet visitor, who are they?

5. Why is the catalogue market in decline?

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> You have been hired to provide marketing advice to a major national airline in your country. The CEO of that airline gives you a brief in which he says that the arrival of low cost airlines has completely shaken up the airline industry. He notes that most experts would argue that the shake-up is all about price. He, however, is not convinced. He asks you to write a report detailing the key benefits that customers associate with quality air travel and to assess the real impact of lower airfares on established airlines

ANSWERS TO REVIEW QUESTIONS

1. The use of non personal media, the Internet or telesales to introduce products to consumers, who then purchase the products by mail, telephone or the Internet.

2. The welcome cycle, Uptrading, Cross selling and Renewal.

3. Personal, Classification or profiling, Transactional, Channel and Promotional.

4. Directed information seeker, Undirected information seeker, Bargain hunters, Entertainment seekers and Direct buyers.

5. Changes in the economic and social environment, the growth of credit card usage, costs associated with printing and distribution, the development of the Internet and online shopping, improved high street shopping, and environmental and green pressures related to paper usage.

Study Unit 14

Distribution Channel Management

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INTRODUCTION

The "place" element of the marketing mix does not only relate to the actual location where a buyer can obtain a product – it is also concerned with the entire process of distribution management. This means that it comprises ***all*** the processes which are involved in getting the product or service to the buyer and, ultimately, to the users in the most economical manner – i.e. order receiving and processing, stocking, transportation, delivery and display. Responsibilities will also include receiving back and checking items returned from buyers because they have been found to be faulty or damaged, or for any other reason.

The distribution industry has seen many changes in recent years, with systems becoming predominantly technology based, which has improved efficiency, reduced costs quite dramatically in some cases and has opened up new online ordering and delivery channels. In addition, one of the most competitive elements in today's marketplace is the speed at which you can take delivery of your product once you have purchased it. If you are purchasing a car, there may be nothing between dealerships in the price, but delivery could be the key component to closing a sale.

The distribution function deals with minutiae – in volume and on a continual basis. Its role is supportive but crucial. Marketing is concerned with the exchange of satisfactions on a continuing basis and the product must be delivered, in good condition, at the right time and to the right place. Errors in invoicing can probably be corrected with minimum problems. A similar error in distribution can cause a serious loss of revenue both to the customer and the supplier.

Proper management of the distribution system is, therefore, an important part of the company's total marketing system, and can make a significant contribution to the cash flow needs of the company.

In some companies distribution will be under the direct control of the marketing department – in others it may be under production or even purchasing. If marketing is not in direct control, there must be a great deal of liaison or the whole process of satisfying the customers' needs may be endangered.

Decisions on distribution channels are very important because they have great effect on other decisions made in the marketing process. In addition, once decisions have been made on distribution aspects, they tend to be difficult to change.

A. THE CHAIN OF DISTRIBUTION

When we refer to a ***channel of distribution*** we are speaking about the ***chain*** which links the manufacturer and the user.

The shorter the chain, the fewer the links and the closer the ties between the manufacturer and user. As channels lengthen, problems associated with loss of control and profit become more pronounced and the responsibilities of the manufacturer will increase.

The basic decision in the choice of a distribution channel can only ever be between a direct and indirect channel.

- **Direct channels**

  Direct distribution means that the manufacturer delivers the product straight to the buyer – the product goes directly from the producer to the consumer without the use of a specific intermediary. We are seeing a growing trend for farmers to bypass wholesale markets and sell their produce direct at farmers' markets. These are proving very successful, particularly as the call for organic produce develops. Many companies who want to reach a wider audience use the pages of the national newspapers and magazines to sell off the page. This method of selling is now being transferred to the Internet where ordering, payment and in some cases electronic delivery are made easy. Initially, it was mainly travel and book companies that used the Internet to sell their goods and services but today, we are witnessing an explosion in many other fields, including property, jobs, travel, insurance, banking and cars.

Guarantees have to be given to buyers in case the merchandise is not what they want and so a full refund has to be offered.

Direct channels mean total control over quality, price and profit ***and*** more involvement with the customer. This closer involvement adds many responsibilities – order processing, transport arrangements, marketing, promotion and after-sales service. This can be too much for some organisations, so they prefer to use indirect methods of distribution.

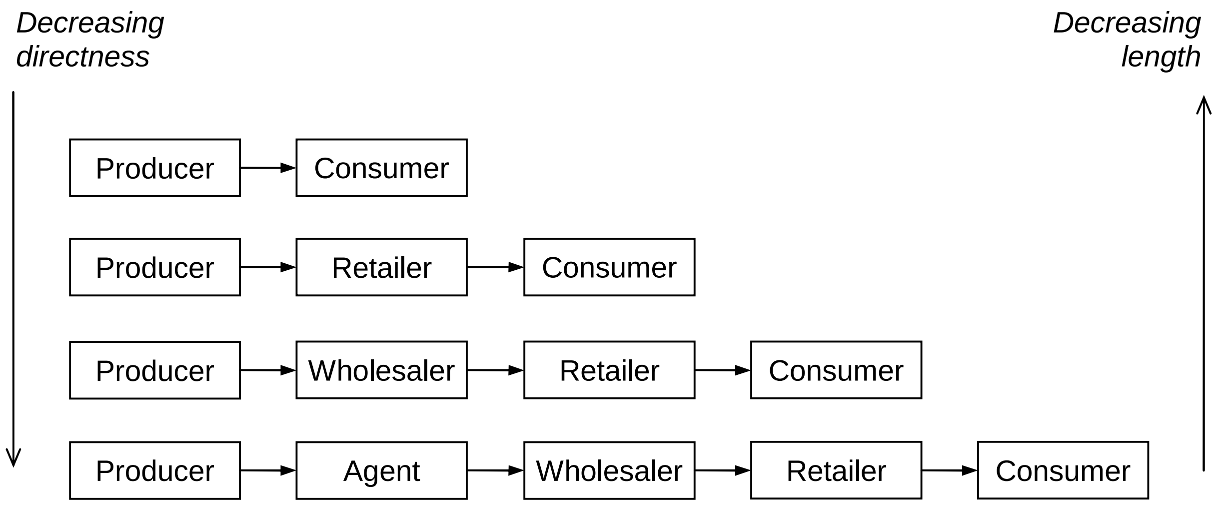
- **Indirect Channels**

  Indirect distribution means that delivery is made through an intermediary of some kind. The intermediary is a "link in the chain". There may be multiple links in the chain with many intermediaries before the buyer, or user, comes into contact with the product.

  Using indirect channels means that manufacturers will lose some element of control and profit. They may never get to know, in great detail, anything about the actual users of their product, which could result in a reduced capability of knowing what the users are looking for. We must also recognise that using an intermediary can never be as quick as going direct to a customer.

Figure 14.1 displays the main channels in terms of the directness of contact between the producer and the consumer, and the length of the distribution chain.

Figure 14.1: The Chain of Distribution



Both the number and types of intermediaries selected in designing a channel depend upon the range and nature of the tasks required in moving goods and services from the manufacturer to the final buyer. They also depend on the extent to which one channel is superior to another. That said, the following table highlights a variety of factors influencing choice between direct and more indirect channels of distribution.

Direct *(Shorter)*	**Indirect** *(Longer)*
Industrial products	Consumer products
Services	Tangible products
Few, more concentrated customer groupings	Larger numbers of customers, geographically dispersed
More control required, e.g. quality, installation, after-sales service	Control less important
Customer purchases in large amounts at frequent intervals	Customer purchases frequently but in small amounts
Products which are bulky, expensive to handle, custom-built, high unit value or perishable.	Less bulky, cheaper, standardised, non-perishable products.

B. CHARACTERISTICS OF DIFFERENT CHANNELS

The main characteristics of the different channels – the chain of intermediaries involved such as the wholesaler and the retailer, and the process of selling direct to the consumer – and implications of these characteristics for the role of each in the distribution chain are as follows.

Wholesalers

The wholesale trader is one who purchases a wide range of products in bulk from the manufacturer, break downs quantities into smaller sizes and then sell on to the next link in the chain which may, or may not, be the user. The true wholesaler operates neither as a manufacturer nor as a retailer but as a link between the two.

Wholesalers will expect, and be given, lower prices because of bulk purchasing.

The wholesaler, therefore, is a merchant whose functions are:

- To buy from manufacturers and sell to retailers
- To forecast, stimulate and interpret the desires of his customers
- To be the arbiter of what shall be produced by the manufacturers by forecasting changes in fashion and suggesting the type of goods and materials likely to be required
- To help manufacturers concentrate on production without having to be concerned with the problems of marketing small quantities of goods through numerous retail outlets
- To assist retailers by supplying goods in the quantities and of the qualities required, obviating the retailers' need to carry heavy stocks which would tie up their capital for long periods
- To keep prices steady by buying when trade is slack and prices low, and selling when prices rise due to increased demand, thereby relieving the manufacturers and retailers of much of the risks of market fluctuations and price movements.

(a) Advantages of Using a Wholesaler

In general, manufacturers of ***consumer goods*** tend to use wholesalers in the following circumstances:

- Where the manufacturer is new to the market and prefers to rely on the wholesaler's contracts
- Where demand is irregular or seasonal
- Where the manufacturer cannot carry out certain functions himself – for example, warehousing
- Where the manufacturer would not find it cost-effective to send a salesman to a number of small retailers. One large order from the wholesaler is preferable to many small, retail orders
- Administration costs– for example, postage and typing – are reduced by using wholesalers because the number of accounts is reduced. Also fewer manufacturer's salesmen are required.

For ***industrial goods*** a similar pattern emerges. For example, steel stockholders handle steel for steel companies. The wholesaler here can employ his own salesforce, make immediate delivery from stocks, and provide credit and technical back-up to his customers.

The above points illustrate where it is advantageous for the manufacturer to use a wholesaler, but there are disadvantages.

(b) Disadvantages of Using a Wholesaler

- The manufacturer loses control over where his products are finally sold. He cannot dictate a distribution policy to the wholesaler
- Call frequency is dependent on the wholesaler
- The wholesaler sells other competing lines and therefore the manufacturer has no control over what products the wholesaler generally pushes
- Promotion in-store/warehouse is not possible unless merchandisers are used
- In certain cases, the manufacturer has no control over price.

Some manufacturers operate dual distribution – for example, Mars (the confectionery company) sell ***direct*** to big customers, but also sell to wholesalers who service the small retailers, outlets which the Mars salesforce leave therefore alone.

Distributors

The main difference between distributors and wholesalers is that distributors take the products in the form that the buyer requires. Payment may be made to the manufacturer for the products or they may be despatched on "consignment" basis – which is simply another way of saying "sale or return".

Distributors are strategically placed in the market to ensure coverage of the target sector and can relieve manufacturers of a lot of basic marketing problems. They like to be "exclusive" as this cuts down on competition and adds to their own competitive advantage in the marketplace. Often these bodies will have sole rights to distribution within a town or area and are appointed by a manufacturer. Agricultural machinery, earth-moving equipment and motor cars and other vehicles are good examples. Distributors and dealers also provide a crucial after-sales service and spares department.

They may be dealing with a wide range of products manufactured by various companies, or they may limit themselves to only one particular type of product – for example, they are often used for electrical goods, both consumer and industrial.

Retailers

A retailer can be described as a business that buys from a manufacturer or wholesaler and then sells direct to the buyer, usually from fixed premises or often nowadays over the Internet. They provide the point of contact for buyers, so although they may be a long way from the manufacturer, but they are the direct link to users of their products.

Retailers can be small independents still found on the high street, for example, a privately-owned pet shop; or one of a larger network, e.g. Petsmart superstores. Many independent retailers have ceased trading, largely due to the demise of the high street and the growth of large retail parks which offer a wider choice and free car parking. Companies such as DFS and B&Q are now well established names. The independents that remain offer a high degree of personal service as well as joining buying groups in order to achieve better discounts, which they in turn can pass on to the customer.

High street retail shops will have decor that is suitable to the type of customer they are selling to. For example, the fashion store "Top Shop" is "*brighter, noisier and less formal*" to cater to the tastes of its young market; "Country Casuals", on the other hand, caters to a more selective audience which tends to be older, so the outlets are tastefully decorated with more gentle background music than the frenetic pop music which is played in "Top Shop". Both stores, despite the differences, are supplying a convenient location for buyers to see and try garments before buying.

The functions of the retail organisation may be listed as follows:

- Establishing premises to which the consumer is attracted
- Obtaining, at prices which are economic, a sufficient source of supply of the goods demanded
- Competing successfully with other retail organisations.

While these functions may appear formidable, they are by no means a deterrent to the entrepreneur. Many thousands of retail businesses exist throughout the world. They range from the village general stores run on a sole trading basis to the multiple shop and chain store ventures operated by large, public, limited companies.

Certain retailers will not, on principle, deal with wholesalers because they feel that wholesalers are "inferior" to the manufacturer. This is often an attitude of mind rather than a fact. Also, some retailers are so large – for example, Boots, J. Sainsbury and others – that they have enough buying power to contract direct with the manufacturers – their orders alone would eclipse those of many wholesalers!

The advantages of direct sales to retailers are as follows:

- Manufacturers have greater control over where their product is sold
- The salesforce can concentrate on particular products or new products, as required by company policy
- It is useful, where technical service or a large flow of information is required as to use a wholesaler would increase the number of communication channels and this could lead to a distortion of facts
- Greater control is maintained over prices, call frequency and in-store merchandising; in-store promotions are most easily organised.

On the other hand, there are a number of disadvantages to selling direct to retailers, rather than working through wholesalers:

- There is an increase in costs of sales, administration and distribution
- Some customers continually place small orders which are hardly economic; roughly 20% of customers provide 80% of the turnover

- More working capital is tied up
- There are more bad debts.

Retailing has undergone enormous changes in the last 25 years and three of the main developments are discussed below.

(a) Growth and power of the multiples

There is no doubt that one of the more significant developments in retailing in many economies has been the growth of the multiples. As the term implies, the multiple type of retail outlet includes those retail organisations who operate a number of retail branches with a common ownership and a high degree of centralised control. Because such organisations frequently control a chain or stores operating often on a nationwide basis, they are often referred to as chain stores.

In addition to the major supermarket groups (Asda, Tesco, Sainsbury's and Morrisons), we are also witnessing a growth in multi-sector retail groups. For example, the Kingfisher Group has over 2,000 outlets in the UK and these operate across a wide field of different product areas, as the following table reveals:

Retail Field	No. of Branches	Brand Name
DIY	290	B&Q
Electrical	262	Comet
Drug Stores	703	Superdrug
Variety Stores	786	Woolworths

We are also seeing new retailers emerging in new markets. The Carphone Warehouse now has 445 outlets in the UK and is still expanding.

The phenomenal success of the multiples is due to a number of factors, among the more important of which are:

- Their willingness, and ability, to introduce innovations in retailing, e.g. self-service
- A very market-oriented approach based on exploiting changes in consumer spending patterns.

Essentially, these factors have enabled the multiples to offer their products at very competitive prices. In turn, and as they have grown in size, their centralised bulk buying of goods has enabled them to negotiate advantageous price terms with suppliers, and to enjoy marketing and promotional support from the manufacturers. This has enabled growth to be sustained.

The key features of multiple stores are their size and concentrated buying power, which enable them to buy large quantities of goods and foodstuffs at the lowest prices. From the manufacturer's point of view, there are fewer calls to be made by sales representatives and much of the negotiating is done by high-level managers rather than shopkeepers. Early in 1987, the Managing Director of Campbell's Soups (UK) Ltd was quoted as saying that four customers bought 50% of their output and the top seven customers bought about 65% of their output. With such buying power, these customers are visited by national account managers who are at a much higher level in their organisations than sales representatives.

To a large extent, power has passed from the producer and wholesaler to the retail multiple, mainly because of the growth in buying power of these multiples over the last 20 years. The multiple, because of the need to maximise the use of shelf space and volume sales, can be very selective over the product lines to be carried. Decisions over which, if any, new products to carry are made in many cases by considering what should be delisted in order to make space for the new lines. This will mean that the producer will have to offer very attractive terms to make a convincing case.

This power is not confined to the grocery trade. Multiple power exists particularly in mixed retail business and the hire and repair business. Overall, up to 75% of retail trade is in the hands of multiples. The profits made by these organisations indicate the degree of power that they enjoy.

(b) Development of hypermarkets and out-of-town shopping centres

Patterns of retail trading have been undergoing constant change, particularly over the last 20 years, and in many other countries throughout the world the general tendency is to adopt increasingly the American way of life.

- ***Hypermarkets***

  Supermarkets are a typical example of a development which took people away from the idea that shopping had to involve visiting a number of small, specialist shops, perhaps in different parts of the town, in order to purchase the weekly requirements. Much larger buildings were required for the new method of shopping, but eventually most, if not all of the goods required for the week could be purchased under one roof.

  Unfortunately, however, there were, and still are, attendant disadvantages, such as the lack of space in town and city centres to build the supermarkets and the lack of facilities for car parking in and around the shopping area, particularly at a time when town planners are desperately seeking ways to rid the centres of towns and cities of the scourge of the motor car wherever possible.

  From the planning viewpoint, then, it would seem completely logical to attempt to solve these problems by building, or allowing to be built, an ultra-modern shopping complex, ideally under one roof, in a location outside the city, but with good communication facilities to nearby areas. Here, the shoppers could park their cars and, if required, spend the day at the centre, which would provide restaurants and recreational facilities in addition to shopping facilities. In this way, shoppers could buy everything they need, not only food and clothing, but other items, such as toys, gardening equipment, washing machines, televisions, carpets and so on.

  These large complexes are known as hypermarkets to indicate that they are larger than supermarkets. They have been successfully established in the United States, Canada and Europe. This is a trend which has been particularly strong in France, where there are about 1,000 hypermarkets (each with an area of 5,500 sq. metres going up to over 20,000 sq. metres).

  These mostly belong to three chains: Leclerc, Carrefour and Casino/Rally. They cover huge areas with a very wide range of products and for the consumer they are one of the best places to shop for choice and price.

- ***Out-of-town shopping centres***

  The lack of space in town and city centres for hypermarkets has led to the introduction of out-of-town shopping centres where virtually anything can be bought. This has led to a concentration of outlets and, in many cases, to a strengthening of power on the part of the owners of the sites. For example, in the UK, P&O shopping centres manage 12 shopping centres which account for more than 5 million square feet of shopping space. Their biggest base is the Arndale Precinct in Manchester which covers an area of 1.3 million square feet on two floors and has some 200 shops selling an extensive range of products and services: clothes, shoes, travel, leisure, household goods, banks and so on. Also in the UK we have the Metro Centre (Gateshead), Lakeside (Thurrock) and Meadowhall in Sheffield to name but three. These centres attract huge numbers of shoppers and day trippers and are very profitable for both the site managers and the retail outlets. For example, Meadowhall claims to have an average of 400,000 visitors each week and is ideally placed with over 9 million people living within one hour's drive of the complex.

The popularity of these centres, however, has caused much resentment from smaller traders in town centres who have seen the number of shoppers and, thus, trade, reducing over the years. Governments are now particularly concerned with control of the growth of these centres. France and the USA, in particular, have tightened up on regulations controlling new centres. The UK government is now following suit.

Both hypermarkets and out-of-town centres are likely to take an increasing proportion of retail business in the developed economies, representing, as they do, a convenient and economical form of one-stop shopping.

(c) Internet retailing

The Internet offers interesting opportunities to a variety of sellers, including established retailers. Most retailers now offer their goods and services online, through virtual shops or Internet sites, so that potential customers can browse through the merchandise, select, pay by credit/debit card and then have the goods delivered; in some cases electronically.

Franchisees

Many companies now use franchising and licensing as a means of distributing their products around the world and there are many retail businesses, such as The Body Shop, which are run by individuals as independent organisations under the umbrella of the parent company.

Franchisees are controlled, to some extent or another, to operate within certain parameters set by the franchiser. Fees are payable for the right to the franchise and to benefit from the brand of the franchiser. Some franchisers give full support in return for this, whilst others expect the franchisee to pay for such additional elements as promotional material or product training.

Franchising allows a company's name and image to gain much greater exposure without the need to have owned outlets. This type of operation has seen rapid growth in the UK and franchises are in operation for a wide variety of products – food, office supplies, photocopying and carpet cleaning to name but a few. For example, there are currently 179 branches of Domino's Pizza and the majority of these are run by franchisees.

The franchise system is popular with people who want to set up in business in their own right but do not have the resources available. They in effect become "managers" for the franchiser, but take profit from the business they are running.

Agents

An agent is someone who acts on your behalf. They are used both in home and overseas markets, and act as intermediaries in the chain of distribution.

The term "agent" can mean many things, from one man to a complicated organisation. An agent can be responsible for few or many activities – depending on the relationship required, current legislation and prevailing circumstances. They do not usually handle the goods themselves, but are paid a commission on whatever they sell. They will often act for more than one company in the same industry, which can be a disadvantage to any slow-selling item.

There are various types of agents, including:

- Commission
- Stocking
- Spares and service
- Del credere (accepts financial risk).

There are strong advantages in using agents for both the home and overseas markets:

Home Market	**Overseas Market**
Coverage of the market	Local knowledge/contacts
May find customers	Easier importation/paperwork
May help with promotion.	Acceptability in the market
	Language problems eased
	May have good distribution contacts.

The **disadvantages** of the use of agents include:

- Can have split loyalties
- May have poor resources
- May not work to your system
- May mean reduced profit/control; and
- Can affect image.

The advantages and disadvantages must be balanced before any decision can be made, but the ultimate choice will be based on some of the following aspects:

- Area covered
- Experience
- Resources
- Location of customers
- Willingness to cooperate
- Costs/profits involved.

Selling Direct to the User

This channel is used quite extensively for certain types of industrial sales – for example, machinery, chemicals, processing plants. Contracts may be with governments or companies.

Direct sales to the ultimate consumer of consumer goods may be achieved in one of the following three ways.

- ***Mail-order selling*** – this may be done through catalogues or advertising through "bargain squares" in the national press.

- ***Door-to-door selling*** – this is carried out in various ways, e.g. some companies such as Avon Cosmetics do a direct canvass, whilst others use leads. This is in response to press advertisements and is a method exploited by many small businesses.

- ***Internet selling*** – this is fast becoming a key area in direct sales.
- ***Forward integration*** – this occurs where manufacturers own their own retail outlets through which they sell their own products.

Generally, using these methods, the costs of distribution to the final consumers are relatively high, but this has to be balanced with the supplier's complete control of the marketing.

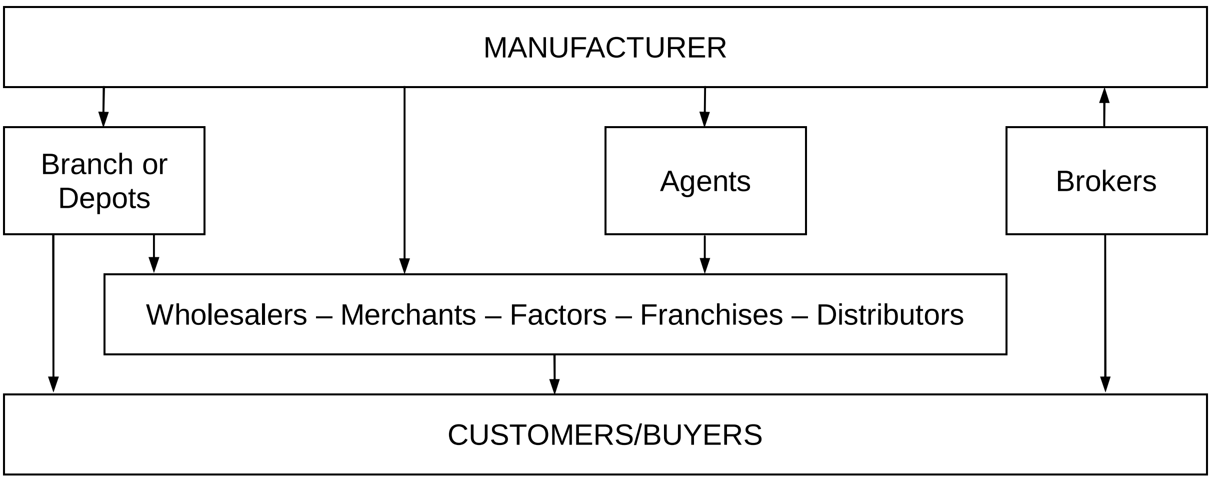
Industrial and Business Markets

So far we have discussed distributing products or services to the consumer – those who actually use up what they buy. In business-to-business channels, many of the same principles apply as with consumer markets. However, there are some differences.

- Business-to-business tend to have professional buyers who control the main sales contact. For example, Halfords, the high street retailer of motor accessories, has a buyer for automotive paints only. As Halfords account for around 25% of all car paint sales you can see the important role that the buyer will play.
- The Decision-Making Unit (DMU) can be much more complex. As marketers you have to establish who makes up the process and often tailor different messages to them. Take, for example, Leyland Trucks. The managing director, financial director, fleet manager and the truck drivers will all have an influence on choice.
- Deliveries are likely to be larger, e.g. kitchen furniture to a B&Q warehouse, and will be needed more frequently.
- Business customers often require on-going supplies, often on a routine basis. It is important to ensure that your customer services department can respond to customers' needs at all times.

Figure 14.2 illustrates the various channels available for industrial marketing.

Figure 14.2: Industrial Distribution Channels



Largely because of the nature of industrial markets and the type of product, much of the business is conducted with the customer on a direct basis. Often this might be done through a branch or depot which may carry stocks and service parts.

However, you should note that many of the channels listed under consumer markets will also apply to industrial markets. For example, an industrial concern in the UK may buy its biros from W. H. Smith and catering supplies from Asda.

With the growth in self-employment and working from home (currently there are 2.5 million businesses whose owner is also the manager) companies have had to develop new distribution strategies for reaching this lucrative market.

A good example of this is Viking World, an American organisation that was set up in the UK to supply direct to businesses, both small and large. Using large catalogues which are mailed out to customers and prospects, they offer a huge range at keen prices and they deliver to your premises the same day free of charge for orders over £30 in value. Their customer retention methods are first class. The Chairman regularly writes offering customers special offers or to remind them when you last did business with them. All these messages are personalised.

The computer industry – both manufacturers and software wholesalers – have also been particularly adept at penetrating this market.

Export Markets

If a company is engaged in international marketing, i.e. having separate marketing operations in overseas countries, the distribution channel options will be similar to those we have already illustrated. If the company is engaged in export marketing, i.e. manufacturing at home and selling overseas, the following channels may be used:

- ***Buying agencies in foreign countries***

  Several large retailing concerns located overseas, and certain foreign governments particularly in Eastern Europe, have buying agencies located in the United Kingdom.

- ***Export merchants***

  These people take title to the goods, which they ship to their own overseas agents or customers. They may publish their own catalogues featuring assortments of goods.

- ***Manufacturers' export agents***

  Manufacturers may employ export agents located in overseas countries who operate on a similar basis to manufacturers' agents in the domestic market.

- ***Overseas branches***

  The company may have overseas sales offices or depots selling to and supplying the overseas market.

- ***Overseas import houses***

  These companies receive and take title to goods, relieving the manufacturer of overseas manufacturing operations.

- ***Joint venture operations***

  The company may enter into an association with an overseas company which agrees to market the firm's products.

C. DISTRIBUTION MANAGEMENT

For distribution to be effective, it must be planned, and the distribution plan is developed from the objectives and strategies contained within the main marketing plan. It is therefore tailored to suit the company products, the market segments targeted, and the performance criteria and standards set.

McDonald lists a straightforward approach to the planning of distribution:

- Determine marketing objectives

- Evaluate changing conditions at all levels
- Determine distribution task within overall marketing strategy
- Determine distribution policy in terms of type, number and level of outlets to be used
- Set performance standards for the distribution organisation
- Obtain performance information
- Compare actual with anticipated performance
- Adjust where necessary.

Choice of Distribution Channel

For many products it may be possible to use several methods (channels) of distribution, which implies that the seller must decide which channel(s) will be the most beneficial to his requirements.

This can be a difficult choice to make and a number of factors come into play.

(a) Basic requirements

Initial considerations on this aspect of the marketing effort will be mainly based on the following factors.

- ***Requirements of the product***

  The characteristics of the product will dictate the ***type*** of distribution channel that can be used – for example, in respect of the kind of storage required.

  The most important characteristics are as follows:

  (i) **Rate of turnover** – frequently-purchased, low-cost items such as newspapers must be widely available to a mass, changing market, whereas for high cost items which are purchased infrequently, such as cars (and particularly exclusive cars such as a Rolls Royce), customers will seek you out and there is no need to have a presence on every street corner.

  (ii) **Seasonality** – seasonal products require a reseller system that can handle the stress caused by distribution at certain times of the year.

  (iii) **Product complexity** – highly technical products, requiring assembly or installation or service, need specialist middlemen. If these are not available, direct sale is indicated.

  (iv) **Perishability** – these products often require a direct channel or specialised equipment. Obviously, if the product is something as perishable as ice cream, unless you operate or hire a fleet of refrigerated vehicles, you could seriously damage your chances of widening your distribution beyond a very local area. Note that because of improvements in science and technology, many traditional perishable products are being developed into longlife products, such as UHT milk.

  (v) **Product life cycle** – where a product has reached maturity in the product life cycle, it has to be widely available if the sales are to be maintained.

  (vi) **Image** – the type of image associated with the brand may affect the type of channel which is acceptable – for example, Rolex watches are highly-priced, sought-after items which are only found in exclusive jewellers, and it would not suit the image of the product if they could be bought in a tacky seaside discount shop.

- ***Requirements of the seller***

  The size and reputation of the company, its product mix, its past channel experience and its present marketing policies will affect its channel strategy. In addition, the following factors will be important:

  (i) **Attitude towards intermediaries** – How much control does the supplier want to have? How much of the overall potential profit are they prepared to pass on to an intermediary? Do they want to have information on the end-user?

  (ii) **Competition** – The extent to which competitors dominate existing channels and to which manufacturers wish to compete directly against competitors or avoid them affects channel choice.

- ***Requirements of the buyer***

  This is the way in which the characteristics of the market segment – for example, location, purchasing preferences and patterns, and overall number of buyers – influences the form of distribution.

  (i) Where the ***number*** of customers is large, long channels are normally necessary. (The role of the bulk-buying multiple has changed this.)

  (ii) Wide geographical dispersion of customers may require long channels.

  (iii) High frequency in the purchasing pattern of low unit-value items may indicate the need for long channels because of the high cost of direct sale.

  (iv) Consumer preference for dealing with a specific type of outlet affects choice – for example, do they want to buy the product from a catalogue, a multiple store, a warehouse, a specialist retail outlet or a trade outlet?

- ***Kind of transport required/available***

  Can the product be moved easily? Does it have to be moved quickly? Can it be flown if it is going overseas? Are there points of entry in overseas markets? What kind of transport is available? Who will bear the transport costs – buyer or seller? Does the image of the product require a special type of transport?

- ***Characteristics of intermediaries***

  The availability of suitable intermediaries, their ability and willingness to perform the various marketing functions and their willingness to take on the particular product affect choice. Other factors include capabilities, premises, salesforce, customer base and credit rating.

  The use of alternative intermediaries from those traditionally associated with a product can have beneficial effects – for example, the success of Swatch watches can be attributed to the fact that when they were launched in the UK, they were made available in non-jewellery outlets.

You can see that these areas are all interdependent and none can be taken in isolation.

Either before or after the basic decision of direct or indirect channel has been taken, research into the above factors will help in determining which type of distribution channel comes closest to meeting all requirements.

However, it may well happen that the "ideal" channel is non-existent in the intended market or, for various reasons, is unavailable to the seller. If this is the case the seller may decide to diversify by vertical integration and take over some existing distributor, build up his own distribution outlets/chain, or even develop a completely different method of selling.

(b) Distribution strategies

Three options that can be engaged as part of an overall distribution strategy are as follows.

- ***Intensive***

  Intensive distribution aims to achieve the widest coverage of outlets and is sought by suppliers of high-volume, low-value products that are in mass demand. This strategy is usually adopted for fast-moving consumer goods. They are in high demand all year round and the aim should be to gain distribution in every available outlet possible.

- ***Exclusive***

  Exclusive distribution is where distributors/stockists are granted exclusive rights in specified areas. This makes a lot of sense where high capital investment is required, and especially where detailed after-sales service is needed.

  It is applied where the product is expensive and infrequently purchased and, hence, the motor car distributive networks exemplify this type of distribution. For example, top-of-the-range cars like a BMW or Mercedes, distribution should be matched to areas of population that can afford luxury goods. In truth, they will visit you (maybe initially via your web site) before visiting the showroom.

- ***Selective***

  Selective distribution can be adopted when the product is fairly expensive and bought occasionally but not top of the range. This strategy is used by consumer-durable manufacturers. The product is not placed in all potential outlets, thus selected dealers can specialise and afford after-sales back-up and support.

(c) Final choice

The final choice between channels will depend on a balance between:

- ***Cost***
  - Investment
  - Maintenance
- ***Coverage***
  - Large/small area
  - Many/few outlets
  - All/few products
- ***Control***
  - Maximum/minimum
  - Strict/lenient
- ***Continuity***
  - Channel growth
  - Channel stagnation
  - Channel decline.

Distribution Channel Maintenance

Most of what we have said so far has related to the setting up of a distribution channel and has taken no account of the ***continuity*** aspects of channel management. Continuity is equally important. Distribution managers want good channels, and good channels only happen if they are well-managed. There should be no ***channel conflict***; there should be ***channel harmony***.

Channel conflict is caused by not treating channel members equally. For example, if one distributor is given better discounts than another it will cause problems; if one channel member is given product training for the salesforce, and another is not, it will also cause conflict.

Fair treatment of channel members on every aspect of the business is of utmost importance if a distribution channel is to remain effective. Once relationships begin to suffer business can be lost and it can take a great deal of time to recover lost ground.

Managers should be working towards the development of their distribution channels and, although this may simply be a case of managing and controlling existing channel members in terms of supply, targets, reporting, etc., there may be times when a channel needs to be changed.

Change may become necessary because of environmental factors such as legislation, competition or customer preferences. The fact that channel member(s) have proved to be incapable of giving the level of coverage that a manufacturer requires, or are failing in some other aspect (e.g. spiralling costs) may also lead to the need for change.

Whatever the reason for changing a channel, change can only be effected with care. The original supplier needs to consider all aspects:

- What will the effect be on the other channel members?
- How will the customers react?
- How will the competition react?
- What costs will be incurred?
- What level of profits can be expected?

Put another way, making any change to a distribution channel is a similar exercise to setting up a new distribution channel. The same type of research has to be undertaken and similar decisions made.

If we assume that it is not simply a case of getting rid of a channel member who is performing badly, changing a distribution channel can, in some circumstances, be made much easier if channel harmony exists. Harmony among channel members leads to smoother operating procedures, better communications and a greater willingness to cooperate. This is helped by building relationships.

Relationship Marketing

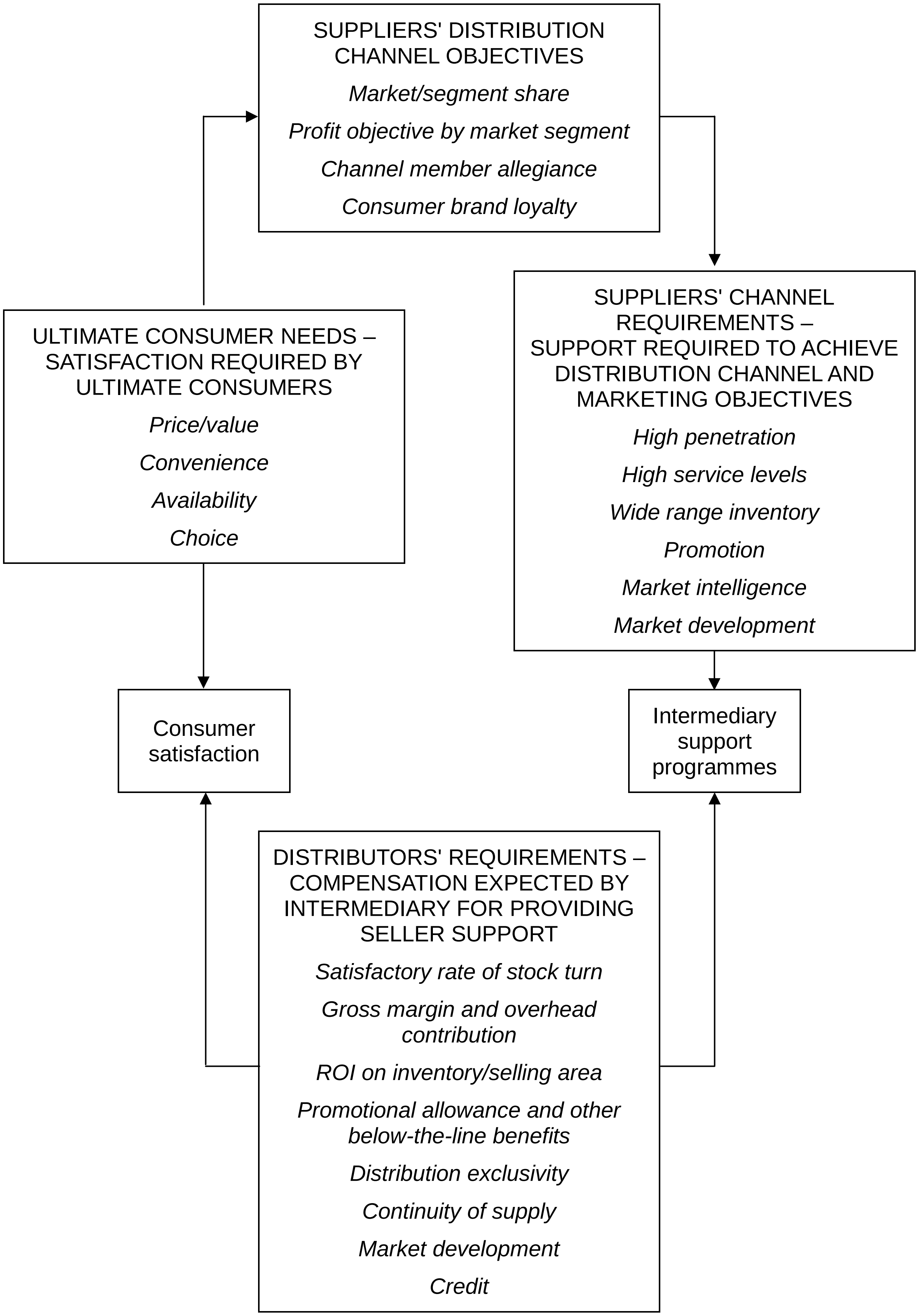
Increasingly, competitive markets, resource restrictions and buyer power have heightened the need for good relationships in distribution. When manufacturers and intermediaries work together, communicate well and discuss plans, etc., they become interdependent and the relationships formed are less likely to suffer.

Not only will control be much more effective, but it will also be much easier to make changes to improve efficiency and effectiveness for both parties.

A word of warning, though. Relationship marketing is excellent in all ways apart from the fact that it can cause complacency. If a manufacturer becomes too lax in his treatment of an intermediary (or a supplier) he may miss some factor which is indicative of an underlying problem. If that problem is not settled it can lead to a break up of the relationship. This also applies to intermediaries being careless in their attitude to manufacturers.

The key relationships which need to be managed are set out in the following Figure 14.3.

Figure 14.3: Relationships in Distribution



D. DEALING WITH INTERMEDIARIES

An intermediary is an external agency that is acting, in some form or another, as a link in the distribution chain between manufacturer and user.

Using intermediaries is something which manufacturers do as and when necessary, but the decision on the type of intermediary to use will be based upon many influencing factors. Such decisions can never be taken lightly as so much depends on the satisfactory distribution of a product.

Thus when choosing intermediaries manufacturers will be concerned with various aspects, such as:

- Does the intermediary have access to the target market?
- Will the intermediary help exploit the advantages of the product?
- Will the intermediary help in promotion costs, etc.?
- Will there be enough profit for the manufacturer?
- Will the intermediary be dealing in competing products?
- What contractual obligations are involved?

What you must remember is that an intermediary is a **customer**. They are entitled to be treated with respect and given as much consideration as the individual user of a product. Indeed, treatment of intermediaries may be crucial to the long-term success of a manufacturer.

Working with Retailers

The role of the retailer is to buy in bulk and sell in small quantities. The retailer removes from the consumer the risk of deterioration and the need to commit relatively large sums, in return for an enhanced profit. The consumer could go to a miller and buy a large bag of flour cheaply, but generally we would all rather pay the retailer's higher price for the convenience of buying small quantities of several commodities regularly.

One of the anxieties associated with the retail trade is the risk of being left with stock that cannot be sold when times are hard. Most of the other people in the chain are, to some extent, protected from this danger by the fact that the retailer signals fluctuations in trade to others further upstream. If consumers stop purchasing, the retailer reduces his order from the wholesaler or manufacturer, who can quickly respond by reducing or stopping their own commitment. He is thus the signaller of demand, allowing those further up the chain to plan more accurately and therefore reducing their risk. For this, he expects manufacturers and wholesalers to keep their own profits to a reasonable level, so that he has a profit margin on the price customers will pay.

A retailer's willingness to stock a product therefore has a pivotal role in the relationship between manufacturers and consumers. If the retailer will not stock your product, it makes it difficult for you to sell to his local customers and he will not stock it if he cannot be assured of a sizeable reward for his two-way risk. The manufacturer can provide adequate reward in one of two ways. Either he can enhance the profit per item by keeping his own price to the shopkeeper low or he can encourage the shopkeeper to accept a smaller price margin by promising to stimulate demand for the product so that the shopkeeper turns over his stock more quickly.

This is why the manufacturer needs three main forms of marketing communications in his dealing with retailers.

- Personal selling is key to the process of negotiating a deal, whereby the retailer is persuaded to become and remain a stockist

- Sales promotion is used to make the retailer's profit more attractive without damaging the price attractiveness of the goods to the consumer and advertising is used to stimulate consumer demand so as to increase the rapidity of the retailer's turnover
- Advertising can also be used (in "trade" media) to inform retailers of forthcoming promotional activities and encourage them to increase their stock levels.

(a) Specialisation and the retailer

As industrialisation widened the range of available goods, it was unreasonable to expect a single tradesman to be able to handle all types of merchandise. Some items need skilled handling (butchery, for instance, or motor-car dealing), some need certain kinds of space (a furniture store needs very large floor areas, whereas a stationer can operate comfortably in quite a small space), some need particular kinds of location (a sandwich-shop needs to be in areas where many people are at work, whereas a hotel needs to be near a railway station or motorway junction), some need to be available at different times (a fine-art dealer can open for just a few hours, one day a week, while a petrol station will perhaps stay open twenty-four hours every day). In any case, not all goods are compatible. Customers would not be happy buying their food in shops where domestic pets were sold, or buying clothes in an atmosphere that reeked of petrol. Thus, specialisation has occurred, either developing out of old-established trades (such as bakers and public houses) or as a breaking-down of the old-fashioned general stores into its component parts (hardware, drapery, provisions, etc.).

Here again, the retailer needs a price and profit structure that reflects two things – the frequency with which he can sell his specialised products and the costs associated with his specialisation. A furniture retailer will sell relatively few items in the course of a week and needs a lot of floor space in a fashionable part of town, thus incurring a high cost in rent. He must expect a very high rate of profit on each item he sells if he is to end the year with enough money to live on. A grocer, by contrast, will sell a large quantity of many different items and can do so in a smallish space, in a street near to where people live, thus incurring fairly low rental costs. He will accept a relatively small profit, only pennies per item, but will sell very many units and hopefully end the year with a similar profit overall to that of the furnisher.

(b) The balance of power

This rather idealised picture of the delicately balanced relationship between the manufacturer, the retailer and the consumer, has been distorted over recent years. As the twentieth century progressed and mass marketing developed, large manufacturers built very powerful brands, often destroying smaller competitors, or buying and absorbing them, in the process. This gave the manufacturers great power over the other two parties to the relationship. Retailers could not afford not to stock the big brands and were made to do so at very thin margins. Consumers' choice was increasingly restricted to the surviving, big brands.

It would be wrong to say this feature has disappeared. It is still possible, with the use of heavy advertising and sales promotion, to build dominant brands that are very profitable. But it is also true that, over the last three decades of the last century, retailers have fought back. Gradually, a few large multiples have taken over the grocery trade and they are now in a position to dictate to the manufacturers. The top four multiples control some 75% of the grocery trade. Clearly, if one of them refuses to stock your brand (called "de-listing") you will lose a significant slice of your sales. A similar concentration of ownership has happened in many other retail trades – pharmacy, petrol and clothing all have their giant multiples, with a branch in every town.

This trend has been met by manufacturers developing a particular style of personal selling. Most manufacturers have a salesforce, or in some cases a single salesperson, called the ***key accounts*** salespeople. These people are skilled negotiators who spend their whole time building relationships with a few large buyers who control big shares of the market. Other salesmen cover the small outlets and deal with perhaps hundreds of different people in the course of the year; in contrast, the key accounts sales executive will perhaps deal with half a dozen – in some cases, maybe only one customer.

The negotiations are, from the salesperson's point of view, directed first at getting the retailer to agree to "list" (stock) the product at all, then at getting the highest price for the goods, then at trying to persuade the retailer to take as great a volume of goods as possible and then at gaining a prominent position for the brand on the retailer's shelves. From the retailer's point of view, the negotiations are directed first at ensuring that the powerful brands are not missing from his shelves (a retailer can still lose customers if he is not offering the brands they demand, although this is less likely now than before), then at getting the goods for the lowest possible price, so that his profit margin is as high as possible and then at ensuring that, if he makes a significant investment (of money and space) in this product, it will "move" quickly.

Thus, the big factors that are being traded are goods, money, space and position, but a significant factor in the deal is also marketing communications. The retailer will want to know that the stock will sell well. He will therefore ask the key accounts salesman what plans he has for ***market support***. This means the advertising, PR, sales promotion and merchandising that are being planned. An otherwise satisfactory deal can be wrecked if the manufacturer is planning market support that the retailer regards as inadequate. The big retail chains can sometimes practically dictate the tactics of the manufacturer's marketing communications plan. For instance, the manufacturer may have planned national newspaper advertising as the main plank of his advertising platform. The retailer will want to know what publications he has in mind. If the answer is that most of it will be in *The Sun*, this may not suit the retailer who may feel his customers are more likely to read *The Telegraph*.

If this sounds strange, just remember what we said earlier about the economics of shopkeeping. The retailer can make his money in two ways: through a high margin of profit or through more rapid turnover at a lower margin. He may well be prepared to accept a relatively high cost price from the manufacturer and therefore reduce his own profit margin, if the manufacturer can promise that demand will be great, leading to a rapid turnover. This will be so if the manufacturer is planning heavy advertising and other promotional effort. Here again, we can see integration at work. The personal selling and advertising, sales promotion and merchandising are all interlinked in the process of opening up this vital trade channel. It has become especially important now that (in most analysts' opinions) the retailers, in many sectors, have the upper hand.

Working with Wholesalers

So far we have looked at the short channel that links manufacturers, through the larger retailers, to the consumers. However, where smaller (or independent) retailers are your end outlet, there is often another intermediary in the chain. This is the ***wholesaler***, who buys in bulk from the manufacturer and sells in what are normally known as "case quantities" (the number of items usually contained in a single outer package or box) to shopkeepers.

This of course implies a need for yet another profit to be taken out of the final selling price to the consumer. Partly for this reason, prices of goods in small shops tend to be rather higher than in supermarkets. (The other part of the reason is, of course, that these shops do not purchase anything like the huge quantities that the supermarket chains do.)
The great advantage to manufacturers of using wholesalers is that they take over the expensive problem of storage and transportation of relatively small consignments of product. Manufacturers planning their marketing communications should therefore not ignore these intermediaries. They handle a relatively small slice of the consumer market in total, in the

more common trades such as food or household products, but it is still a worthwhile slice to have. If they do not stock your goods, you are missing out on a valuable market opportunity.

There is almost always no way to approach the wholesalers except directly or semi-directly through personal selling (once again, a large national wholesaler may require the services of a key accounts salesman, while smaller ones may be lumped together under the care of a regional representative), public relations (exhibitions and trade launches) and sometimes direct mail. Sales promotions aimed at the trade may also affect them.

One of the main weapons in the salesman's armoury when dealing with wholesalers is ***terms of credit***. Wholesalers make relatively small actual profit margins on the goods they sell. But they can make a healthy profit on the "spread" between the credit terms they buy on, and those they offer their own customers. Many of their customers pay cash when they buy (hence the appellation "cash-and-carry wholesalers"), whereas others who have a credit account are expected to settle up in seven days, or perhaps two weeks. If the manufacturer allows the wholesaler thirty days credit (or even longer), he may be prevailed upon to take quite large quantities of goods and actively promote them to his retail customers because he can make a certain amount of money from the interest he receives in the time between receiving his customers' money and paying his own bill.

Following our comments on own-brand and own-product items where retailers are concerned, it is worth pointing out that some of the bigger wholesalers have attempted, for their own purposes and in support of their shopkeeper customers, to build their own brand also. Whenever you buy something from a small corner-shop or similar outlet, take careful note of the brand name on the boxes of tissues, the toilet paper or the cooking foil that are offered for sale; they often carry the same brand name, a brand invented by the wholesaler. Here again there is an opportunity for a far-sighted manufacturer to get into a deal with such a wholesaler to provide goods for this kind of umbrella brand. It is often work that can be done at reasonable margins when times are quiet and keeps the factory ticking over.

Such negotiations can be complex and delicate when the wholesaler is one of only a few in his particular market. Pharmaceuticals, for instance, is a trade in which a small handful of very powerful wholesalers supply practically every independent chemist's shop in the land. Of course, the up-side of this feature is that the manufacturer does not need to keep a large salesforce as one or two key accounts managers will cover the entire national trade of perhaps several thousand shops.

Business-to-Business Dealings

A large part of the business in any developed economy is not directed towards the individual, private consumer but by one firm to another. There are several points where this kind of business differs from consumer-directed business.

(a) Nature of demand

Business-to-business (or industrial) transactions are very often the result not of direct demand but of ***derived demand***. The motor manufacturer earlier does not buy engine oil because he wants, craves or desires to possess engine oil – he does so because he cannot sell his own product without it. This means that in some situations, a push and pull strategy can be followed – you can sell directly to the firm that is your own customer on the basis of price, terms, delivery, etc (push), but you can also market your goods to the end user (or at any rate the firm next down the line) on grounds of, for instance, reliability and quality, so that they demand of your customer that your product be specified (pulling the product through the chain).

A brick manufacturer might be a good example. He would sell his product to builders' merchants and construction firms (push), but he would also be energetically courting architects, project engineers, quantity surveyors and the like, in the hope that they would specify his product when commissioning the builders or drawing up procurement schedules (pull).

It would obviously be useless to try to sell, in this kind of situation, on grounds of the intrinsic desirability of the article you are offering. The job of marketing communications here is to persuade the customer that your product's qualities will solve for him some problem of his own. In particular, issues such as consistent quality, your willingness to accept and replace returned product without question, the credit terms you offer, your willingness to fit in with delivery schedules and so on, are likely to be effective in clinching a deal.

(b) Length of relationship

Whereas a manufacturer's relationship with a consumer may last only long enough for her to buy a single item at the supermarket, business-to-business relationships are often of very long duration indeed. A manufacturer of dumper-trucks, for instance, will design all the parts himself, and then look for an outside supplier to build them. Once he has found a satisfactory source of, say, back axles, he will not want to be constantly looking around for a rival supplier. It would be troublesome and time-wasting in the extreme. Equally, the supplier will not willingly enter into the relationship, involving, as it would, the building of specialised jigs and tools, perhaps engaging extra workers and so on, unless there is a reasonable expectation of the relationship enduring long enough to repay the investment.

Thus, customers in a business-to-business environment are more difficult to find and negotiations much more protracted than in consumer markets, but once the first order has been signed, there is hope on both sides that the relationship will be a long and mutually satisfactory one. However, this does not mean that industrial salespeople can rest on their laurels once a customer has been signed up. After-sales service, maintenance and product support are often very important activities. Public relations activities are often very worthwhile in this kind of situation, such as periodically inviting customers to visit the factory or sending them some documentary evidence of one's pre-eminence in the market. Never forget that, although you are in a happy relationship now, your competitors are always probing the customer and hoping to capitalise on your mistakes or your neglect.

(c) Supply chain partnerships

Philip Kotler has observed that in these days of fierce competition in almost all markets, product innovation does not deliver benefits for very long. All too soon, your competitors will have analysed your new offering and will be putting their own version hastily onto the market. In the same way, whatever you do in the realm of price, your competitors will soon find out and offer to match it. He opines that the only way modern companies can retain competitive advantage is by ensuring that they deliver total and reliable quality to the customer. To do this requires every party in the supply chain to contribute to the quality of the end product.

Kotler quotes the example of Levi, the jeans manufacturer. They sell to big stores such as Sears and they buy their cloth from the weavers Milliken. Milliken, in turn, buy yarn to weave their denim cloth from industrial giant du Pont. Realising that the customer is only interested in totally reliable quality and instant availability of the product on the store shelf, Levi instituted a Value Supply Chain scheme.

One of the chief features of this is that the planning computers of all the parties are actively linked. Thus, when a customer walks into Sears and buys a pair of size 12 blue jeans, Sears' computer instantly registers the sale with Levi, who add a replacement pair to their production schedule. But Levi's computer also reports the transaction to Milliken's computer, which alters its own production schedules accordingly and then reports on to du Pont, whose computer plans an increase in the quantity of yarn required. In this way, Levi has managed its supply and distribution relationships so as to offer almost perfect quality, reliability and availability to the end customer (so she will keep coming back for more) and has also gained considerable economic benefit from better planning and reduced inventory.

Contractual Agreements

Because business-to-business deals often commit the parties to a crucial dependence on each other, dealings with intermediaries and with businesses are often closely documented and made the subject of specific legal contracts.

This is a significant difference from selling to consumers. Most consumer transactions are indeed contractual relationships, albeit fleeting ones, but the contract is rarely explicit – it is implicit in the surrounding commercial environment and its normal terms of business, and in terms of over-arching legislation, such as the Sale of Goods Act.

At times contracts may not be necessary as the relationship between the manufacturer and the intermediary is a straightforward buying and selling activity. In these circumstances the terms and conditions of sale and/or purchase will determine the ease or complexity of the transaction.

Where contracts are necessary they are very important and must be agreed with the utmost care. All aspects should be covered to the optimum satisfaction of both the manufacturer and the intermediary. Intermediaries may well have the protection of legislation which could mean non-cancellation clauses or punitive fees in certain circumstances.

Each party has to ensure that the contract will not inhibit its future activities in any way. For example, if a small manufacturer in the south of France agreed to let one local store be the only distributor of his products he could, in the event of growth, be restricted from engaging any other distributor anywhere in the world. If the manufacturer had discovered a unique product which was in high demand everywhere he would lose a great deal of business and money simply because he had allowed himself to be tied to one small outlet in the south of France. The distributor, however, could make a lot of money because he had been better at negotiating a contract. If the manufacturer decided to take a risk and appoint a distributor in another country he could find himself being sued and at the worst could end up losing his business altogether.

Examples of points covered in contractual agreements are:

- Area involved – region, country, continent
- Product – full range, selected items
- Validity period of contract
- Commission to be paid/and how to be paid
- Exclusive agency or one of many outlets
- Promotional support arrangements
- Authority to change prices
- Training commitment
- Any after-sales arrangements
- Expected turnover
- Dissolution clause.

The contract in an industrial transaction may well deal not just with the quantities to be traded and the price agreed, but also with considerations such as transport, insurance, delivery, returns policy, legal liability for damages, technical support, spares, protection of patents and other rights, periods of notice and so on.

If a contract is not clear it can, and will, lead to confusion or disputes which are likely to result in poor relationships, loss of profits, loss of "face", loss of market share, etc. However, a good contract means security. It also lays down operating systems/procedures which make day-to-day activities within any organisation that much easier to arrange and control.

Disintermediation or re-intermediation

The Internet offers some organisations the opportunity to effectively handle more transactions in-house. "Cutting out the middleman" is described as disintermediation. Examples of organisations who have done this relatively successfully are airlines that no longer use travel agents to sell the majority of their airline tickets and many insurance companies, who no longer use brokers to secure business, whilst music can be downloaded, cutting out many record shops. At the start of the e-business boom it was expected that there would be widespread disintermediation and in some sectors this has clearly worked. However, in others, the results have been disappointing, with organisations incurring IT, order management and logistic costs greater than the forecasted savings.

The alternative approach is reintermdiation. This is the creation of a new type of intermediary. Here intermediaries have created websites to help consumers find what they are looking for and provide an ability to compare prices.

In many sectors there are now intermediary websites that enable potential customers to compare products and services for the home, holidays, travel and leisure. Here the consumer will "click" onto the appropriate website, where they can compare prices of all the main suppliers who have agreed to be represented on the site. Whenever an interested party "clicks through" to a particular supplier, that supplier pays a commission to the intermediary. Examples of such intermediaries are www.compare.com, www.trustnet.com and www.moneyextra.com. Some markets have set up their own intermediary to compete with the existing intermediaries and this is referred to as countermediation. A group of airlines, for instance, set up www.opodo.com as an alternative to www.expedia.com to offer airline tickets. The Thomson Travel Group set up www.latedeals.com to compete with www.lastminute.com.

E. PHYSICAL DISTRIBUTION MANAGEMENT (PDM)

PDM is often referred to as logistics. In the army, certain officers, usually those of the Royal Army Ordnance Corps, are responsible purely for the movement of goods from one place to another, i.e. all equipment, food and fuel supplies. Every detail has to be thought out, organised, planned and executed since under no circumstances could troops afford to run out of ammunition, food, or any essential supply in a war-like situation. The same reasoning can be applied to marketing.

Cost-effective distribution is a specialised management skill – one which an increasing number of organisations are contracting out to specialists. In some cases the sub-contractors are SBUs within the organisation but run as independent trading operations, often carrying associated lines from other manufacturers to maximise efficiency. Every major high street grocery retailer has their own distribution network and negotiates special delivery/collection arrangements with suppliers.

The Scope of Logistics

Although some firms view physical distribution as being separate from marketing, the opportunities to be gained from integration are enormous. The objective is to achieve a balance between services to buyers and customers, in terms of time and place utilities and operating efficiency. We have to remember that all sensible marketing depends on the provision of the goods at places where people can buy them. Effective logistics can lead to the maximisation of benefits for the company as a whole.

The term "logistics" encompasses all the activities that are involved in getting the right goods to the right place at the right time, in the right quantity, and with the right sort of support. There is more to that than just "distributing" the goods from one place to another, although that is a big part of the activity. It includes the following areas:

- **Transportation** – choice of transport method (road, sea, air, rail, etc.), vehicle utilisation (own, hired or leased), vehicle selection, scheduling and routing, load planning
- **Materials handling** – in-plant movement, palletisation, packaging, unitisation, handling systems
- **Warehousing and delivery** – space, layout, facilities, utilisation delivery policy and returns
- **Inventory** – stockholding policy, inventory levels, security, insurance, stock checks
- **Location** – choice of warehouses and depot locations for market cover
- **Processing** – order processing and administrative systems
- **Cost control** – audit procedures, cost allocation, account profitability analysis
- **Policy formulation** – strategic issues, motivation, planning, communication, JIT.

Logistics considers the cost of all the activities and the aim is, of course, to keep the costs per unit to a minimum. So much of the cost of a product goes into the packaging and movement of the product from the factory to the customer that it is necessary to evaluate every activity and trade off one cost against another. There is little point in reducing the cost of packaging or the speed of handling if it increases the cost of handling and breakages.

In assessing the physical aspects of the logistics operation, the following criteria need to be considered.

- **Transit time –** very important for perishable goods such as food, less important for some others; the destination of some perishable foods may have to be changed if there is a delay in the transport system, or even if the weather changes dramatically
- **Reliability –** in total, because customers can often buy a substitute for the product if it is not available at the right time and place. Also, the goods should be safe from pilfering
- **Accessibility –** the warehouse and carriers must be easily available to move the goods over the best network of roads, railways or waterways
- **Capability –** the warehouse and carrier's transport must be able to provide cold storage for some products, or safety for such products as gases and fuels
- **Co-ordination –** the warehouse company must be willing to co-ordinate activities with other companies
- **Traceability –** it is often necessary to find out just where a consignment is, to give an idea of when it will arrive at the store. This is tied up with the policy for dealing with claims for late or non-delivery
- **Cost –** there are times when the minimum cost is best, but other times when a higher cost is more acceptable, if the trade-off includes faster delivery.

There are many factors to consider, and they do not all fit nicely into the fast availability achievement that customers would like to see. Cost is probably the most important single factor that affects availability – the transport manager wants to use the low-cost service so as to keep his or her department costs down, but the accounts department wants the goods to be delivered quickly so that they can start asking for payment. The packing room want to use the cheapest materials but that may increase the breakages, which leads to replacement and customer dissatisfaction. The optimum location of warehouses can save the customers some time, and increase availability, but costs the company more money.

Kotler points out that the location of the manufacturer's plant may seem to be obvious – as near the market as is possible within reason – but that may mean a high cost location in the city suburbs. On the other hand, a location some miles out of the city may be so much lower in costs as to offset the transportation costs and make the ***total operation*** less expensive.

There is so much to consider, and if the company is setting up a new factory it will be possible to choose the best site, for the time being. However, few people are in that position, and it is usually necessary to do the best you can with the location that is available.

The Objectives of Physical Distribution Systems

No physical distribution system can simultaneously maximise customer service and minimise distribution cost. Maximum service implies large inventories, in close proximity to customers, with very flexible transportation availability. Minimum cost implies slow/cheap transport, low stocks and few depots. Kotler suggests eight areas for which strategies must be set.

- Speed of filling and delivering normal orders
- Willingness to meet emergency merchandise needs of a customer
- Care with which merchandise is delivered, so that it arrives in good condition
- Supplier's readiness to take back damaged goods and resupply quickly
- Number of options on shipment loads and carriers
- Supplier's willingness to carry inventory for a customer
- Price of services – are they free or separately priced?

The relative importance and determinance of these various customer services must be researched for the ***target customers***. Competitive policy, promise and achievement must be monitored; only then can the necessary distributive strategies be set.

Cost-effectiveness is crucial. Twenty years ago costs of distribution could easily run as high as 20% of sales revenue. This has been halved in many industry sectors, and reduced to around 4% in some retail sectors.

The achievement of profit leverage through cost reduction is of significant importance. A 5% reduction in distributive costs can boost profits by 50%. This ***gearing effect*** is well known but maximising its benefits requires constant monitoring of the PDM operation by specialised management.

Lancaster and Massingham make the point, in their book "*Essentials of Marketing*", that properly managed logistics can provide the supplier with cost savings and a differential advantage which will go a long way towards ensuring future orders. In fact, they say that in some industries you cannot get orders unless you can work to Just-in Time (JIT) schemes. On the other hand, a stock shortage on a modern assembly line can be an expensive disaster, so there is some justification for the demands of the manufacturers.

Although this looks like an industrial matter, the same ideas apply to some of the products sold in supermarkets. You see fresh flowers in superb condition in some supermarkets and even in department stores such as Marks and Spencer. You might wonder how they keep the flowers so fresh; the answer is in the contracts for daily deliveries with local growers.

This is not quite as dramatic as the assembly line, but is another example of JIT marketing logistics which you have probably seen but not thought about. Examples of marketing logistics are all around you, but the fact that they are so efficient stops them from being noticeable.

Management of the Physical Distribution System

There are whole books devoted to the management and improvement of marketing logistics, but for now we can confine ourselves to the following, adapted from Lancaster and Massingham.

The process of physical distribution management involves the following steps:

- Find out customer service needs
- Find out the present performance of our company and of competitors
- Determine the costs and benefits of improving our performance levels, so as to maximise profits
- Establish specific objectives for logistics performance
- Plan, implement and control the logistics system.

We can take each item and look at the implications for the company.

(a) Customer service needs

It is clear that a scheme to look into logistics would involve a lot of work for marketing and other departments, the first item being the collection of information about just what the customers really want. Do they want us to deliver the goods just at a specific time or do they simply want to know that they can rely on us to keep our delivery promises?

It is usually easy to see what products they want, but not always as easy to see exactly when they want them, and how much they are prepared to pay for the service element of what they are going to receive. Some buyers ask for better delivery than they need, just to avoid being caught out by unexpected delays.

If a company is to enter into special delivery arrangements with specific customers, then there must be trust on both sides, and the whole truth is needed. It is likely that full details of production plans will have to be exchanged so that the two companies can work together: That sort of collaboration goes beyond the normal relationships of customers and suppliers.

(b) Present performance – competitors and ourselves

You may have some idea from your sales representatives' reports on how the customer views your performance levels, and it is worthwhile trying to get a comparison with your competitors. That may involve a different approach – sometimes a buyer will be more forthcoming when talking to a marketing researcher or even to a sales manager, and any "different" approach is worth trying.

It is often easy to get criticism of performance – everyone remembers the disasters, but not the more frequent good service that is taken for granted. It is essential to get a balanced view of the situation, so as to determine how much needs improving, if anything. There is no point in setting up to deliver "JIT" if the goods are then going to lie in the goods inwards store for several days.

(c) Maximising profits

Whilst we are looking at the possibility of improving logistics for the customers, it is essential that we keep an eye on the costs that may be involved. Although we talk of JIT deliveries, the goods have to be manufactured and the machinery in our factory may not be adaptable to small batches every day or two. Production economies usually come from large batches, or long production runs, and it is normal practice to plan for economic production runs, and then store the products for delivery to customers on a planned schedule or just when orders are received.

If the customers no longer want to hold stocks and if they prefer to depend on frequent deliveries, we might have to use different delivery methods. We might even have to set up a small stock depot near their factory. This is not a new idea – a company based in the West Midlands won an order from Volvo for forged steel brackets on condition that they set up a stock depot to keep four weeks' supply near the Swedish factory. And that was 30 years ago.

Stock depots are expensive items and may not be necessary if the customer is not too far away, but the point has to be considered. Some car firms working in several countries in Europe run their own mini-airlines so as to have full control over the delivery of vital parts.

(d) Specific performance levels

Although we are considering providing the customers with a delivery service that matches their production needs, we must not let the customers demand unreasonable standards. The whole idea of working on the logistics of marketing together is to make the system better for both partners in the deal. It is only by setting performance levels by agreement that both parties can be better off.

(e) Plan, implement and control

If a supplier and a customer get together in a marketing logistics scheme, there must be proper planning and control. That means, usually, that there has to be one senior manager appointed at each end of the agreement, with the responsibility to make the scheme work and the authority to make changes when it does not. One manager in a manufacturing company may cope with several schemes of this nature, of course.

Where two or more companies are involved, it is essential for full co-operation to be established and there are many ways in which that can be achieved. For instance, it is usual for Japanese companies to buy some shares in the other company as a sign of good faith. In Britain the co-operation is more likely to be assured by means of meetings of directors.

You will see from all this (which only skims the surface of a vast subject), that the deals involved go beyond the mere generation of short-term profits. Much of what we have looked at would take a year or two to settle down into a pattern, and it is only where there is scope for long-term profit that this sort of activity is worthwhile.

However, companies take note of what their competitors are doing, and if an agreement is seen to be working well, there may be some demand generated for more of the same for different companies.

On a shorter time-scale it is possible to get something similar going, especially in mail order, with a declaration such as "*all orders received before 3.00 pm will be despatched the same day*". That, in Britain, is enough to guarantee delivery next day, or in two or three days, depending on the level of service that you pay for. If you make such a promise, make sure that you know where the carrier's depot is – you might be taking the goods to the depot if you miss the collection time.

The Impact of Technology

The distribution industry has seen many changes in recent years, with systems becoming predominantly technology based, which has improved efficiency and reduced costs quite dramatically in some cases.

The growth of electronic data exchange has resulted in massive changes in how distribution is handled. An increasing number of manufacturers are using central depots to cover huge areas rather than having multiple "regional" depots. In the past, stock handling and replenishment was extremely difficult to control when all the paperwork had to be processed by the regions before it went to the central point and vice versa. In many cases those difficulties restricted growth.

If you consider the opportunities for the European region alone you can see how beneficial electronic data processing can be. Now, because of easier systems and faster communications, manufacturers are able to have one central distribution point with a system which covers all member nations. No longer is it necessary to hold stocks in each location, as they can be moved very quickly from a central point to anywhere within the continent. The cost savings of not having to have distribution points in each country can be immense. Stock control and manufacturing schedules can be much better controlled than in the past. The use of satellite tracking systems now enables assignments to be located anywhere in the world and has drastically reduced "losses".

The advent of computerised systems has meant that it can now be routine to:

- Download sales orders by telelink from anywhere in the world
- Produce documentation and records that are customised to the needs of each internal department
- Produce invoices in picking order to speed up warehouse operations
- Generate journey schedules for delivery vans.

In many cases the information is downloaded from an Electronic Point of Sale (EPOS) system, so management can arrange for restocking without on-site managers having to requisition new supplies.

EPOS also aids research into usage of products which, in turn, allows for better forecasting and planning of stocks to be held in an outlet *and* to be manufactured by a supplier.

Review Questions

1. What are the disadvantages of using a wholesaler?
2. What is an agent?
3. What issues will concern the manufacturer when selecting an intermediary?
4. When is direct distribution preferred?
5. What is a franchise?

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> Using examples from the travel industry, under what circumstances might organisations remove intermediaries from the supply chains (disintermediation) or add intermediaries (re-intermediation)?

ANSWERS TO REVIEW QUESTIONS

1. Loss of control, call frequency is dependent upon the wholesaler, the wholesaler sells competing products, promotion in store is difficult and in certain cases the manufacturer has no control over price.

2. Someone who acts on your behalf. They are used in both home and overseas markets and act as intermediaries in the chain of distribution.

3. Does the intermediary have access to the target market?
   - Will the intermediary help exploit the advantages of the product?
   - Will the intermediary help in promotion costs, etc.?
   - Will there be enough profit for the manufacturer?
   - Will the intermediary be dealing in competing products?
   - What contractual obligations are involved?

4. In the following circumstances:
   - When they are Industrial products
   - Where they are services
   - Where there are few, or more concentrated customer groupings
   - Where more control is required, e.g. quality, installation, after-sales service
   - Customers purchase in large amounts at frequent intervals
   - Products which are bulky, expensive to handle, custom-built, high unit value or perishable.

5. It is a contract to supply and market a product or service to a design or blueprint of the owner of the original product or service for which a franchise fee is paid. It is usually highly controlled and the franchisee has to work within certain parameters set by the franchiser. Examples are Prontoprint, Domino's Pizza and McDonalds.

Study Unit 15

Pricing Policies and Price Setting

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INTRODUCTION

Pricing policy is probably the most difficult aspect of the marketing mix. Basically, price can be defined as the amount the buyer is prepared to pay for a product or service. Pitch it too high and the product or service will not sell. Set your price too low and you will end up making a loss.

The objective of pricing is to produce the desired level of sales so that an organisation can meet its objectives. In this study unit, we will examine how prices are set and the various strategies that the marketer can adopt. We will also look at the relationships between costs and price, and between the nature of demand and price.

A. WHAT DOES A PRICE REPRESENT?

The answer to this question may, at first, seem fairly obvious – it is the amount of money being charged by the seller of a product, and the amount of money being paid by a buyer for that product. But this response does not really say what a price represents. Price means different things to different people – it depends on who we are talking about.

Price is one of the celebrated 4 Ps of marketing – price, product, promotion and place. All the other elements cost money, but price is the exception – price is the one element that brings in revenue. Some of the variables in marketing cannot be controlled by the marketing manager (such as the environment, government actions, political events and so on), but price is one of the variables that the marketing manager can control.

Price and Customers

To a customer, the price represents the level of ***value*** they ascribe to the item being bought. Value changes from one person to another so what is a "good" price to one buyer may be a "bad" price to another.

The following definition comes from a 1990 issue of the CIM Newsletter *Marketing Success*:

> "*Price represents the amount of income that has to be given up in exchange for the package of benefits to be derived from the product*".

Note the word "benefits" – the Newsletter goes on to add that value is far more important than price, and that leads to the idea that the total collection of benefits is more important than just the price alone. For instance, suppose you have to send some goods to another part of the country, and there is a choice of a "24-hour" service, a "48-hour" service or a service which does not guarantee the delivery day. All these services have different prices, yet they all end up delivering the goods to the destination that you specify. The time of arrival may sometimes be such an important benefit that you will pay extra for the faster service.

Most products have a number of benefits associated with them, and when we talk of price per unit in customer terms we are usually speaking of the total benefit, not just the product. Clearly, the customer must consider the other aspects of the purchase, and price is just one of many factors that are involved in a buying decision.

To take another example, many people are interested in owning a computer because computers are an integral part of their working lives and it can be very useful to have one's own, for all sorts of reasons. However, many of the advertisements show prices that are higher than many people are prepared to pay, so those prices turn off their interest. One of the reasons for this is that the products are developing so fast that if you wait a year, the model that you "cannot afford" just now will be offered at a lower price, that you might be prepared to pay. However, if you really ***needed*** the features in the product at the present time, you would allocate money that way now instead of some other way.

There are many factors which influence a customer's view of price. If you are thirsty, you will pay a high price for a drink, even though you think the price is too high, especially if you have little choice or are in a closed situation such as a concert hall.

Management Views of Price

Various managers have different views on price, and the word "price" is too simple for use in the deliberations of company managements. There is always a need to specify which "price" you really mean.

(a) Production Manager's view of price

To the production manager, it is often a matter of price being related to costs, with a percentage added on for profit. This is an old-fashioned method of setting prices which is still used quite extensively, and the effect on the production manager is that he or she will often be asked to reduce the costs, because "*the customers will not pay the price*".

As you can imagine, that causes problems for the production manager, who would certainly be able to reduce the costs if he or she could get authority for making bigger batches of the product, because unit costs fall as production levels rise. But would the lower costs, and lower prices, ***ensure*** that there would be higher sales levels? Maybe, but maybe not.

It is easy to see how production managers can feel that they are being asked to do the impossible to cover up for the inefficiencies of salespeople.

(b) Finance Manager's view of price

The finance manager is managing a very emotive raw material – money. He or she is concerned that the revenue should be bigger than the costs of making, marketing and selling the goods. If it is not, then why are we in business?

The finance manager is also concerned with the time of payment – revenue in the bank today is better than a promise of revenue tomorrow, and timing is more important than it may appear from the outside. The finance manager must ensure that the company does not run short of the "raw material" that he or she manages, because the company could be closed down, however busy they are in production and sales. (All companies in Britain must be able to pay their debts at all times, or they can be closed down, and they may often have to borrow money to keep themselves running.)

If revenue does not come in quickly enough to cover costs, the finance manager must borrow from the reserves or the banks, and that is a matter for concern. The worst thing about financing the marketing activity is the uncertainty – everything that is done by marketing staff costs money and the whole activity is based on the expectation that money will flow back eventually. But when and how much? The finance manager wants to see a high price, but only if there are going to be a lot of units sold.

(c) Sales Manager's view of price

In theory, any salesperson of average ability can sell a good product – it is just easier if there is some flexibility in the price so that a "tempter" can be offered.

Sales managers tend to be judged on the success of their team in shifting quantities of the product, and the quantities are often written into targets with little consideration of the difficulty, or the competitors.

Within reasonable limits it should be possible to sell more at lower prices. There comes a time when people have enough of a product, and shopkeepers soon get to know when their customers will not buy any more at any price, but generally speaking price does have an effect on sales levels.

For the sales manager, lower prices often mean higher sales volumes, and that can be a sign of success.

(d) Distributor's view of price

The price paid by the distributor is not the list price paid by the customers, because the distributor has to be paid for the service that he or she provides in stocking the product and delivering the small quantities that shopkeepers need. So the price to the distributor is the trade price, and that may be as much as 50% lower than the retail price.

The "price" referred to by the finance manager, the production manager and the sales manager is the trade price, not the list price. Whatever the terminology, the outcome is that the trade price is what the company can expect to receive, and all their financial considerations must be made on that price level.

The distributor may see the price in two ways:

- The price that is charged by the shopkeepers, which will have some effect on the demand from customers; and
- The price that he or she has to pay for the goods.

The distributor's profit lies somewhere in-between those two levels.

Time is also important to the distributor – if the supplier will allow a few weeks' credit, the distributor may get some of the money in from the shopkeepers to whom he or she has supplied the goods, and a longer credit period may offset a higher price, so the distributor, just like the customer, is looking at the total package, not just the prices.

B. THE PRICING DECISION

The influencing factors on pricing can make the setting of prices very difficult for marketing managers. Too high a price and the manager does not get the sales; too low and there is not enough revenue. So the question must be: "*How do we set a price?*"

The answer is that there are basically two ways:

- From the point of view of the ***customer and the marketplace***

  The manager must take note of the current level of prices being paid for similar products on sale in the market. He/she should then work ***back*** through the chain of distribution to manufacture, analysing the costs incurred at each stage and building up a total cost for that particular item. When all costs have been considered the actual revenue received for that product can be checked to see if it is viable or otherwise. If profit levels are not adequate then managers need to consider other issues, such as whether the product could be regarded a "loss leader" which would, in time, lead to sales of other related products; or perhaps it is necessary that the company has a place in that particular marketplace for competitive reasons.

- Working from ***cost of manufacture***

  This approach builds up all costs incurred from production, marketing and distribution until the product actually reaches the customer. If the final price is too high, and unrealistic as far as the customer and current market levels are concerned, the manager then needs to investigate how, if possible, they can reduce costs incurred in order to lower prices. The converse also applies. In the case of high value items it could well be that the price reached would be too low and would not reflect the correct "image". Image is important and customer perceptions are affected by price so that price needs to be right.

Pricing Policies

As with most activities in any organisation, there will be stated policies underpinning the day-to-day activities which are taking place. Policies are set and agreed at the higher levels of management and then passed down to the relevant personnel for adoption and action.

Pricing policies may be complex or straightforward depending on various factors such as management style, cost structure, etc. The policies are there to give guidance on the manner in which prices should be set.

Because marketing managers may have to make decisions on prices both for the home market and countries overseas, it follows that pricing policies need to be all-encompassing. They should be clearly stated and easy to understand.

Pricing policies can be established in three ways. They can be:

- Cost-orientated
- Demand-orientated
- Competitor-orientated.

(a) Cost-orientated policies

Here the company knows the costs involved in manufacturing the product and then adds on a percentage of the cost as a mark-up in order to set the price.

There are ***two*** ways of carrying out this policy:

- A ***standard*** "across the board" mark-up on all products produced. The mark-up is designed to cover potential profit.

  Example:

  A company has a standard mark-up of 25%

  Product X costs £5.00 to manufacture

  Production batches are 500 units

  The selling price would be £5 plus 25% = £6.25

  To simply cover costs the company would have to sell 400 units. If they were guaranteed to sell that number, and were able to sell the other 100 units, they could have an extra £625 revenue or profit. But, unless the product is made to order, there is always a risk that some will remain unsold.

- A standard mark-up ***plus*** expected level of profit.

  Example:

  The company has a standard mark-up of 25% before profit

  Product X costs £5 to produce

  Production batches are 500 units

  The company wants to make £1,000 profit

  Total production costs are £2,500. If we add 25% mark-up and the £1,000 required profit we get £4,125. We can then calculate the price at different levels of sales, by dividing the quantity into that amount, as follows:

Sales Quantity	Selling Price (£)
200	20.63
300	13.75
400	10.31
500	8.25

There is a big difference between the lowest price using the second method and that found by using the straightforward mark-up in the first example. The difference is that an allowance has been included to cover required profit. This is a refinement on the basic cost-plus pricing policy. In a situation such as this the marketer has then to decide which price to use, balancing influencing factors against each other to see which scenario is likely to be the most productive.

These modest examples serve to demonstrate just how difficult it can be to set a good price which will be acceptable to the market and yet still bring in the required revenue. Forecasting of sales needs to be as accurate as possible, but the marketer needs to be able to "sense" what the market will bear.

You may consider that cost-plus pricing is a rather dangerous method but many companies use it quite successfully. Generally, those that do use it do not operate simply on a standard mark-up; instead they have varying levels of mark-up to suit the particular products or markets. There may be a stated policy such as:

> "minimum of 25%, maximum of 400% before (or including) profit"

and then the marketing managers are given freedom to set the prices within those parameters. Calculation lists, such as the one used in the second example above – but much more comprehensive, of course – are drawn up so that planners can see at a glance how much profit they are likely to make at any given selling price. This type of list is very useful in the process of new product development and can save a lot of time in repeating calculations.

You usually find the policy of cost-plus pricing in those markets where there is more than one seller of a product and they are broadly similar in nature; products are differentiated by means of added benefits.

(b) Demand-orientated policies

The common perception of demand orientation is that high demand means high prices and low demand means low prices. However, there is the aspect of keeping prices high to meet a "special" demand, such as in the case of luxury goods (Rolls Royce, etc.). In other words, demand can be ***created*** by using a pricing structure that meets the needs of a specific market demand. In the case of Rolls Royce it would meet the exclusive or elitist aspects of the buying market.

There is also the reverse aspect of keeping prices low to create a high demand. Keeping prices low relies on very high turnover – for example, in respect of FMCG products. To price low to create demand requires that a company is strong in the marketplace.

(c) Competitor-orientated policies

This type of pricing is usually found where a group of organisations is selling the same product (petrol, finance, etc.).

The overall market knows the costs of certain items and is only happy to pay what is accepted as the "market price". If one of the companies or organisations were to reduce their price drastically it would simply mean a huge loss of revenue – conversely, if they were to increase their prices it would mean that buyers would buy from the competition.

In these circumstances the safest way is to keep pricing at a level that is the same, or near to, that being charged by the competition.

This policy applies equally to large and small operators. Consider the case of three market traders selling fruit and vegetables within close proximity. If one of them charged higher prices they would simply lose out to the other two. Although they may charge a little more on one or two items, the prices of all three will be broadly similar.

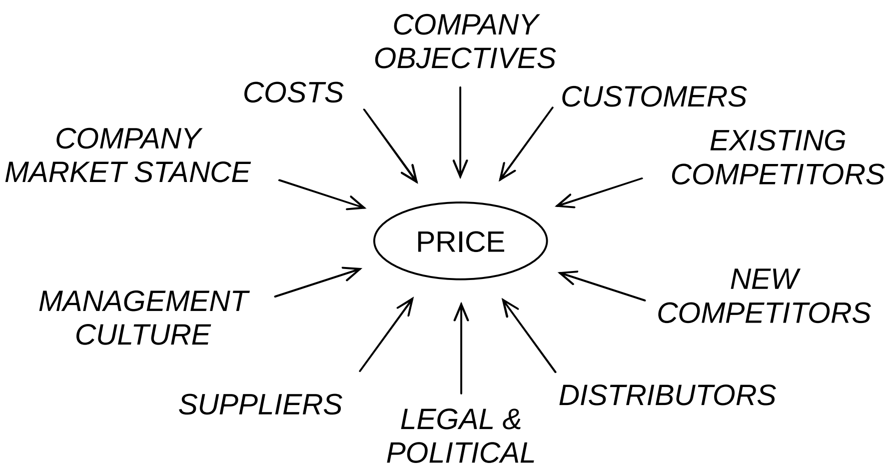
The policies of cost-plus and demand can also be applied to this scenario. If one trader simply wants to cover costs it is easy to do so and of course he can include a percentage for profit before he works out his price. If he manages to get some exotic fruit which the other two have missed, he can price that in accordance with demand.

Influences on Pricing Decisions

From what we have said, you can see that pricing can be difficult. We have to accept that no price can be set up in isolation as it will depend on multiple variables, or influencing factors.

The influencing factors on price are no different to the influencing factors on any other element of the marketing mix. Figure 15.1 summarises this.

Figure 15.1: Influences on Pricing Decisions



These factors can be grouped into a number of categories.

(a) Corporate objectives

As we have already seen, different companies will have different objectives. Where financial gains are more important pricing may be aggressively high; where power, or prestige, is considered to be important, prices may be kept low. Management ethics and culture will undoubtedly have an impact on pricing. For example, in times of shortages of supply which result in an increase in demand one company may raise their prices to capitalise on the short-term situation, but another may hold their prices to be fair to the customers. In times of shortage the company who maintains a loyalty to their customers will inevitably reap the greater reward in the long term.

The following are examples of the ways in which corporate objectives may impact on pricing.

- ***Improved profitability***

  A company can make profits in two ways. If the price of the product or service is fixed low, profit can be generated, providing a high sales volume is generated from a large turnover of goods sold. On the other hand, if a company decides to sell at a higher price, profits can be made because the high margin on each item sold compensates for a lower overall sales level.

  It must be remembered that not all organisations are about making maximum profits. Certainly the not-for-profit sector of charities and voluntary organisations is there to serve its donors and clients first and foremost. Survival is probably much more important than profit maximisation.

  Some companies may not be able to maximise profits because they have chosen to invest heavily in land, buildings and equipment, or research and development in the case of a drugs company. The long-term results may well produce high profits.

- ***Building market share***

  A common objective is to set prices at a level that enables a specified share of the market to be gained. It is commonly used in the fast-moving consumer goods (FMCG) field, because it is practical and workable. Market share is measurable using Neilsen monitoring. Companies such as BT that have the lion's share of the telecoms market (although this is being eroded by the increasing number of competitors) are able to operate cost-effectively because of the economies of scale brought about by high sales volumes.

- ***Achieve a return on investment***

  Here a company aims to achieve a level of income as a return on investment (ROI). Price is the main factor in this and prices will be set to get back a proportion of the funds they have invested in land, buildings and machinery.

- ***Maintain price stability***

  This is a popular objective particularly amongst large companies in an oligopoly. Oligopolies – which are found in many consumer goods markets – are markets dominated by a handful of giant firms (for example, Unilever and Procter and Gamble). If one company decides to raise prices for any reason, the others tend follow suit to avoid undercutting the new price. We see this less today, but the oil companies have worked like this with petrol prices in the past. The fact that all the suppliers are aware of the consequences of a price war leads them to opt to increase their prices in order to maintain stability.

(b) Product factors

- ***Quality***

  There can be no doubt that there is a direct correlation between price and quality. The better an item is, the more the customer will pay. Companies can set prices in accordance with the quality of the product, whether it be high, medium or low. The model in Figure 15.2 illustrates this situation (source, Wilson, Gilligan and Pearson).

Figure 15.2: Price/Quality Matrix

PRODUCT QUALITY \ PRICE	*Low*	*Medium*	*High*
Low	CHEAP VALUE STRATEGY	OUT-OF-STEP STRATEGY	EXPLOITIVE STRATEGY
Medium	ABOVE AVERAGE VALUE STRATEGY	MIDDLE-OF-THE-ROAD STRATEGY	OVER-CHARGING STRATEGY
High	SUPERB VALUE STRATEGY	HIGH VALUE STRATEGY	PREMIUM STRATEGY

- ***Product life cycle***

  Theoretically the PLC can be used to set prices if it is used in conjunction with marketing strategies, for example:

  Introduction = market penetration = aggressive pricing for share (low)

  Introduction = market skimming = aggressive pricing for share (high)

  Growth = penetration and defeat competition = low/differential

  Maturity = protection of share and defeat competition = low

  Decline = recovery of costs = high or low pricing.

  However, this is a very generalised approach and, in view of the fact that it is difficult to know exactly where a product is in its life, it is unlikely that a marketing manager will set his pricing strategies entirely on the PLC.

- ***Product line***

  The price of one product may affect another because of inter-related demand or costs, (e.g. the same resources are used in production). In cases such as these pricing decisions will be based on management values and judgment after full consideration of all influencing factors.

- ***Segmentation/positioning***

  It is an accepted fact that when a company holds a good position in the market it can set higher prices as it will be operating from a position of strength, providing its segmentation and positioning are set correctly. If segmentation and positioning are not correctly carried out, the competition will soon attack on the weaker fronts.

  Brand position and strength also feature here. When a brand is strong people willingly pay higher prices to obtain the product. Although this will not attract every single potential buyer, those that do become loyal are reducing the elements of "perceived risk". Once they have fully accepted the brand, product or company, buyers will feel secure in their purchasing and tend to "stick". They will carry on paying the higher prices until such time as they can be enticed away by yet another brand, product or company. Pricing based on brand may be extremely high depending on the strength of the particular brand.

(b) Customer factors

- ***Demand***

  As demand changes, prices may fluctuate. This can cause gluts in the market and prices will reduce because of over-supply (as may be clearly seen in respect of oil and housing) or at peak buying times, for example in respect of holidays. Marketing managers who are prone to suffer peaks and troughs in demand will be pricing in such a way that any revenue gained will off-set the lean times.

- ***Customer benefit***

  Customers will accept a "basic" price for any commodity but many will be prepared to pay more for added benefits. Companies therefore try to provide the benefits at minimal cost in order to keep profits high. They can also use the "reduced benefits" approach to attract buyers – for example, the growth of own-label brands that promote on the basis of no fancy promotional costs in their prices.

- ***Perceived value***

  A customer will pay more for what they consider "good" value but only if the price reflects the value ascribed. Ascribed value can be on any aspect that is considered important to the buyer – quality, delivery, image, etc. Sometimes manufacturers do not initially recognise an obvious asset, and do not raise their prices accordingly. This is a failure to recognise competitive advantage which can result in needless loss of market share.

(c) Market factors

- ***Competition***

  Managers know that the prices charged will be noted by competition, as well as by buyers, and this will affect how the prices are set. Companies may adopt a pricing policy which signals "*we are not aggressive*" to reduce competitive activity – or the opposite, "*we are strong, keep off, you cannot touch us*" to frighten off attackers and inhibit new entrants into the arena.

- ***Environment***

  Government intervention is probably the strongest influence here. This can have a major impact on how a company sets its prices – for example, through policies on fair trading or monopolies. Intervention can be for a number of reasons – to protect the consumer, to protect manufacturers, to encourage or deter importers, or simply to gain political points.

- ***Geographical***

  Distance can add extra costs for delivery which can make pricing difficult. For many products, customers expect to pay the same price no matter where they are. This calls for a system of ***uniform pricing*** (for example, newspapers are sold at the same price throughout the UK irrespective of the distance from the printing base) or **zone pricing**, where transport and delivery are part of the price but that element varies in accordance with the distance travelled – for example, some retail furniture outlets add an amount to the price, based on the number of miles that delivery has to be made (within ten miles free, 20 miles plus £10, 30 miles plus £25, etc). The added cost may not be the entire cost of the delivery but the customer is expected to contribute.

The nature of the product, its value to the customer and the level of service which the company wishes to give will all be determinants of the price where distance is concerned.

Pricing Strategies

The underlying intention of any pricing policy is to set standards, which can be used to price in such a way as to maximise profits in the long and short term. There are several strategies and actions that can be used in conjunction with the above policies.

(a) Penetration pricing (low price)

This strategy will be used to stimulate market growth, to capture market share or to defeat competition by stealing share or by inhibiting new entrants.

Some companies believe that they can earn long-term profit by pricing in this way. Kotler quotes Texas Instruments as a company that builds excess capacity and is prepared to accept low profits for a few years. Then when the market share builds up, the excess capacity is useful.

To do this the company must be strong and the management determined to continue along this line. The market must be one that can respond to low prices by growing, and the production processes must be of the type that will cost less as experience is built up.

The danger in this strategy for marketers is that they may suffer from the reduced revenue because of low prices. They may also find that they are unable to increase the price from its low level.

You will often see this strategy called "***market share pricing***", "***market penetration***" or "***swamping the market***".

(b) Skimming pricing (high prices)

Skimming is aimed at capturing the top end of the market, i.e. to sell on "perceived value" aspects. Sometimes the entire activities of the company will be based on market skimming strategy (Rolls Royce, Rolex, Yves St. Laurent) but quite often this strategy is used by innovative market leaders when they are launching new products. They aim to get as much profit as possible before the competition catches up.

In the case of new products, this strategy will only work if the product has enough market appeal to warrant a high initial price. Market appeal can be based on any aspect of "value" to the buyer – taste, image, service levels, access, etc. Eventually the price may have to be lowered to match the price of followers.

(c) Early cash return

If a company has cash-flow problems they will take short-term corrective action. They may opt for low(er) prices which will give them a rapid return on the resource investments they have made and try to recover their initial outlay quickly. However, this can lead to problems. How can they then increase the prices to a more realistic level? What if the competition moves faster and captures a large share of the market at the correct pricing? These are the problems that managers face with this strategy, but for companies working with minimal resources it is often the only way to operate.

(d) Satisfactory rate of return

Sometimes a company is happy to make a certain level of profit and not interested in going beyond that figure. Prices will be set and aimed at achieving that profit and no more. It is often the smaller company that operate on this basis – for example, small family businesses, or semi-retired consultants who only want to earn nominal amounts. This strategy tends to be found in those companies who use a cost-plus policy.

(e) Differential pricing

Companies may operate a differential pricing structure – charging different prices in different market sectors. This strategy is usually adopted by companies following a demand-orientated policy. In order for differential pricing to work efficiently, the different target markets/sectors must be clearly distinguishable. They must show different demand patterns and be separate enough to avoid overlapping knowledge of the different price structures being used. Therefore, it follows that this type of pricing is more likely to be found in international markets than in home markets.

Differential pricing can be difficult for the following reasons:

- Increased activity on part of the competition
- Intervention by governments (home and overseas)
- Improved communications means that people are more aware of what is going on in other parts of the world
- Increased trading agreements between countries have led to standard pricing in entire regions of the world.

(f) Competitive pricing

Pricing can be used to build a competitive advantage. There are a number of tactics that can be deployed and a selection of these is given below. These tactics are meant to be short term and can be implemented without damaging the overall pricing strategy.

- ***Volume discounts***

  These are designed to encourage repeat purchasing and contribute to brand and customer loyalty. They are frequently used in business-to-business markets to reward customers who purchase larger quantities or who buy fixed volumes over a given period of time.

- ***Menu pricing***

  This allows the cost to be broken down into different elements. Customers are then able to choose their requirements from the menu. This system offers customers a degree of choice when they are faced with bills for large purchases. For example, car servicing costs can be broken down into different parts so the customer can select from the menu.

- ***Promotional pricing***

  This is a popular form of pricing used throughout the marketing process. There are five main categories:

  (i) Money off current purchase

  (ii) Money off next purchase

  (iii) Cash-back offers

  (iv) More product for the same price

  (v) Discounts on multiple purchases.

Other approaches include premium pricing and all-inclusive prices as offered by hotels, garage service companies and finance/lease schemes.

Changing Prices

There are some situations in which a price must stay level for a time, such as catalogue stores where the catalogues are printed in quantity and have to last six months at least. It is possible to amend the catalogues in the store, but the claim is that you choose the products in your home, so price changes would be undesirable.

Equally, there are market situations where the price is a daily negotiation between suppliers and shopkeepers, such as the vegetable markets in towns. In principle, stable prices which do not change frequently are desirable, so that customers can know what to expect when they go shopping. That is easy to achieve if you run the biggest store in town and can exert great influence on the rest of the traders.

The difficulty comes when the prices of raw materials rise or the staff get a pay rise, which would reduce the profit if the prices were kept level. A clever management may be able to reduce production costs so as to absorb the increases, but there are many managements that do not have that opportunity. If you buy different raw materials from which you make a machine, you have more chance of balancing one cost rise against another, and maybe some reductions, to keep your own prices level. But if you get vegetables from a wholesaler and then sell them from your shop, there is little scope for keeping prices down, especially as your overheads go up without any choice.

A particular problem arises in respect of advertising price. For example, it is common for businesses to advertise in directories or catalogues, the copy for which has to be finalised many months in advance of publication and will then run for a year. This effectively commits the business to the advertised price for nearly two years.

If everyone else is raising their prices, you could gain some temporary differential advantage by keeping yours down – or you could give the impression that you do not need to raise your prices because you have enough money. Customers, or at least some of them, will say that is due to overcharging in the past.

(a) Price reductions

Speaking in general terms, marketers do not like to reduce prices because they fear the danger of a price war with the competition. Consequently, when a price is reduced there will always be a very good reason for it, if not more than one. It may be a situation which forces the change in price, or a deliberate action on the part of management in an attempt to revitalise activity in the market.

Prices can reduce because of one, or more, of the following reasons:

- Competitive activity
- Leadership strategy
- Excess production
- Falling brand share
- Low quality tarnishes image
- Recession.

In fact, not all price reductions are destructive and create price wars – sometimes they simply increase volumes of purchasing so that profits are increased. However, when price wars do occur they are usually between companies which have similar pricing structures and policies, and a downward spiral will often mean that one company has to withdraw from the fight leaving the winner the overall market. The winner is then able to put up the prices again.

This shows that, although the customer will gain from price reductions in the short term, they can lose in the long term because of lost opportunities for choice and stable prices.

The only way to avoid price wars is to operate in such a way that competitive activity does not become over-destructive. This may require a level of cooperation with a competitor in order to keep the market stable or to secure the company's future position. Remember that price fixing by agreement between competing companies is illegal in Britain. It may not be in other countries and you need to find out before going into international marketing.

(b) Discounts

When a discount is given, it means that an allowance has been given from the price for one reason or another. Different companies may have different names for the types of discounts they give, but they are all similar in nature. Marketing managers use them as and when appropriate in their pricing strategies. Some of the more common types are:

- Trade – "special" within the distribution chain
- Quantity – incentive to buy more
- Cash – incentive to help cash flow
- Promotional – to create "instant" sales
- Individual – the strength of the negotiator will determine
- Psychological – high prices initially in order to give good "discounts".

Sometimes a price cut, or a discount from a standard price list, may be offered so as to encourage sales and move some stock out so that the factory can keep up production. (When you keep on making products, you need somewhere to put them.)

(c) Price increases

Price rises are far more popular with marketers than price reductions but, even then, marketers recognise the danger in raising prices. It is a fact of life that customers expect prices to rise over time – but not too rapidly. If a company puts up prices for no apparent reason they will soon fall out of favour in the marketplace, so price increases are only brought into operation if there is good reason.

The reasons for price increases may include:

- Inflation
- Increased cost of raw materials
- Increased taxes
- Currency exchange rate changes
- Excess demand
- Increased quality/buyer benefits.

For managers to raise prices, successfully, there are some basic rules that should be followed:

- Do it at same time as everyone else
- Increase a little at a time and not too often
- Try to lower one price as you raise another
- Look after your main customers
- Give good reasons for putting up the price.

Always remember that no price is absolute. Your strict terms and reasonable price may not be as good as your competitor's high price and reasonable terms. Sympathetic payment terms can help close the sale.

C. PRICE AND COSTS

Every business incurs costs, but just what does it cost to make a product? If you have never been involved in costings in any sort of business, you may be surprised to learn that it is very rare to know the real cost of making anything. If you get a jeweller to make you a ring, you will be charged a price and that will include some costs such as:

- Raw materials
- Labour
- Overheads and profit.

It is with this last item that the difficulty arises, because the amount of raw materials can probably be calculated quite closely, and there should be some record of the time that each craftsman spent on the item.

Overheads consist of all the costs of keeping the factory open and fit for the production process. That includes a lot of items that cannot be allocated to specific products, and most of the overheads will still be incurred if the factory is not actually producing anything for a time. Even if it is closed altogether there will still be rent to pay and whatever local taxes are involved, as well as the wages of the security guards, and some heating and lighting bills. It is likely that overheads will also include elements of marketing – particularly promotional and distribution costs which are spread across a range of products.

Analysing Costs

Costing is a subject in its own right and it is not our intention here to go into great detail about the different approaches which may be adopted. However, since the concept of "cost plus" pricing is fundamental to an understanding of price setting, it is important to consider the ways in which costs may be analysed and taken account of in building up a price.

(a) Revenue and capital

Running or operating costs are often referred to as ***revenue expenditure***. Buildings, equipment and vehicles form the fixed assets of the company and are referred to as ***capital costs***.

This distinction is important because the price of a product should cover the revenue expenditure incurred in its production, promotion and distribution, and make a contribution to the company's capital costs.

(b) Direct and indirect costs

This is of more direct relevance to pricing. All costs incurred by a company (whether revenue or capital) can be split into these two broad categories depending on how they relate to a particular product or even job run.

- A ***direct cost*** is one that can be easily identified and charged to a specific job – for example, a printer's direct costs will cover paper, ink, machine time and the labour involved in the production of a piece of literature.
- An ***indirect cost*** is more general in nature and cannot be identified as applying to a particular job – for example, management and administrative salaries, heating, lighting and business rates. Indirect costs are often referred to as overheads.

(c) Fixed and variable costs

There is another way of looking at costs and splitting them into slightly different categories. Some costs stay the same regardless of the level of activity. Such costs are known as ***fixed costs***, of which rent and rates are the classic example. Other costs behave differently. So raw material costs will vary according to the amount used and thus the term ***variable cost*** is applied.

(d) Marginal cost

This is the cost of producing one extra unit of a product. In essence, this is the variable cost of production per unit, since fixed costs apply no matter how many items are produced.

This has important applications which we shall explore later.

Cost Plus Pricing

The costing procedure for working out the selling price of any product or service is the same irrespective of whether it takes place before or after the work is completed.

The procedure is called ***absorption costing*** (or full-cost or total-cost pricing). This describes the approach whereby products each absorb a share of the total indirect costs (i.e. overheads) in addition to their direct costs. It can be summarised in the following way:

Selling price = Direct costs + Share of overheads + Profit

A simple example will illustrate the process. A printer is asked to quote for the printing of 100,000 A4 leaflets in one colour only. The estimator has given a breakdown of the resources required:

- ***Direct costs***

  Paper = 204 reams of A4 @ £3 per ream

  Ink = 2 litres @ £9 per litre

  Machine time/labour = 2 hours @ £50 per hour

- ***Indirect costs***

  Selling, distribution and administration charges are recovered by charging 2 hours @ £40 per hour.

- ***Profit***

  An extra amount is added for profit equal to $1/9^{th}$ of the total cost to equate to 10% on the selling price.

The quoted selling price is therefore made up as follows:

	£
Direct costs:	
Paper	612
Ink	18
Machine time	100
Indirect costs:	
Overheads	80
	810
Profit	90
Selling price	£900

Thus, prices are directly related to costs. Retailers often use this form of pricing by determining the mark-up needed to achieve their target return.

Breakeven Analysis

It is common to ask at what level of sales will the company "break even", or get out of debt? That brings in the matter of revenue, and with it the question of what price to charge for the product. Breakeven analysis brings together the various types of cost that are involved in making products and then relates them to the quantity that must be sold – and paid for – to cover all the costs that are involved and leave the company with no debts for that product.

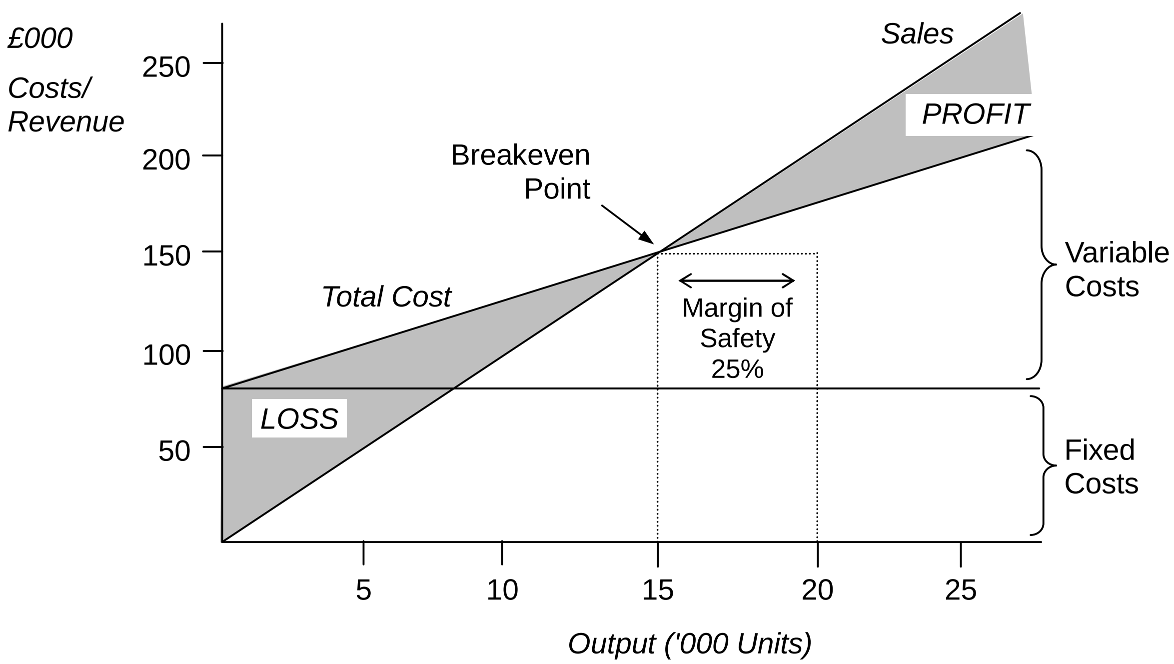
The calculation of breakeven is undertaken by companies to show costs, sales revenue and output, and the breakeven point is that level of output where sales revenue just equals total cost. The company makes neither a profit nor a loss at this point – hence the term "breakeven".

Economists take the simple view that if price goes up, demand will go down, and if price goes down, demand will go up. If we stick with this oversimplification for a time, we can look at the effect of different prices on the breakeven point. The best way to do this is to draw a hypothetical model of a one-product company's situation, using the terms "fixed costs" for overheads and "variable costs" for the wages and raw materials that are involved in making that one product.

A motor components manufacturer makes one product with a selling price of £10.
The variable cost per unit is £5 and the fixed costs are £75,000 per annum. Maximum capacity is 25,000 units, but the company is only operating at 80% capacity. The breakeven point can be shown by means of a graph (Figure 15.3).

Revenue starts at the zero point and we can plot the revenue (not profit) from sales of different amounts of the product sold. Fixed costs are constant for the year, so they can be shown as a straight horizontal line at the appropriate level on the "money" scale. For every product sold there is also a variable cost and that can be plotted as a line rising to the right from the left-hand end of the fixed costs line, so that if we take a vertical line at any volume of sales, we can see the total of the variable and the fixed costs. We can also see the revenue to be earned from this volume of sales, so we can see whether or not the company is in profit at that volume of sales.

Figure 15.3: Breakeven graph



We can see that breakeven is reached at 15,000 units when sales just equal total costs of £150,000. Anything less than this will result in a loss, while greater output generates a profit. The amount of profit or loss at any level can be read from the graph, this being the vertical distance between the total cost line and sales line. The margin of safety of 25% is the amount by which output can fall before a loss is incurred. In this case, output can reduce to 15,000 units before a loss begins.

Note that this is simplified to show the principle, and in real life it would be quite common to see the revenue line curving downwards after a certain level of sales – people will only buy what they need or want of anything, whatever the shape of your breakeven chart. At the same time, the variable cost line could have kinks in it when you reach specific quantities, because of quantity discounts for material and production line economies.

For an existing product, already being sold, the breakeven chart will be built up as sales and cost information is built up during the year, and the chart will be a factual record of the situation. However, price setting can be helped if the marketing manager can see at what level of sales the breakeven point is reached for various prices, so it is common to try to use the breakeven chart to see what price to charge. If it is known from experience, or from test marketing, the effect on sales of various price levels, it is useful to plot several revenue/sales lines to see what the effect may be of setting high and low prices.

Marginal Cost and Price

We noted in the above example that the one product company was only operating at 80% capacity.

Suppose now that it decided that it could have another product, just like the one that considered. In terms of the price, it would be right to include the direct costs, but what would be the position in respect of the indirect costs? All the overheads are already covered by the one product, so the second product could be made for just the variable costs and sold at direct cost plus profit.

It is not uncommon for a factory to be running profitably at 80% of full capacity and covering all the fixed costs. If, then, the factory was running at 90% capacity or more, there will be even more profit and that is good for everyone. If the marketing manager can get an order for a quantity of products that will use up the spare capacity, he or she does not need to cover the fixed costs (overheads) in the price of each product, because the other work is already covering them adequately. So, if the regular production orders are covering the overheads, the marketing manager can offer the spare capacity at "marginal" costs. That means he or she charges for the material and labour, and adds whatever profit he or she thinks is reasonable, but leaves the overheads off.

(a) Practical issues

Marginal cost as "*the cost of producing one more item*", and that does not fit in well with ideas of production lines. It is reasonable to think that if the material and labour costs are covered in the pricing of the additional order, then the ***average total cost*** per item of production will be lower, and that is the main reason for using marginal costing, when it is used.

There are several potential dangers in the marginal costing approach to getting more business, and the first one is that the manager must understand the ideas behind marginal costing and know the facts about the costs in the factory. Quite often there is hardly any extra cost involved, other than material, if the products are made on machines, because it is just as costly to set up for, say, 1,000 components as it is to set up for 1,200. That is why it is common in the printing trade to expect the customers to accept and pay for "overruns". This idea is also particularly applicable to such products as mouldings made of plastic, or other processes such as chemicals, where the plant is set to run for a specific time and the production has to be sold.

The other main danger is that the customers do not understand the system and start to expect to get lower prices for all their orders. That is especially difficult if one principal customer boasts about having got you to cut your price extremely low – then they all want such favoured treatment. It is essential to make sure that each order which is marginally priced is regarded as "special" and not repeatable.

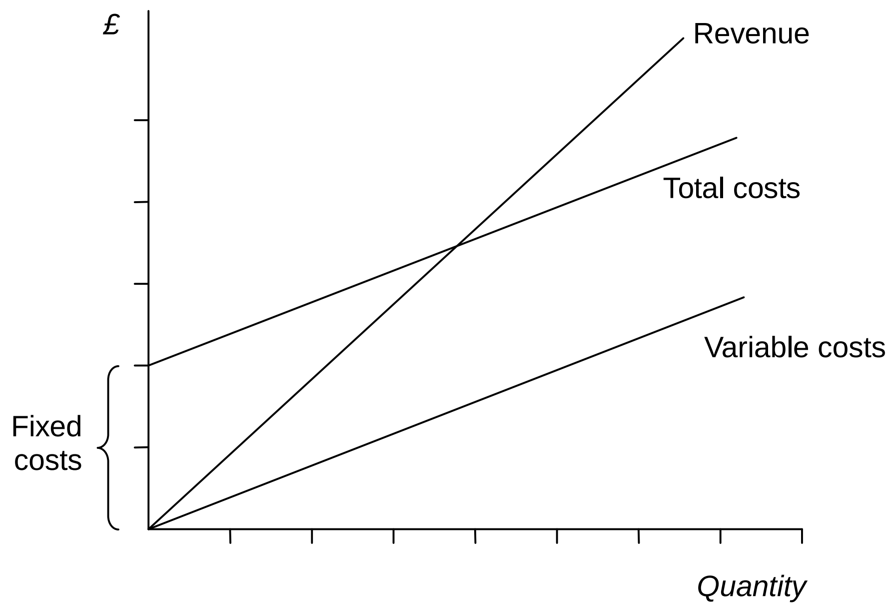
(b) The concept of contribution

The most important thing to remember about marginal costing is that the idea depends on the regular sales covering all the fixed costs (overheads) that are involved in running the factory and storing goods, then delivering them to the customers. It is only after that has been achieved that the idea of marginal costing can apply.

Contribution pricing takes the variable costs (material and labour) which are easily identified, then adds an amount which is the ***contribution to overheads and profit***. So instead of each product having a price fixed by the variable and fixed costs plus a percentage, the price is the variable costs plus a figure which contributes to fixed costs and profit. It is essential to cover the full costs of operating the factory, of course, but the "contribution to overheads and profit" is a pool of money which can be added to by every product sold, even if the variable costs are barely covered.

You might have recognised that contribution pricing is very similar to breakeven analysis, and the two ideas might work well together. The breakeven graph is different for contribution pricing, but the result is similar.

Figure 15.4: Breakeven under Marginal Costing



D. PRICE AND DEMAND

Companies always want to know what will happen to demand if they raise or lower their prices. The degree to which the quantity sold will vary according to changes in the price charged is known as the ***elasticity of demand***. This varies with different goods and services.

Two main groups are found at either end of the scale of price sensitivity:

- ***Elastic demand***

  Cars, furniture, domestic appliances and non-essential services such as life insurance are all typical of goods which exhibit elastic demand.

  Demand for all these types is very responsive to any price change. That is, demand stretches, hence the term "elastic". A small percentage drop in price brings on a much larger percentage increase in demand – and the converse is true, in that a small percentage increase in price will result a much larger percentage drop in demand. Goods in elastic demand have a coefficient of elasticity value greater than 1; because the percentage change in demand is higher than the percentage change in price (see below). We are witnessing this now with personal computers and mobile phones. Demand for these product groups is, therefore, elastic, as it increases greatly when prices are reduced.

- ***Inelastic demand***

  Goods and services which attract inelastic demand tend to be basic commodities, such as milk, bread, butter and sugar. Demand for all these goods is not very responsive to price, so a small percentage drop in price (or even a small increase) has very little effect on demand. Goods which have inelastic demand have a coefficient of elasticity value of less than 1, because the percentage change in demand is lower than the percentage change in price.

  Demand stays fairly constant for basic food items such as bread and milk. It is the same with basic services. If the price of gas or electricity goes up, consumers may make economies, but the demand does not alter significantly.

Price Elasticity of Demand

The formula for price elasticity of demand is worth knowing:

$$\text{P.e. of demand} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

You will see that the numerator and denominator of the equation are both in the same units – percentages – so the price elasticity of demand is a number, although it is common to write it in the equation as "e".

- If $e < 1$: then the demand is relatively price-inelastic and it would need a big change in price to make any change in demand
- If $e = 1$: a specific change in price results in a change in demand of the same proportion and this is unit price elasticity.
- If $e > 1$: then the product is price-elastic relative to demand, and demand will move in the opposite way to price.

Just occasionally there is a product which will be bought at whatever price is charged – the p.e. is infinite, but this is not the normal state of affairs, so you do not need to do anything about that.

Practical examples will make this clearer. Suppose that you are one of the thousands of people who will buy a toothbrush next Saturday. Some of the thousands of buyers will have some idea of price, from experience or looking around. If there were 10,000 buyers and the price went up from £1.00 to £1.20 (an increase of 20%), it is likely that there would still be a lot of buyers, let's say 9,500, a reduction of 5%.

Then the p.e. of demand for that brand of toothbrush would be:

$$\frac{5}{20} = < 1$$

and the demand would be relatively price-inelastic.

Suppose we take the example of a music cassette – not really an essential item. If the demand for a specific cassette was 10,000 at the expected price of £5.00, and then it was found that demand dropped to 5,000 (a 50% fall) when the price went up to £5.20 (a 4% rise), the p.e. of the cassette would be:

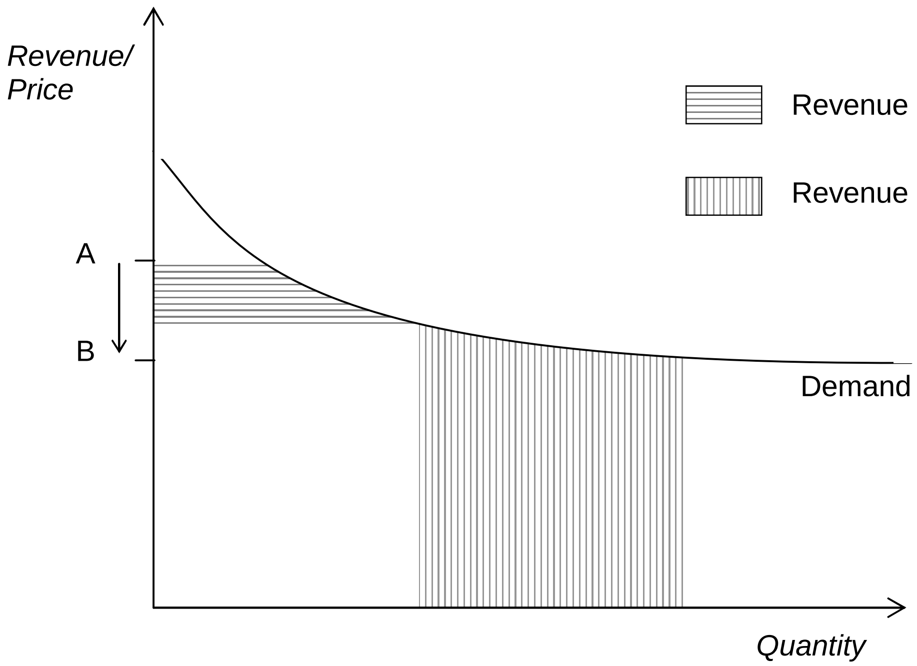
$$\frac{50}{4} = > 1$$

and the demand would be very price-elastic.

The Effect of Price Changes on Revenue

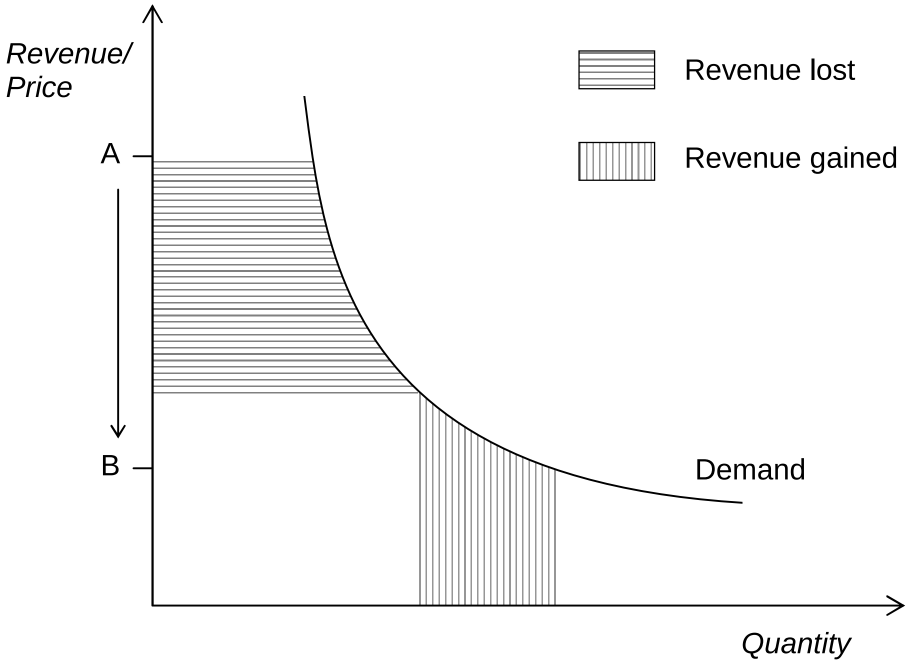
In Figure 15.5, under conditions of elastic demand the curve is fairly flat and when the price drops from A to B, more is demanded and total revenue increases on balance.

Figure 15.5: Elastic Demand



Under conditions of inelastic demand, where the demand curve slopes steeply, even when there is a big drop in price, total revenue decreases, because the revenue gained due to the greater demand is smaller than the revenue lost due to the price drop.

Figure 15.6: Inelastic Demand



One effect of this is that, for example, a "clearance" price would only work if it was known that there would be more demand at a lower price – in other words if the demand for the product was price-elastic. Remember, though, that this is assuming that price is the only factor that changed. In real life, just moving the goods to another location might make them sell better.

Factors Influencing the Elasticity of Demand

There are a number of factors which influence the degree to which demand for a product may be elastic or inelastic.

(a) The availability of substitute products

Take, for example, coffee. If the price were to fall dramatically, many tea drinkers could switch to drinking coffee instead. Thus a fall in the coffee price leads to a decrease in the price of tea. This is an example of positive cross-elasticity.

(b) When complementary goods exist

Where groups of goods are consumed together, a price change on one affects the quantity sold of the other. For example, if the weather turns hot and strawberry sales take off, the demand for the accompanying cream also rises. Similarly, when computer hardware came down in price, and demand shot up, there was a corresponding increase in the sales of software programmes. This is an example of negative cross-elasticity.

(c) Purchasing power and income

Income elasticity is the extent to which the amount demanded of a product varies according to changes in the income of consumers. As purchasing power increases, people can afford to buy new cars, extend their homes, invest in new video/hi-fi equipment, and so on.

(d) Importance of purchase within budget

The purchase of new furniture can represent a large proportion of the buyer's budget and so if prices increase, it can cause a dramatic drop in the quantity demanded and vice versa. Demand for these items is therefore elastic. But in the case of everyday items such as newspapers, groceries and other foods, if the price goes up, it does not significantly affect the quantities sold. The cost is relatively small and the increase is not really noticed that much. Here, the demand for the goods is inelastic.

E. PRICE AND VALUE FOR MONEY

We started the unit by considering the different concepts of price that exist and noted that, whilst consumers do make decisions based on price, price is not the only factor. We know that consumers buy benefits. These benefits "add value" to the product and make up the concept of "value for money" which consumers feel constitutes an important element in the buying decision.

The range of benefits available can have a distinct bearing on price – both in terms of the cost of the offer and what consumers will pay. It is, therefore, important to be aware of the implications of such factors as:

- ***After-sales service*** – consumers feel that they have had value for money if they feel that any problems would be rectified quickly and efficiently if they needed to contact the after-sales service people.
- ***Reputation*** – a company's reputation amongst its buyers is very important in instilling confidence and trust.
- ***Guarantee/warranty period*** – in buying a second-hand car, the addition of a three-year warranty for the price of two years is another example of value for money.
- ***Additional benefits offered*** – these are direct incentives which are seen as offering increased value to the purchaser – for example, a ladies' fashion shop that offers free alterations and an expert cleaning service.

Review Questions

1. What is penetration pricing?
2. What is skimming pricing?
3. What is elasticity of demand?
4. What effect has the Internet had on price?
5. What is breakeven?

Now check your answers with those provided at the end of the unit

Past Examination Question

The following question from a past examination relates to the content of this unit. As a final step here, think how you might answer it.

> "Marketing via its policies and programmes relating to product, price, service, distribution and communications can provide the means to facilitate the attainment of a company's strategy". Discuss.

ANSWERS TO REVIEW QUESTIONS

1. It is a pricing strategy of setting a low price below the prices of competing brands in order to penetrate a market and increase sales. It is often used to stimulate growth. capture market share or defeat competition by stealing share or by inhibiting new entrants.

2. It is a pricing strategy whereby a company charges the highest possible price that buyers who desire the product will pay. Here there is an aim to get as much profit as possible before others catch up.

3. This refers to what will happen to prices if demand rises or falls. The demand for luxury goods and non-essential services tend to be responsive to any price change. The demand stretches and therefore is "elastic". Basic commodities tend to be non-responsive, therefore inelastic. As we have seen recently, if the price of petrol goes up we may be unhappy but we still seem to use buy just as much.

4. The Internet has created greater price transparency. It is much easier today to source products globally and in many sectors this has created greater price competition. With the Internet it is often much easier to view competitor prices and for them to view yours.

5. Breakeven is the point at which the cost of producing a product equals the revenue made from selling the product.