MNM1503 - INTRODUCTION TO MARKETING - 2016-S1

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STUDY UNIT 1: THE NATURE OF MARKETING

1.1 DEFINITION OF MARKETING

Marketing can be defined *as the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals*.
Marketing is therefore about:

- anticipating and satisfying consumer needs;
- creating a mutually beneficial exchange process; and
- Doing so profitably and more effectively than competitors by means of efficient managerial processes.

Exchange and Marketing
Exchange refers to all the activities that relate to people giving something up in order to receive something they would rather have. It is the act of giving something up in order to gain something else. Exchange does not necessarily require money.
In order for exchange to take place, the following five conditions should exist:

1. At least **two parties** must be part of the process.
2. Each party must have **something of value** that the other party wants.
3. Each party **must be able to communicate and deliver the goods** and services to the other party.
4. Each party must be **free to accept or reject** the other's offer.
5. There must be a **willingness to deal with each other**.

1.2 GAPS BETWEEN BUSINESS AND ITS CUSTOMERS

The gaps as indicated in the marketing process are in essence the interval between the needs of the consumer and the end product to satisfy those needs. In the process of satisfying customer needs, other gaps also need to be filled. Gaps in the marketing process are caused because the place where a product is produced is not necessarily the place where it is consumed

There are seven types of gaps:

1. **Space gap -** There is a geographical space (distance) exists between the manufacturer and the consumer.
2. **Time gap -** Seasonal fruit that can only be grown and harvested in the summer months. To be available the whole year, distributors have to keep large numbers in storage, or the fruit needs to be processed and canned.
3. **Information gap -** In order for consumers to be able to buy or use a product or service, they need to know about it.
4. **Ownership gap** - Once the consumer has paid for a new product, the ownership gap is bridged. For large purchases the consumer may require finance from a bank in order to become the owner.
5. **Value gap -** The seller and buyer must agree about an acceptable exchange rate or price, this implies that the buyer and seller do not attach the same value to the product.
6. **Quantity Gap –** Based on quantity available and demanded from suppliers to wholesalers to markets to public.
7. **Assortment Gap –** The variety of products available to consumers.

1.3 MARKETING ACTIVITIES TO BRIDGE GAPS

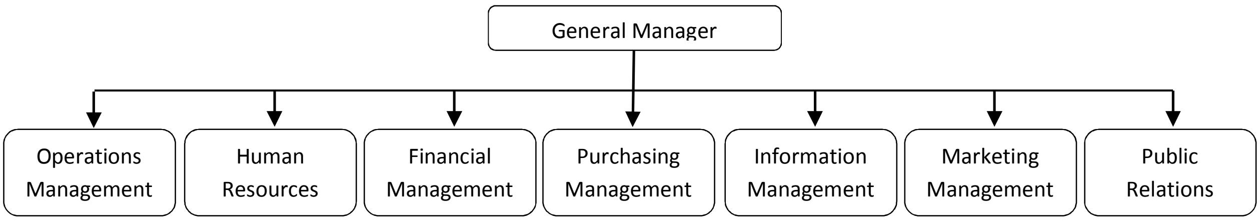
Marketing activities can be defined as those activities used to transfer the market offering to the buyer. The activities intended to bridge the gap between buyer and seller usually involve intermediaries, of which there are three main kinds:

1. **Middlemen -** Are those businesses that bring the producer and user together in the marketing channel.
2. **Sales intermediaries -** Are agents who do not take title of products they sell. They provide services to facilitate the sales process, for which they are paid.
3. **Auxiliary enterprises -** Are not directly involved in the transfer of title but provide support services to facilitate the selling process.

Marketing activities can be grouped into three categories:

1. **Primary activities -** or most basic marketing activity is that of transport. The main aim or focus of transport is to ensure that the product is delivered to the consumer in the quickest and safest way possible.
2. **Auxiliary activities** - refer to those additional activities that are required in the marketing process, and include the following:
    a. **Sourcing and supplying information -** The seller must know who and where potential buyers are. This information can be obtained by conducting marketing research.
    b. **Standardization and grading -** To close the gap between seller and buyer, manufactured products must be designed to conform to specific norms or standards. The method of standardization and grading facilitates in the buying process makes it easier for the buyer to distinguish between varieties of products available.
    c. **Storage -** An activity that closes the time gap. The seasonal aspect of agricultural products necessitates storage to ensure supply throughout the year.
    d. **Financing -** Costs are incurred in the transfer of products and services from sellers to buyers. These costs must be financed, usually by banks and other financial institutions.
    e. **Risk taking** - The owner of the product is exposed to the risk of loss or damage, and can take out insurance as a form of protection against risks such as arson or theft.
3. **Exchange activities** - are buying and selling. Ownership is transferred from one person to the other. Buying activities are not regarded as a marketing task, but rather as the responsibility of the purchasing department. Selling is an important task of the marketing department.

1.4 THE PLACE OF THE MARKETING FUNCTION ON THE ORGANISATION



The functions of these departments are as follows:

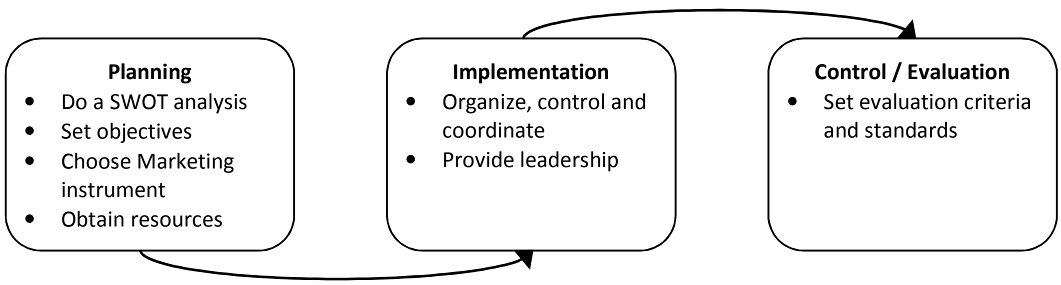
- **The Operations Function -** comprises the physical utilization of raw materials and their conversion into manufactured materials and finished products, and is usually performed in a factory.
- **The Human Resources (HR) Function** - involves the acquisition, training, utilization and retention of competent personnel.
- **The Financial Function -** includes the acquisition, utilization and control of the funds necessary for running the business.
- **The Purchasing Function -** ensures that the materials necessary for production are bought at the right places, at the right times, in the right quantities and at the right prices.
- **The Public Relations Function -** maintains and cultivates a favorable and objective image of the organisation among those whose opinion is important to the achievement of the business objectives.
- **The Information Function -** makes available internal information for planning and control.
- **The Marketing Function -** generates income from sales, and is responsible for managing the marketing process.
- **General Management -** includes the activities of persons in managerial positions. These persons in top, middle and lower management have to plan, organize, lead and control the organisation as a whole. The general manager is at the head of the management team.

1.5 MANAGEMENT TASKS IN MARKETING

The management task consists of a continuous process of planning, organizing, leading and controlling marketing activities. Marketing management:

- Identifies opportunities and threats in the marketing environment;
- Identifies those opportunities which can be used in terms of internal strengths and weaknesses;
- Compiles marketing data;
- Chooses a specific target market;
- Decides on the products to be produced to satisfy consumer needs;
- Decides on the selling price of the product to attain the objective of profitability;
- Decides on specific distribution channels;
- Decides on marketing communication methods whereby consumers are informed, reminded and persuaded;
- Decides on the selection, training, remuneration and motivation of marketing personnel;
- Organizes and leads activities of the marketing department; and
- Controls the marketing process.

These responsibilities are part of the three management tasks which are summarized in the figure below.



Planning
Planning by marketing management entails examining and choosing between various ways of using marketing opportunities, countering marketing threats, and achieving marketing objectives.

- **Adaptive planning -** is a framework for organizing information, analysis, issues and opinions that form part of strategic decision making. An assessment is done to identify the internal and external factors and then to conceptualize creative and strategic solutions to address these factors. Marketing decisions thus begin with the identification and evaluation of marketing opportunities and threats, and internal strengths and weaknesses.
- **Contingency planning -** Contingency planning is a plan devised for an outcome other than the expected plan. Contingency planning therefore entails the development of plans to provide an alternative to the main plan in the event that a dubious, but possible, external factor impacts on the original plan. The contingency plan deals not with unforeseen events, but with events that were foreseen but considered unlikely to occur.

Organizing
Organizing and coordinating call for the creation of an organizational structure best suited to the implementation of the marketing decisions to achieve marketing objectives. Marketing activities are grouped rationally, and individual divisions and managers are tasked with carrying them out. The levels of authority, areas of responsibility, lines of communication and methods of coordination between the divisions and individuals are determined.

Leadership
Leadership involves a wide range of tasks, such as staffing, communicating and motivating. From a marketing viewpoint, leading embraces all the marketing decisions for putting preparation (POLC) into practice. Leading is of paramount importance in the effective performance of the other management tasks.
Overtime a few contemporary leadership styles have emerged. These include the following:

- **Contingent reward leadership** - is a leadership style where management closely supervises the personnel, and facilitates all staff activities and tasks.
- **Laissez-faire leadership -** is a leadership style in that management in minimally involved in the daily activities of personnel, leaving them to manage their own activities and tasks.
- **Management-by-exception leadership -** is a leadership style where managers intervene only when personnel's performance standards have not been met.
- **Transformational leadership** - leaders use inspiration and charisma, they seek to stimulate the sales personnel intellectually, and they treat each employee as an individual. The ultimate goal of transformational leadership is to move personnel beyond their own self-interest toward that of the organisation

Controlling
Controlling or evaluation is the regulatory task of marketing management, and its purpose is to align actual performance with marketing plans. To exercise control we need to do the following four steps:

1. **Set standards** this requires determination of what has to be controlled and where marketing control is necessary.
2. Actual **marketing performance** has to be measured and compared with these standards.
3. The differences between **actual performance and standards have to be evaluated**.
4. **Corrective measures** should be taken to ensure that future performance is in line with marketing plans.

If the marketing management tasks are not properly performed:

- Purchasing management will not know which raw materials and components to purchase;
- Public relations management will not know how to perform or improve its liaison function;
- Financial management will not know how much funding is required; and
- Human resources management will not know how many people to employ.

1.6 EVOLUTION OF THE MARKETING CONCEPT

Marketing Orientations
Different approaches to marketing developed and each one resulted in a reorientation of management thinking. This can be described as an *evolution in marketing thinking*. The phases in this evolution process are characterized by different marketing management philosophies, which are also referred to as alternative marketing concepts.

Production concept
From the early 1900s, most businesses were focused on production or had a production orientation. This means that they just needed to produce their products at a reasonable price and in sufficient quantities, and the market would accept and buy them. The focus was mainly on **producing or manufacturing** the products as efficiently as possible.
The needs of consumers were largely ignored. Marketers got away with this largely due to the lack of competition and the high demand for products. This led to a situation where the supply exceeded the demand. The result was a change in management thinking and the start of the era of sales orientation.

Sales Orientation
A sales orientation focuses on the selling of products and services, rather than on whether or not they are actually. Competition soon became more significant, and the problems related to reaching the market became more complex. Management came to realize that it was not only about producing but also about selling. This led to the focus in persuading consumers to purchase the products. The main aim of businesses during the sales era was to maximize sales volume, that is, to sell as much as possible at just about any cost. Profitability was not a major concern.

1.7 THE MARKETING CONCEPT

The marketing concept can be defined as a managerial philosophy that an organisation should focus on meeting the needs of customers (customer orientation), ensure that all departments and people in the organisation are focused on satisfying them (systems orientation or integrated approach), and in the process make a profit

Consumers developed more sophisticated needs, were in a better financial position, a greater variety of products which led management to realize the importance of the **marketing function**. A change from the sales era to the marketing era resulted in an emphasis not only on the sales message and the price, but also on the quality of products, their packaging, the methods of distribution and the necessity of providing information by means of marketing communication. The marketing concept emphasizes that marketing begins and ends with the customer.

Customer Orientation
Customer orientation, the first principle of the marketing concept, indicates that all actions should be aimed at satisfying customer needs and wants. In customer-oriented businesses, the requirements of customers come first. Customers are the focal point of decision making, and all other functional areas are geared towards satisfying their needs and wants. Such businesses provide after-sales service. Current customer-oriented businesses concentrate on maintaining contact with the customer, providing quality, ensuring customer satisfaction and retaining customers.

Profit Orientation
The marketing concept views customer orientation as a means of achieving the goals of making profit. By providing market offerings that satisfy customer needs and wants, the business will be able to achieve its own profit goals as well.

Systems Orientation (Organizational Integration)
The systems orientation implies that the activities of the business should be coordinated to satisfy customer needs and wants, and to achieve a satisfactory rate of return on investment. All departments should work together to achieve the successful marketing of the market offering of the business. The efforts of personnel in the different functional areas should be coordinated and integrated.

Social Responsibility
Social responsibility is a concept that maintains that businesses are part of the larger and are accountable for their performance. Marketers should strike a balance between targeted customers' needs and wants, customers' long-term best interests, society's long-term best interests, and the long-tern financial goals of the business. Social responsibility programmers for employees include housing, health and care centers for their babies and toddlers.
Green marketing is a further example of social responsibility marketing. Many businesses are using environmental terms such as environmentally friendly, biodegradable and recyclable in their advertising campaigns.

Green Marketing
Green marketing is the promotion of products and services based on environmental factors or awareness, and incorporates a broad range of activities which are aimed at taking advantage of the changing consumer attitudes. Green marketing focuses on the environmentally friendly marketing efforts businesses use, such as corporate social responsibility plans

Relationship Marketing
Relationship marketing places its main focus on the maintenance of long-term relationships between the organisation, the government, the public, the suppliers of raw materials, the employees, and current and potential consumers.
Relationship marketing represents a broader view of the market and the marketing task, and evolved because of consumers' need for honest and open communication from management.

Relationship marketing focuses on the following six areas:

1. **Growth through scope and partnering –** A business will more likely grow stronger through partnerships with its stakeholders
2. **Improvement of chains and relationships –** The business should endeavor to improve its relationship with its supply chain partners in order to remain appealing to them.
3. **Reconsideration of the four P's of marketing –** Traditional methods of marketing need to change as stakeholders are more involved in the way businesses operate.
4. **Relationship managers -** These are people who closely monitor relationship or partnerships and proactively endeavor to make them productive.
5. **Selection and rejection of customers –** Not all customers are profitable to the business. This needs to be managed and the relationships need to be too maintained at all costs.
6. **Technology in Communication –** Telecommunication tech can enhance the relationship between a business and its partners and stakeholders.

Internal Marketing

Stems from the idea that employees are regarded as internal customers. All organisations should seek to take good care of their employees and encourage them to produce quality goods and services.

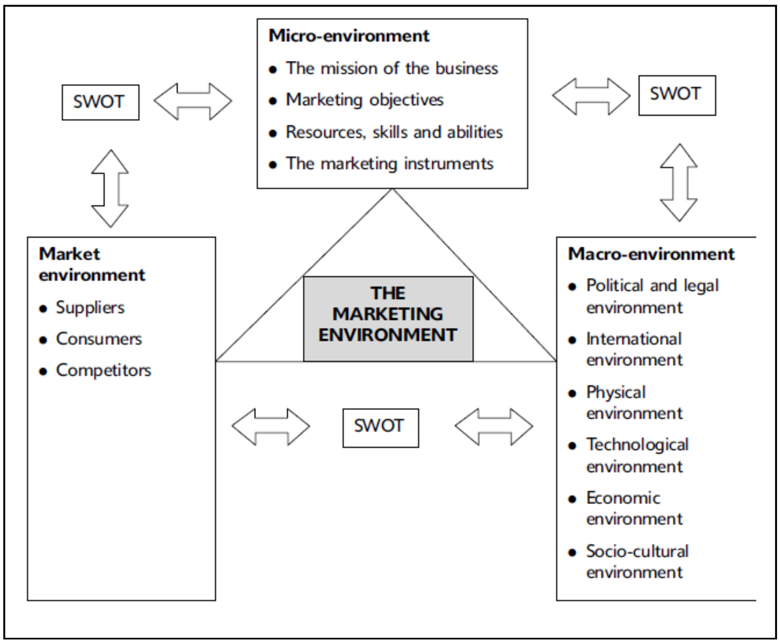
STUDY UNIT 2: THE MODERN MARKETING ENVIRONMENT OF BUSINESS

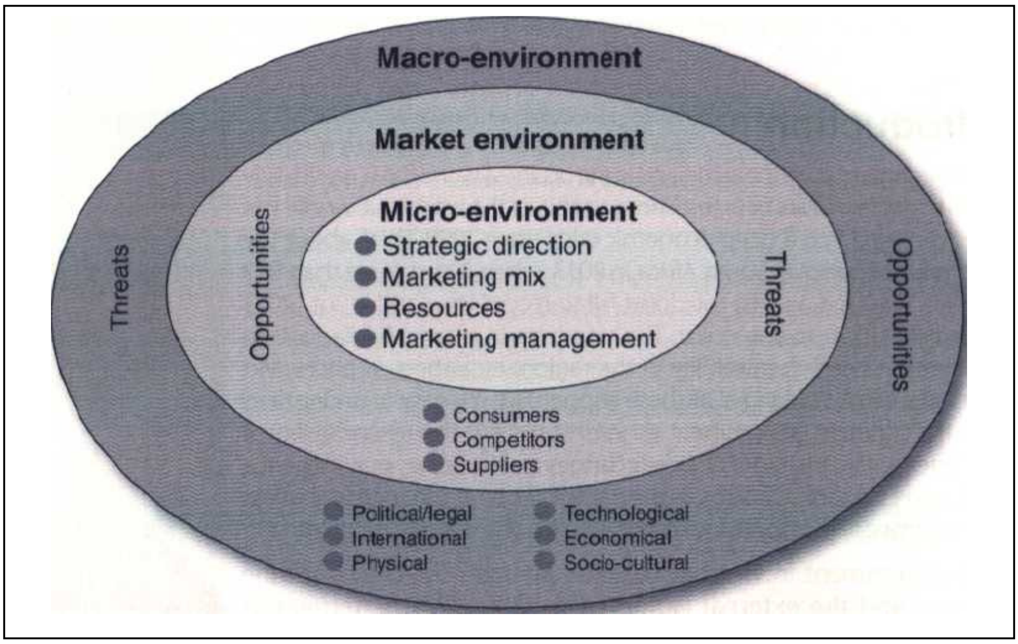
2.1 COMPONENTS OF THE MARKETING ENVIRONMENT

The marketing environment includes various factors that directly or indirectly affect the activities of an organisation in developing and maintaining successful customer relationships with their targeted customer group. These factors should be considered when new products and services are developed.

The marketing environment consists of three sub-environments or components, these are:

- **Micro-environment -** Includes all those internal variables that can be controlled by management, such as the staff, funds to be used, the mission and the marketing objectives of the organisation
- **Market environment -** This environment can be influenced or partially controlled by management, and refers to those forces outside the business such as consumers, competitors and suppliers.
- **Macro-environment -** This environment refers to the external forces the individual business has no control over, but which directly or indirectly influence the business, such as economic, political and technological factors.





2.2 VARIABLES IN THE MICROENVIRONMENT

STRATEGIC DIRECTION	MARKETING MIX
• **Scope:** The future direction that the marketing department is moving in • **Goals:** The main aim that the marketing department is working towards • **Objectives:** Specific objectives that the marketing department wants to attain	• The product features and options • Outlets where the product will be available and distribution channels utilized • Competition based on price • Marketing channels that will be used
RESOURCES	**MARKETING MANAGEMENT**
• **Marketing budget:** Budget allocations • **Skills and abilities:** Hiring individuals with the relevant skills and abilities • **Time:** Time management	• Sales • Profit • Customer relations • Target market selection

STRATEGIC DIRECTION

This consists of a number of variables, which are described below:

Mission Statement

A mission statement defines the fundamental, unique purpose of a business, and identifies its customers and products or services. It is a declaration of the 'reason for being' of a business. A business defined by its mission statement is able to set clear and realistic business objectives.

The marketing department's mission statement provides a concise statement of the current product market position (products offered and markets served) of the department. A mission defines the fundamental purpose that sets a company apart from others of its kind and identifies the scope of its operations in product and market terms. Questions that need to be answered when formulating the mission are as follows:

- Who is the customer?
- What does the customer buy?
- Where is the customer located?
- How does the customer buy?
- How can the customer be reached?
- What does the customer regard as value for money?

The mission of a marketing department is defined by a customer's satisfaction with its products and/or services.

Selection of Target Market

This target market must be big enough for the company to meet its stated objectives and to ensure the long-term survival and growth of the business. Sometimes a company will deliberately focus on a smaller segment of the market (niche market) which shows potential and which the company can exploit profitably with its available resources.

Each market selected has specific characteristics of which the marketer must be aware in order to develop its marketing strategy to secure the highest possible return.

Marketing Objectives

An objective can be defined as something the organisation wants to achieve over a set period of time. There are two types of objectives:

1. **Business or Long-term Objectives**
2. **Functional or short-term objectives**

The mission statement and the objectives jointly set out the purpose of the marketing department. The objectives provide employees with a target for which to aim and what needs to be accomplished through the business activities. There are certain guidelines that should be followed, which include the following:

- Objectives should be **simple, clear and concise**, making them easy to understand
- Objectives should be **measurable** to determine whether they have been achieved or not.
- Objectives should be based on a **specific time frame** within which they should be accomplished.
- Objectives should also be **consistent with tie overall mission** and strategy of the organisation.
- Objectives should be **realistic and achievable** which will be motivation for the employees
- Objectives should be **compared to a benchmark** - a baseline against which they are to be measured should be known.

Business or Long-term Objectives

Objectives that present a picture of a certain desirable future for the business. The objectives of the business also serve as a standard or norm according to which the actual achievement or performance of the business can be measured. Top management is responsible for setting business objectives. There are eight major areas in which a business should set business objectives, they are:

1. **Market standing -** Which products and services it wants to sell and to whom. The business should also define the share of the target market it aims to capture.
2. **Productivity -** The ratio of the inputs and outputs of a business. Productivity improvement objectives can be set in areas such as work methods, machinery and equipment advances and increased worker efficiency.
3. **Innovation -** To remain competitive in today's environment should be innovative and plan new products.
4. **Physical and financial resources -** Objectives should be established with regard to equipment and supply of raw materials and how financial resources are to be generated and used.
5. **Profitability -** Profit is the reward for the capital investor or the entrepreneur. Profit objectives should be set in terms of a particular financial index.
6. **Manager performance and development -** Objectives that relate to the quality of management performance and ensure the development of people at all levels of management.
7. **Worker performance and attitudes -** Objectives should be set regarding factors such as output per employee and quality of product.
8. **Public and social responsibility -** Objectives should be set that will address the public and social responsibility initiatives of the business.

Functional or Short-term Objectives

Functional Objectives refer to those objectives set by functional managers in each functional area, these are medium- or short-term objectives. The most important marketing objectives are as follows:

1. **Profit -** To maximize profitability and to achieve the highest possible rate of return on investment (ROI).
2. **Customer orientation -** A marketing strategy must be based on the satisfaction of customer needs and wants.
3. **Survival and growth -** Marketing management must strive to survive, particularly in difficult circumstances. It should furthermore encourage growth by promptly responding and adapting to an ever-changing environment.
4. **Increase in sales and market share -** A large market share relative to that of competitors ensures a high sales volume and lower unit costs with regard to production and marketing.
5. **Efficiency motive -** All companies strive for efficiency.
6. **Marketing instrument objectives -** Other marketing objectives can be set for the different functions in the marketing department, depending on environmental circumstances.

RESOURCES, SKILLS AND ABILITIES

The resources, skills and abilities of the organisation are controllable elements of the micro-environment and are employed to take **advantage of external opportunities** and to **counter threats**. The strategic use is the responsibility of management. These resources include capital and the skills needed in which employees are able to function to the best of their ability. They also include the marketing skills needed to compete successfully in the marketplace. An efficient marketing information system that supports decision making, as well as experience and intuitive foresight, are internal strengths that will put the organisation a step ahead of its competitors.

THE MARKETING MIX

The marketing instruments are under the direct control of marketing management. How these instruments are used depends on the target market and the expected impact of the macro-environmental factors on the organisation. The marketing instruments are also or the *four Ps of marketing*. These are as follows:

1. **Product -** Which product or products can be offered to meet the perceived needs of the consumer, given the resources and skills available in the company?
2. **Price -** The price of the product must reflect its value to the consumer, the relative price versus quality level against competing products. When setting the price, marketing management has to consider the economic climate, customers' willingness to pay a specific price, prices of competitors' products, and so forth.
3. **Place -** Customers' buying patterns will determine where a product should be available. Management must decide which outlets should carry the product, based on whether these outlets will reach the organization's customers.
4. **Promotion -** concerns the marketing communication methods used to inform the target market of the product. This decision is made by the marketing manager and will be influenced by factors such as the target audience.

MARKETING MANAGEMENT

The third element is marketing management where management takes a decision regarding the market offering. There are four variables to consider:

1. **Sales -** Marketers should be committed to attaining their company's sales goals and objectives, which will lead to securing profit and revenue objectives. Factors such as sales forecasts, revenue forecasts and account policies should be taken into account. Sales management should be proactive in the selection and training of sales employees as well as giving constant guidance, support and motivation to its sales teams and departments.
2. **Profit -** Profits are the financial gain that is achieved by the business while meeting the needs of the market. It is the task of management to continuously look for ways and means in which profits can be achieved and how to operate more economically by keeping business costs as low as possible.
3. **Customer relationships -** A successful business will understand the importance of identifying and satisfying the needs of both current and potential customers, as well as striving to accomplish these tasks more efficiently and effectively as time passes. Systems and processes should be put in place to identify, target, acquire and retain the best and most profitable customers. Customer relationship management (CRM) is therefore important as it will ensure that customers are categorized into appropriate profiles that will correctly describe their needs and the most suitable products.
4. **Target market selection -** It is necessary for management to identify the most profitable target market(s) to which it will direct its time, money and efforts. This process is supported by focused marketing activities set up by management. In order for marketing management to generate a successful marketing plan for its target market, it needs to develop customer profiles and segments in order to get a good idea of who its customers are.

2.3 VARIABLES IN THE MARKET ENVIRONMENT

The market environment refers to those elements or variables that may be influenced by the organisation but which cannot be directly controlled by the organisation. This environment consists of competitors, consumers and suppliers.

Suppliers

A supplier is a business entity that supplies goods or services that are integral to the receiving business's production or delivery of goods and/or services. The purchasing function is increasingly being managed as part of the overall supply chain. The purchasing function is therefore regarded as part of the supply process.

Consumers

A market can be defined as consisting of people with needs who have money to spend and the willingness to satisfy their needs. It is the responsibility of marketing management to analyses the consumer market in order to see how it functions. Businesses operate in five types of customer markets, which are as follows:

- **Consumer markets** - are individuals and households who buy goods and services for personal consumption.
- **Industrial markets or business-to-business markets** - are made up of organisations that buy goods and services for further processing or for use in their manufacturing process.
- **Reseller markets** - buy goods and services, and resell them at a profit.

- **Government markets** - are made up of government agencies that buy goods and services to produce public services or
- **International markets** - are foreign buyers, including consumers, producers, resellers and governments.

Competitors
Competition refers to the contest between two or more businesses that are acting independently, striving to gain the same customer or market segment by overcoming rival businesses.
The more unique a product, the less competition it might experience and the more control the organisation may have over its selling price.
Competition also has positive aspects. It can help to keep excessive profits in check, stimulates higher profitability, promotes better service, and encourages technological innovation.

Competitive Market Structures
The number of businesses that sell a product may affect the strength of the competition. When many businesses sell a particular product, price considerations and product differences are more important than when only one business sells that product.

1. **A monopoly** - exists when a business is marketing a product with no real substitutes and essentially has complete control over the supply of the product.
2. **An oligopoly** - exists when there are relatively few businesses marketing a particular product, and they control much of its supply. Products in oligopolistic competition may be homogeneous (or similar), such as coal or steel or they may be differentiated (having real or perceived differences), such as cars or cigarettes.
3. **Monopolistic competition -** is found when a large number of businesses are marketing the same or similar products. Each business attempts to differentiate its product to persuade consumers that its product is the one to buy.
4. **Perfect competition -** is the ideal situation, but it does not exist. If it did, it would be a market with an unlimited number of sellers, not one of which could significantly influence the price or supply of the products. The closest example of perfect competition is the market for agricultural products, sold informally at roadside stalls or at farmers markets.

2.4 VARIABLES IN THE MACRO ENVIRONMENT

The macro-environment refers to those factors or variables in the environment over which the individual business has no control. These variables are found just outside the market environment and include:

1. **Political and Legal Environment -** Politics plays a major role in the stability of a country and therefore has a profound impact on the way other countries and businesses view the country. Any uncertainty regarding the political stability of a country may affect foreign investment and tourism, which will cause a ripple effect such as inflation, higher interest rates, and lower credit ratings for the country.
2. **International environment -** The world has become one big market due to advances in technology and the advent of the Internet, e-commerce and communication technology. It is now much easier to source suppliers for products than it was in the past, and competitors are not limited to local stores or outlets, as seen in the exponential growth of online shopping.
3. **Physical environment -** Natural resources such as water, coal, oil, gold and other minerals are not available in infinite quantities. Businesses must be aware of these limitations as various factors can lead to a shortage of raw materials and rising costs.
4. **Technological environment -** The increasingly sophisticated features on cell phones, the growing use of the Internet, new applications of software, better and faster computer hardware show how rapidly technology is changing. These advances affect all areas of business, including advertising media, development of new products and the delivery of products.

5. **Economic environment -** The economy is the heartbeat of a country as it affects every consumer and business, and in turn is influenced by various variables of which politics is a major force. Management must be aware of these economic forces as any changes will affect other variables in both the market environment and the micro-environment.
   The economic environment includes the following:
   a) **Inflation -** The inflation rate in a country has a direct influence on consumer prices and spending. In South Africa, the fiscal policy of the government aims to keep inflation between 3 and 6%.
   b) **Interest rates -** An interest rate is the price of lending money. Businesses set up with borrowed funds are particularly sensitive to interest rate fluctuations. A sharp rise in the interest rate can easily result in a business being unable to meet its commitments.
   c) **Unemployment -** This state of affairs has a direct effect on consumer expenditure and the demand for products and services. People tend to cut back on more expensive products and postpone purchases of durable goods.
   d) **Consumer income -** The structural changes in the income of the various consumer groups give rise to changed spending patterns to products and services such as food, clothing, housing and insurance.
   e) **Exchange rate -** A strong rand means that imports are cheaper but exports earn less money than would be the case if the exchange rate were stronger. The price of petrol and diesel is directly linked to the price of oil per barrel and is adjusted on a monthly basis.
   f) **Monetary policy -** Government's monetary policy regulates the money supply, interest rates and the level of the rand relative to other currencies. Fiscal policy affects both businesses and consumers through tax reforms and the level of taxation.
   g) **The business cycle -** During a downturn in the business cycle, less disposable income is available. This has a negative effect on businesses, which react by buying fewer products from the manufacturer.
6. **The socio-cultural environment -** The integration of the South African population since independence in 1994, the focus on women in business, black economic empowerment (BEE) and other actions have led to changes in all areas of business. The socio-cultural environment has an impact on marketing techniques, media used, types of advertisements, organizational structures, and products designed and offered for sale across all types of businesses and industries.

2.5 SWOT ANALYSIS

A SWOT analysis is a useful instrument for helping managers to identify the internal strengths and weaknesses of a business, and the external opportunities and threats facing it.
A SWOT analysis is based on the assumption that an effective strategy maximizes the strengths and opportunities of a business, and minimizes its weaknesses and threats. Strengths should be matched to opportunities, and threats should be seen as challenges. The aim is therefore to identify those critical factors that can have a major effect on the business.
The components of SWOT analysis include:

1. **Strength -** A positive internal factor which helps an organisation to succeed or make progress by distinguishing it from competitors, and increasing its competitiveness in the marketplace. A strength is a resource, skill or other advantage relative to competitors and the needs of the market which the business serves, or expects to serve. It is a distinctive competence that gives the business a competitive advantage in the marketplace
2. **Weakness -** A weakness is an organization’s internal factor that is not strong or successful, and prevents the organisation from fully achieving its objectives. A weakness is a limitation or deficiency in resources, skills and capabilities that seriously impedes the effective performance of a business.
3. **Opportunity -** An opportunity is a favorable external factor in the organization’s environment that makes it possible for the organisation to improve its competitiveness and that can be exploited by management.
4. **Threat -** A threat is an unfavorable external event, trend or change that may currently or potentially cause damage, injury or harm to an organization’s ability to compete. Brand image can be sources of weaknesses. It is the responsibility of management to identify any such threats, real or potential, and to take the necessary steps to counteract them.

Environmental scanning
Environmental scanning refers to the systematic monitoring of an organization's marketing environment whereby information is gathered, analyzed and evaluated in order to detect early signals that indicate opportunities and threats, which may influence the organization's current position or future course of action in terms of strategic decision making.
The importance of environmental scanning or analysis may be summed up as follows:

- It helps the business to **capitalize on early opportunities** rather than lose to competitors, i.e. 'first-mover' advantage
- It provides an early **signal of impending problems** or threats, which can be defused in advance.
- It sensitizes a business to the **changing needs and wants of its customers**.
- It provides a **base of objective information** about the internal strengths and weaknesses of a business that determine its ability to counter threats or use opportunities.
- It **improves the image of the business** by showing that it is sensitive and responsive to its environment.

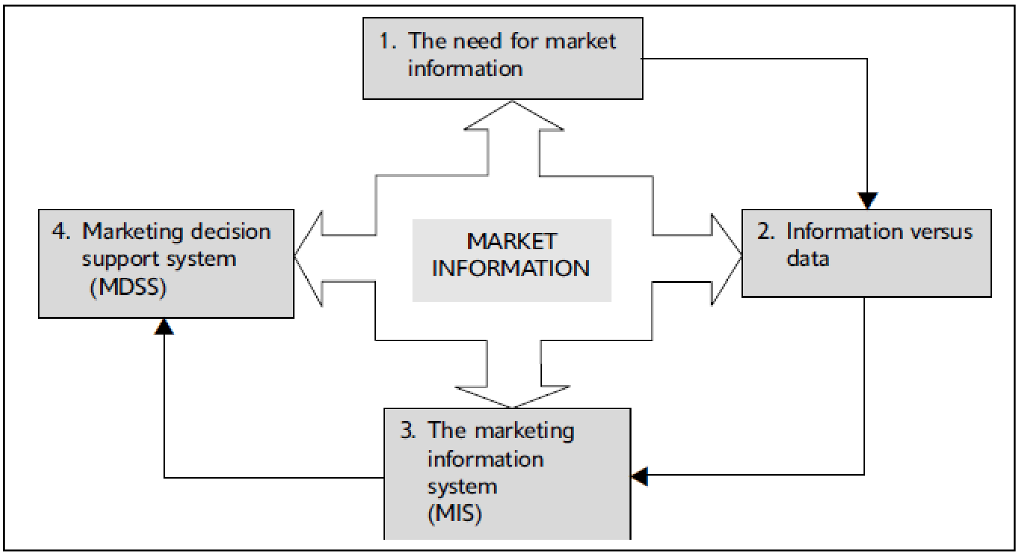
Monitoring the internal environment is part of the strategic management process. It should take place while management keeps an eye on the external environment. It is importance that this exercise is undertaken regularly. It is very important to do a thorough internal analysis as it is only then that workable strategies can be developed and realistic objectives formulated.

STUDY UNIT 3: MARKETING INFORMATION

3.1 THE NEED FOR MARKETING INFORMATION

Marketing managers, however, need information to reduce the possibility of incorrect or risky decision making, and therefore need it to be timely, accurate and reliable. Without such information, the planning, implementation and control of marketing activities cannot be carried out.

In reality, information is often not readily available, this means that an information qap exists.



The Role of Information in Management

Information management is consequently focused on accessible and available data.

- **Data** - refers to all available statistics, figures, opinions, facts and forecasts.
- **Information -** refers to data that is organized in a fashion that leads to marketing action.

Information management must continuously monitor data sources, and manage data reduction and information transition, as well as a constant flow of information to marketing managers. This can only be accomplished with a marketing information system.

3.2 INFORMATION MANAGEMENT

Marketing information system (MIS)

A structured process that is used to gather and analyses data regarding a particular opportunity or threat in order to assist marketing managers to make informed decisions

A marketing information system is a typical *input-output system* with information sources being the input, and relevant, timely and accurate information the output. It is a system of interactive and interdependent subsystems which function as a whole. The various components of a marketing information include:

• **Inputs**	1. Internal information - 2. External information 3. Marketing research
1. **Processing**	1. Marketing models 2. Information processing experts 3. Decision support system
2. **Outputs**	1. Information on marketing decisions 2. Marketing outcomes 3. Response

Components of a Marketing Information System
A marketing information system involves the gathering of data (inputs) and the processing of data in a database with the aid of marketing models, information processing* specialists and the decision support system (DSS) to produce useful marketing information (outputs)

Inputs
1. **Marketing research** - This is the planned collection of information on an ad hoc continual basis
2. **Internal data sources -** These are all available sources of internal information such as sales records, accounting reports, production reports, financial reports, etc.
3. **External data sources -** These are all sources of information available from outside the company, such as published reports, articles, and syndicated studies and statistical records'

Processing
1. **Marketing models**
    - **Marketing mix models -** refer to sets of *pause-and-effect relationships* built into standardized models. Various models are available to marketers, including the following:
    - **Marketing mix model -** are models that help in the determination of an optimal marketing mix and take into account the market response to the various marketing mix elements and their interactions.
    - **Forecasting models -** include time series models, econometric models and judgmental models, which have been used in forecasting sales, shares and other marketing objective*.
    - **New product forecasting models -** used for forecasting the performance of new products and services.
    - **Advertising models -** used to Assist marketers in making advertising decisions, and include decision calculus models and models used for media selection and scheduling.

2. **Decision support system (DSS)**
   A DSS or marketing decision support system (MDSS) is a computerized system which helps marketing management to obtain and use information that is relevant to specific decision making situations. Decision support systems are made up of the following parts:
    - **Data system -** Includes the processes used to capture and store data that originates from a number of external and internal sources.
    - **Dialogue system -** Also called the language system, and permits users to explore the databases by using the system models to produce reports that satisfy particular information needs.
    - **Model system -** Includes all the routines that allow the user to manipulate the data so as to conduct the kind of analysis desired.

3. **Information processing specialists**
   Information processing specialists are specialized personnel who help with the information processing of specialized requests and reports.

Outputs
The outputs consist of specific information in the form of reports on sales, consumer demand, competitor's reactions which can be used to answer questions or to solve problems. From the output side of the marketing information system, information on the decisions taken by marketing management provides feed back to the input side where more information is needed to solve a specific problem.

Advantages and Costs of Marketing Information

All information has two important dimension:

1. **Quality or value dimension -** Refers to the value of the information as expressed in the quality of decision making
2. **Cost dimension -** Which refers to the price of the information.

The quality or value dimension is a function of the following criteria:

1. **Accurate (valid) information -** This refers to the realities of the situation.
2. **Timely information -** This simply means recent information that is available when desired.
3. **Adequate information -** This means sufficient qualitative and quantitative information enable better decisions.
4. **Availability of information -** This refers to the accessibility of information (that is, can it be obtained?).
5. **Relevant information -** This refers to (lie suitability of information for the decision which has to be taken.

The cost dimension of information consists of:

1. **Economic costs** - Direct financial or indirect costs in terms of opportunity costs, such as those which result from delaying a decision
2. **Psychological costs** - Frustration in searching for information.

The real value of information can only be obtained from a value appraisal. A value appraisal involves the assessment of information in terms of its contribution to marketing decision making.

Benefits Received – Costs Incurred = Value

The Place and Role of Marketing Information in Relationship Marketing

Marketing information contributes to the main functions of relationship marketing, including customer retention, high customer commitment and high customer contact.

Good and reliable marketing information offers a number of competitive advantages, which include:

- It makes the **entry of competitors more difficult.**
- It makes **changing brands more costly** and difficult (brand switching).
- A strong customer database is developed, establishing a **long-term relationship** with customers.
- It is **easier to meet the needs of the market more efficiently** and to deliver products that are according to the requirements.

Factors related to information and technology influence relationship marketing decisions directly. Some of these are:

- The **provision of information** to difficult and demanding customers on time;
- The **provision of information** with regard to excessive cost that the business incurs, such as unsuccessful products, low customer service, use of disproportionately high transport costs or ineffective marketing campaigns;
- The **availability of data in-house** such as the buying patterns of customers, customer profiles and viewing patterns
- **Business data,** data that is relevant to the business.
- The availability of **reliable and relevant online information technology** from various private and government sources.

STUDY UNIT 4: MARKETING RESEARCH

4.1 MARKETING RESEARCH

Marketing research is the systematic gathering, recording and analyzing of data to provide information useful in marketing decision making.
'Marketing research is the function that links the consumer, customer and public to the marketer through information used to identify and define marketing opportunities and problems; to generate, refine and evaluate marketing actions; to monitor marketing performance, and to improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyses the results, and communicates the findings and their implications.'
Put in more simple terms, marketing research can be defined as the systematic search for, recording and analysis of data which is used to solve problems or identify opportunities in marketing and related fields.

The Nature of Marketing Research
Marketing research is performed to answer marketing management's questions of: Who are the consumers who buy, What products are bought, When are they bought, Where are they bought, Why are they bought, and How are they bought?
Marketing research can be classified as:

- **Informal marketing research -** involves taking advantage of every valid opportunity to collect information and market it intelligence and is quite effective as a first warning mechanism.
- **Formal marketing research -** follows a methodical step-by-step approach which should result in reliable information for decision making. It focuses on specific problems and phenomena such as marketing actions, marketing performance and a better understanding of the market

4.2 THE MARKETING RESEARCH PROCESS

Steps in the Marketing Research Process
Marketing research is referred to as a process which has as their aim to systematically collect, interpret and analyses marketing data. All marketing research processes contain the following basic steps:

- **Step 1: Describe the research problem**
- **Step 2: Select the appropriate research design**
- **Step 3: Prepare the research design**
- **Step 4: Conduct fieldwork**
- **Step 5: Process the information required**
- **Step 6: Report the results of the research**

Step 1: Describe the Research Problem
Marketing problems refer to situations that present problems to decision makers, as opposed to marketing. The first step is the identification and formulation of the problem to be researched. It should be clearly defined and formulated. A weak diagnosis will lead to an inefficient solution. A useful way to identify the research problem is to state the basic one as a hierarchy of questions in the following categories:

- **Management Question -** Represents a specific decision that management must make and is usually verbalized in some sort of management question, e.g. are there changes in consumer preferences?
- **Research question -** The question must then be translated into a research question. At this stage the researcher will consider the appropriate research objectives, e.g. what are the reasons for changes in consumer preferences?
- **Investigative questions -** Will enable the researcher to answer the research question and thus answer the management question, e.g. can changes in income patterns cause changing consumer preferences?
- **Measurement questions -** The final category in the hierarchy involves the most specific level of the research design. Measurement questions would appear on the actual questionnaire or data collection instrument, e.g. what is your occupation and how much do you spend on product X?

The **situation analysis** is an important part of problem formulation. A situation analysis refers to the process of gathering background information about the business and its environment. The purpose is to assess the current situation, the position of the organisation and what the result will be, if the problem persists. Situation analysis takes the following environmental factors into consideration:

- **Secondary data analysis** - where existing information and forecasts are investigated
- The **macro-environment** - economic, legal, technological, social
- The **organization's product markets** - product types, sales volumes, market shares
- **Customer markets and buyer behavior** - demographic, lifestyle, buying behavior, preferences
- **Marketing strategies** - advertising, pricing, intermediaries, products
- The **resources and constraints** of the organisation
- The **technological ski**lls of the organisation.

Step 2: Select the Appropriate Research Design

A research design is a detailed plan for collecting and analyzing data to obtain answers to a specific retail problem. The different design types and the five basic research design activities are shown below:

- **Data design types:** Exploratory, descriptive, qualitative, quantitative, post hoc, ex post facto, longitudinal, causal, predictive.
-

The classification of available research designs in the marketing research methodology is very broad and involves the following types of **research designs**:

1. **Exploratory research -** The main focus is on obtaining more information in order to determine if further research is needed, or if the study should proceed.
2. **Descriptive research -** Aims to provide a comprehensive and accurate description of the situation. This type of research answers the questions of 'who', 'what; 'when', 'where' and 'how' regarding a topic or situation.
3. **Qualitative research -** Seeks in-depth, open-ended responses. The aim is to get respondents to speak freely about a chosen subject and to obtain as wide as possible a response.
4. **Quantitative research -** This research is on quantifying the responses obtained in the research process. The approach is descriptive in nature, and usually presents the findings in numbers, figures or statistical parameters.
5. **Post hoc research -** Attempts to investigate variables and predictors of future happenings in the marketing environment. It deals with current issues as opposed to past incidents.
6. **Ex post facto research -** This research explains the phenomenon after it has happened.
7. **Longitudinal research -** Longitudinal research designs have the objective of obtaining information over a period of time -many years- with the aim of identifying trends which are occurring in the marketing environment over time.
8. **Causal research -** Most marketing variables exist in close relationship with other variables, and marketing managers need to be informed of any cause-and-effect relationships that exist between them. It attempts to determine the extent to which changes in one variable cause changes in another.
9. **Predictive research -** This research aims at forecasting future values, such as sales, income and market share.

<table>
<tr><th>Research Design</th><th>Example</th><th>Information Needed</th></tr>
<tr><td>Exploratory research</td><td>Literature reviews, experience surveys and focus group</td><td rowspan="9">The type of research will determine the information needed, Types of information needed include:
• Facts
• Level of awareness
• Opinions and attitudes
• Preferences
• Motives and behavior
Defining the information needs of the study, the researcher ensures that the data obtained will match the requirement of the research problem and objectives.</td></tr>
<tr><td>Descriptive research</td><td>Personal interviews, postal questionnaires, telephone interviews and questionnaires</td></tr>
<tr><td>Qualitative research</td><td>Focus groups, interviews</td></tr>
<tr><td>Quantitative research</td><td>Questionnaires</td></tr>
<tr><td>Post hoc research</td><td>Perception measurement of a company's service quality</td></tr>
<tr><td>Ex post facto research</td><td>To determine why a company's advertising campaign failed</td></tr>
<tr><td>Longitudinal research</td><td>The seasonal fluctuation in the sales of, e.g. cold remedies</td></tr>
<tr><td>Causal research</td><td>Experimentation</td></tr>
<tr><td>Predictive research</td><td>Sales forecasting</td></tr>
</table>

Step 3: Prepare the Research Design

The following activities are involved in preparing a specific research design, as indicated in Figure 4.6.

- **Activity 1:** Decide on the source of information.
- **Activity 2:** Determine data collection tactics
- **Activity 3:** Decide on the data collection instruments to be used
- **Activity 4:** Determine which data collection technique to use
- **Activity 5:** Develop the sampling plan

Activity 1: Decide on the Source of Information

The first activity entails deciding between the two main categories of data sources. These are:

1. **Primary data -** Is the data that is collected by the researcher to solve a specific research problem.
2. **Secondary data -** Is data that has already been collected by, the researcher, their organisation, or an outside agency.

Since primary data has to be collected, obtaining the data is a relatively expensive and slow process, but the data is usually more relevant to the research objectives than secondary data. Although secondary data is cheaper and faster to obtain than primary data, the researcher has to always consider its relevance, accuracy, reliability and timorousness.

Primary Data		Secondary Data	
Internal Sources	**External Sources**	**Internal Sources**	**External Sources**
• Employees	• Consumers • Clients • Retailers • Wholesalers • Competitors	• Company Records	• Libraries • Industry associations • Chambers of industry and commerce • Government bodies • Marketing research organisations • Universities

Activity 2: Determine the Data Collection Tactics

The collection of secondary data is usually a simple process because libraries and relevant government organisations. Primary data must be collected for the specific objectives of the research. Data collection approaches can be classified into three main categories:

1. **The observation approach** is simply the process of recognizing and noting what is going on rather than asking for information.
2. **The survey approach** uses direct or indirect questioning of individuals or respondents. Most widely used form of data collection and uses structured questions and response categories allowing the results to be quantified (often called quantitative research).
3. **Experimentation** used in causal research design and refers to the process of conducting a controlled test to discover an unknown effect. The objective of controlling and manipulating the independent variable is to determine the causal relationship with the dependent variable

Activity 3: Decide on the Data Collection Instruments to be Used

The data collection instrument is the one that will reach the target market most effectively, depending on the research budget. There are two types of research instruments use to collect primary data:

1. **Questionnaire -** The most common instrument for the collection of primary data. The questions should be relevant and easily understood by the respondent. The questions can be open (respondents reply in their own words) or closed (select one or more alternative responses). The sequence has to be considered. A good questionnaire has the following criteria:
   - Will it obtain the required information to assist in making decisions?
   - Is it formulated or structured in such a way that it suits the requirements of the respondents?
   - When the questionnaire is designed, are editing and data-processing requirements taken into account?

2. **Mechanical/electronic equipment -** Galvanometers, eye cameras, and electronic and mechanical meters are used to measure respondents' reactions, behavior and opinions. These can be simple counting to sophisticated instruments which measure reactions.

Activity 4: Determine Which Data Collection Technique to Use

Once the researcher has decided to conduct research through the use of 3 questionnaire as a method of survey research, the following methods can be used to distribute questionnaires and collect data:

1. **Personal interviews -** These interviews are conducted face to face by a trained interviewer.
2. **Telephone interviews -** These interviews are conducted telephonically by an interviewer.
3. **Self-administered surveys -** Conducted when respondents are asked to complete the questionnaires in their own time.

Advantages	Disadvantages
Personal Interviews	
• Interviewer can answer questions the respondent has • Interviewer can ask probing questions and follow up on answers • There is increased cooperation from respondents • Data can be recorded • Interviewer can make use of visual aids and scoring devices • Illiterate or functionally illiterate respondents can be reached • Computer-assisted personal interviewing (CAPI) can help speed up the interview process, and increases the accuracy of the data collected • Interviewers can pre-screen	• The cost of personal interviews is very high • The data collection process takes a lot of time • If the geographic dispersion of the target population is high, the data collection process takes longer • Interviewers must be highly trained to conduct personal interviews • Interviewer bias can occur • Respondents may be difficult or unwilling to allow interviewers into their homes • Respondents may not be available • Follow-up can be labour intensive
Telephone Interviews	
• The costs are lower • A larger geographic area can be covered • Fewer interviewers need to be used • There is better access to respondents who are difficult to reach • There is a quicker completion time, and interviewer bias is reduced • Computer-assisted telephone interviews (CATI) allow the responses to be directly into the computer file, which reduces error and cost.	• The target group may not be accessible by telephone or may not be listed in the telephone directory • There is a lower response rate • Telephone directories may be unreliable • The interview and questionnaire are limited • The response rate is lower, and responses may be less complete
Self-administered Surveys	
• This method has the lower cost • Extended geographic coverage is possible without increasing cost • Complex survey instruments may be used • Minimal staff is required for data collection • Computer-literate respondents have fast access • There is more time for respondents to think about their answers • Incentives may be used • This method also allows for rapid data collection • Visual illustration may be used • Respondents perceive this method to be more anonymous • It is easier to reach inaccessible respondents	• The questionnaire length is limited, and detailed instructions and details are necessary • The security of the computer used may be a problem • It is not possible to probe for answers or explain questions • This method has a low response rate • The respondent needs to be in an environment that has few distractions • Respondents who are not computer literate may experience some anxiety • Respondents who represent the extremes can skew the data • The mailing lists being used must be accurate

Activity 5: Develop the Sampling Plan

Researchers seldom study the whole population, information is obtained from a sample that represents the population. A sample that is not representative of the total population may not give a true picture of that population and is therefore plagued with problems of validity and reliability. There are seven steps to follow when developing a sampling plan:

- **Step 1: Deals with identifying and defining the target population on which the research is to be conducted**.
- **Step 2: The data collection method is identified**
- **Step 3: A sampling frame is chosen**. The sample frame refers to the list of the sample units that will be used, and can consist of any population record.
- **Step 4: Entails determining a sampling method**. **Probability and non-probability sampling methods**
  Probability sampling
  Also known as random sampling, is the best way to ensure a representative sample. The following probability sampling methods can be employed:
  1. **Simple random sampling -** The principle of this method is the same as picking numbers randomly from a hat. It uses computational random number generators or tables of random numbers. The sampling units are identified by numbers so a comprehensive listing of the population is required.
  2. **Stratified random sampling -** Where the total population can be divided into unique and distinctive groups and the researcher wants to a make sure that each group is clearly represented, stratified random sampling can be used. It allocates the sample size to each specific group**, called stratum**, according to size. It does not need a detailed population frame (list of population).
  3. **Cluster sampling -** Cluster sampling groups the population into clusters and randomly selects a few to study. The grouping is done according to availability or ease and should be heterogeneous within subgroups and externally homogeneous.
  4. **Systematic sampling -** Systematic sampling delivers the most representative samples of all sampling methods. It randomly selects the starting point in the list of population and then

  Non-probability sampling
  The high cost and difficulty in obtaining truly random sample, research is often based on non-probability sampling. Non-random sampling does not give every member of the population a known and equal chance to be included in the sample, and is not representative of the population. The researcher can use one of the following sampling methods:
  1. **Convenience sampling -** is when the sample population is drawn from whoever is readily available. The sample is not a true representation of the population, and data is not very reliable.
  2. **Judgement sampling -** selects the sample population based on a certain profile.
  3. **Quota sampling -** is where a certain number of respondents need to be included in the research and the researcher selects the respondents based on the premise that certain relevant characteristics describe population dimensions.
  4. **Snowball sampling -** entails selecting a small group of people who then identify other individuals with similar characteristics required by the researcher.

- **Step 5: Determination of the sample size**. Statistical confidence is one of the best norms for determining the sample size. There is a greater possibility of unreliable and invalid results with smaller sample sizes, while the possibility of errors and bias increases with larger ones.
- **Step 6: Entails developing the operational procedures for selecting sample elements**. If a researcher fails to develop a proper operational plan, the whole study can be jeopardised. The sample selection procedures should specify whether probability or non-probability methods will be used. In the case of probability sampling, the procedures should be detailed, clear and unambiguous. Aftera proper sampling plan has been developed, the actual research can be conducted.'2
- **Step 7: The operational procedures for selecting elements and the execution of the sampling plan**. There are a number of problems that can occur if the researcher does not develop a proper plan. The sampling methods that will be used must be specified and the procedure explained in detail.

Step 4: Conduct Fieldwork

Fieldwork is the actual data collection using the data collection instrument. **Bias** is almost always due to badly executed fieldwork.

Preventing bias - Researchers should be aware of the following sources of bias that cause serious errors:

1. **The respondent -** When we deal with people, bias is probable. Aspect that influences the results will be respondent's characteristics, fatigue, boredom, anxiety and literacy.
2. **Situational factors -** Respondents may be influenced by the environment, e.g. other people, the weather, physical environment, such as the place where the interview is conducted.
3. **The fieldworker -** The interviewer can distort information by rewording or misinterpreting the respondents answers. Bias also occurs where the interviewer influences the respondents. The implementation of the data collection also has its specific sources of error. They are:
   - I selecting the incorrect respondents;
   - I non-response errors caused by refusals or not-at-home respondents;
   - I errors in encouraging questionnaire completion;
   - I incorrect interpretation of data
   - I interviewer dishonesty.
4. **The data collection instrument -** The last potential source of measurement error comes from the type of data collection instrument used in the research. E.g. a questionnaire with flaws in the design, wording or layout, the sampling procedure. Samples that are not representative of the total population can lead to over-or under-representation of certain groups.

Important considerations in fieldwork

Errors can occur during the fieldwork process. Information can be lost or recorded incorrectly by the fieldworker. The following considerations are important in the implementation of fieldwork:

1. **The use of interviewers and fieldworkers -** The first step is the selection of the fieldworkers. There need to be sufficient questionnaires and manuals for the fieldworkers to use. The sample population must also be taken into consideration. It is important that fieldworkers receive the necessary training.
2. **Administrative procedures -** Refers to the administrative procedures such as recruiting and selecting fieldworkers, scheduling times and conducting follow-up procedures.
3. **Quality and cost control -** The evaluation of the fieldworkers and the fieldwork process is important in ensuring that data is accurate, and free of discrepancies and mistakes.
4. **Evaluation of interviewers -** Interviewers must be evaluated against the initial objective of the research. Training instructions, quality of information gathered, number of refusals, etc, should also be looked at.

Step 5: Process the Information Acquired

The collected data has to be edited, verified and coded in order to capture it electronically.

- **Data preparation -** The first step in the analysis of data is to edit the raw data. Editing refers to the detection of errors and/or omissions in the data - and the correction of these where possible - and lastly the certification that the minimal data quality standards have been achieved. Editing can occur in the *field editing* or in the *central location*. After editing, the data needs to be coded. Assigning numbers to answers is called *coding.* There are four coding rules to be followed:
  1. The coding categories must be relevant to the research.
  2. Extensive categories must be used so as to fulfil the research objectives completely.
  3. The categories must not overlap.
  4. Each category should be defined as a concept.
- **Data entry -** Data entry is the process of converting the data that has been collected to a medium suitable for processing. Following the data preparation and coding of open questions, the data is then captured on computer. The data capture should also be audited for possible typing errors or misinterpretation of coding instructions.
- **Tabulation and analysis –** It is important for the researcher to stipulate the type of tabulation, the format in which the information should be presented and whether items should be tabulated in combination with others (cross-tabulation).

<u>Step 6: Report the Results of the Research</u>

This step involves the interpretation of the marketing information for decision-making purposes and the reporting thereof to the marketing decision maker. Inevitably, the written research report is the document that management will use as its information source in making a decision. In evaluating the quality of the research report, criteria such as intelligibility, relevance, clarity, conciseness, organisation, timeousness, accuracy and comprehensiveness are applied.

In the research report, the problem is first defined, and the information from secondary and primary sources analysed and interpreted. Conclusions and recommendations are then made.

Marketing Research on the Internet

The development and phenomenal growth of the Internet promise great opportunities for creative applications in marketing

- **Advantages of Internet research**
  Creating and sending out questionnaires to respondents is much faster.
  A second reason for the appeal is the cost. Costs are almost totally eliminated, or reduced to a fraction of the cost.
  The Internet's ability to reach large numbers of people is another major advantage.
  The visual appeal with attractive graphics, audio, video layouts contributes significantly to increased response rates
- **Disadvantages of web surveys**
  A major problem with Internet research is the lack of representativeness of Internet users.
  A second serious disadvantage is the problem of security, which is a particularly sensitive issue for most Internet users.

Internet survey techniques

Two basic methods of Internet research are currently being used:

1. **Conventional website-based surveys -** Respondents are invited to visit a URL where the website survey is located.
2. **E-mail-based questionnaires -** The questionnaire is prepared as a self-executable e-mail attachment. Another approach is e-mail speciality software that will enable the automatic distribution and return of e-mail questionnaires to a targeted list of e-mail respondents.

Market Measurement and Demand Forecasting

Levels of market measurement

Marketing managers must dearly define the required level of measurement as this would directly impact on the formulation of resulting marketing decision making. The four levels of market measurement are:

1. **Consumer level -** Provides information on the number of final consumers defined in different market segments.
2. **Product level -** Expressed in terms of the total number of current buyers for each product type.
3. **Geographic level -** The total market can be divided into geographic segments and it is thus possible to express the market measurement in geographic terms.
4. **Time levels -** Provide information on the sales over different time periods such as monthly sales, seasonal sales and annual sales.

Relevant Markets for Measurement

Two important indicators are derived from the market measurement which the company will use for evaluating its competitive position in the market. They are also used to evaluate the efficiency of the marketing effort.

1. **Sales potential -** refers to the quantitative indication of what the organisation's probable sales in a total market, available market and/or target market should be in view of various possible marketing efforts. Sales potential should not be confused with market potential, which is an indication of the size of the total demand for a product type at an infinite level of marketing input from all participants (competitors) in the market.
2. **Market share** - is a well-known measure of competitive position and indicates the relationship of an organisation's sales to the sales of all participants (competitors) in the same market.

Methods of Market Measurement

Various practical methods exist for the measurement of market size, of which those listed below:

1. **The basic method -** Entails the calculation of the total number of buyers, the average quantity purchased per time period and the average price of the product for the same time period.
2. **The chain ratio method -** This method involves a percentage calculation of the number of people who are expected to buy the product in the future. This is called buying intention.
3. **Market build-up method -** Used particularly by industrial manufacturers. The method involves the determination of all potential buyers of the product and the quantities they will buy. These two figures are then multiplied to obtain the market potential for the particular product.
4. **The market index method -** This method is useful for consumer goods. It is based on a statistical index calculated from the number of potential buyers that form part of a specific market, and should be used as a relative measure.

Market Forecasting Methods

A few methods of market forecasting are discussed below:

Historical basis methods: Forecast based on historical data

1. **Time series analysis -** This approach to market forecasting is based on historical data, and involves the careful investigation of past trends and relationships between different variables. It relies heavily on the principles of cause-and-effect relationships.
2. **Statistical demand analysis -** This investigates all the possible factors that could have an effect on sales, and allocates relative weights to each of them. It is also based on investigation of sales histories, and attempts to explain sales as a function of a number of independent variables.

Current basis methods: Forecast based on current data

1. **Survey of buying intentions -** Potential buyers of the product are asked to indicate their buying intention on one of several surveying techniques. These techniques include buying probability scales, consumer confidence indices and measurement of buyers' sentiment. Surveys of buying intentions are subject to various problems, the most obvious being the overestimation of buying intention.
2. **Opinions of sales personnel -** Sales personnel realise the changes and form a 'gut feel' for future sales. Opinions of sales personnel may be biased by subjective involvement or they may be overoptimistic (or pessimistic) about their products. By offering certain incentives, sales personnel can be motivated to make more efficient estimates.
3. **Jury of expert opinion -** This includes dealers, suppliers, marketing agents, industry spokespeople, industry associations, research organisations and consultants.

STUDY UNIT 5: MARKET SEGMENTATION

5.1 CONSUMER BEHAVIOUR

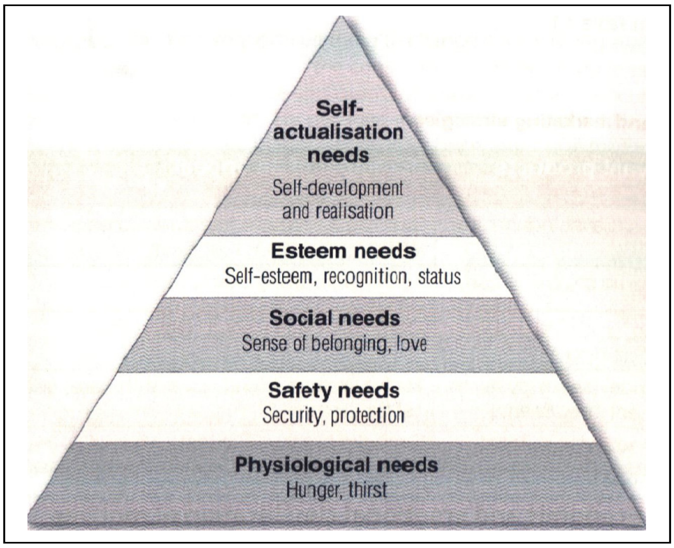
Consumer behaviour is the decision-making process used in selecting, evaluating, using and disposing of products and services.
The study of consumer behaviour is concerned with all the activities and influences that occur before, during and after the purchase itself.

5.1.1 Individual Factors Influencing Consumer Behaviour
Human needs, in particular consumer needs, are the basis of all modern marketing. Needs are the essence of the marketing concept. Marketers who base their offerings on recognition of consumer needs find a ready market for their products or services. Individual factors are those inherent in human behavior that influence an individuals consumer behavior.

1. **Motivation**
2. **Perception**
3. **Learning ability**
4. **Attitudes**
5. **Personality**
6. **Lifestyle**

5.1.1.1 Motivation
Motivation is what moves people to action. Marketers need to 'look behind the behaviour in order to understand the motives of their consumers. When retailers examined the buying choices of consumers, they found unsatisfied needs. Needs are the basic sources of buyer behavior, but they have to be stimulated before the consumer is driven to action. When a person wishes to satisfy a need, we call this motivation. There is thus a close relationship between needs and motives. Motives can be classified in various ways and these classifications offer the marketer useful insight into human behaviour. Two classifications that are particularly relevant to the marketer are Maslows hierarchy of needs, and the economic and emotional classification.

Maslow's hierarcy of needs
Abraham Maslow identified specific human needs and classified them in a hierarchy of importance. At the bottom level are the most basic needs. According to this theory, the individual is motivated to fulfil whichever need is most strongly felt at any given moment.



- **Physiological needs - T**he most basic needs and refer to the need for breathing, food, water and sleep.
- **Safety and security needs -** After physiological motives have been minimally satisfied and include security of body, health, family, economy and employment. Security needs would motivate a consumer to erect a security fence.
- **Belongingness or social needs -** Reflected in a desire for friendship, family, a sense of being loved and approval. Many products, such as cosmetics and deodorants, are purchased because of social motives.
- **Esteem needs -** The desire for recognition, confidence, self-esteem, reputation and respect. These motives impel consumers to purchase luxury products as symbols of status and success.
- **Self-actualisation needs -** These involve the desire for self- fulfilment, new experiences, morality and personal growth. Not many people are in a position to satisfy this need. An example is to become a top tennis player or artist, or to summit Mount Everest.

5.1.1.2 Perception

Perception is how individuals see a product, brand or organisation based on their sense of sight, hearing, smell, taste and feel. Perception is influenced by what we have learned and the way in which we perceive things is influenced by what we know about them. Consumers make decisions and take actions based on what they perceive to be reality. Knowledge of the principles of perception enables the astute marketer to develop messages that have a good chance of being perceived and remembered by the target consumers.

The perception process

The perception process consists of four distinct steps;

1. **Exposure -** Initially, perception begins with exposure to stimuli. Exposure occurs when the stimuli come within range of one of the five primary receptors, namely vision, hearing, taste, smell and touch. Most of the stimuli to which an individual is exposed are deliberately selected-that is, this is known as selective exposure. To ensure that consumers in their target market are exposed to a marketing message, marketers often put advertisements in unconventional places where there will be less competition, for example on the back of shopping trolleys, on walls in sports stadiums, and even in restrooms where the marketer has a 'captive audience! Retailers use shelf position and amount of shelf space to ensure that consumers are exposed to certain brands. Point-of-purchase displays
2. **Attention –** Activated when one or more of the sensory receptors are stimulated and the resulting sensations are processed in the brain. However, individuals are exposed to more stimuli than they can process, therefore, they have to be selective in attending to marketing and other messages. This is known as selective attention, thus the stimuli will be processed only when the individual makes a deliberate effort.
3. **Interpretation -** Interpetation is the meaning that people assign to sensory stimuli. Consumers usually interpret information on the basis of their own attitudes, beliefs, motives and experiences, which is known as selective interpretation. They often interpret information in a manner that supports their own position.
4. **Recall (or memory) –** Consumers do not remember all the information they see, hear or read, even after attending to and interpreting it. Selective recoil refers to the fact that consumers tend to forget the marketing message. To ensure full and correct recall of the message as well as appropriate purchasing action, the marketer must use point-of-purchase promotion to remind the consumer of the message and product.

5.1.1.3 Learning ability

Any facet of a person's behaviour is dependent on what he or she learns and remembers a bout objects and situations.

Elements of learning

1. **Stimulus -** The first requirement. Once the consumer has perceived the stimulus (object), he or she must be motivated to seek the object before learning occurs. The stronger the motivation is, the quicker the consumer learns.
2. **Response -** A response is any action, reaction or state of mind which results from a particular stimulus or cue. Cues stimulate response: marketers who provide cons stent cues, as in advertising messages, to a consumer may succeed in creating a favourable image of their product in the consumer's mind.
3. **Reinforcement -** Reinforcement increases the likelihood that a particular response will occur in the future as the result of particular cues or stimuli. Positive reinforcement is a pleasant experience, while negative reinforcement involves the avoidance of an unpleasant experience,
4. **Repetition -** Repetition refers to the act of repeating past actions or experiences. This action of repetition enhances learning, which is why repetitive advertising is effective in communicating positive images about products to consumers.

5.1.1.4 Attitude

An individual's attitude is regarded as having three components:

1. **Cognitive component** - Refers to a person's knowledge and perceptions that may be acquired by direct experience with the product and other sources of information. For most attitude objects, we have a number of beliefs. It is important to note that beliefs need not be correct or true; they need only to exist.
2. **Affective component -** Has to do with the consumer's feelings or emotions with respect to the focus of the attitude. It captures the overall assessment of a product by a consumer.
3. **Behavioural (conative) component -** Represents the outcome of the cognitive and affective components - to buy or not to buy. The cognitive, affective and behavioural components of attitude tend to be consistent. This means that a change in one attitude component tends to produce related changes in the others.
4. **Attitude change -** Marketers are able to change or influence consumer's attitude with their marketing strategies in various ways:
    - **Changing consumer beliefs of a brand -** Change the way consumers view the brand or product by associating the brand with positive attributes.
    - **Changing consumer's behaviour towards a product -** Once consumers start using a product, it is likely that they will continue using it if they are satisfied.
    - **Adding new beliefs -** Adding new benefits or improvements to products which may include newer applications or uses of the product.
    - **Strengthening beliefs -** Focusing on the current positive beliefs or attributes that consumers have about a brand and comparing them to a competitor brand can greatly influence consumer attitude.

5.1.1.5 Personality

A person's personality thus refers to his or her inner characteristics, those specific qualities, attributes, traits and mannerisms that distinguish one individual from another. Personality is those inner psychological characteristics that both determine and reflect how a person responds to his or her environment. These are likely to influence an individual's product and store choices, as well as the way the consumer responds to the marketer's promotional messages.

Characteristics of personality

1. **Personality reflects individual differences -** Personality is a useful concept as it enables us to categorise people into different groups on the basis of a single or a few traits.
2. **Personality is consistent and enduring -** An individual's personality usually remains the same, thus it is unreasonable for marketers to attempt to change someone's personality to conform to certain products. However, an individual's personality may change because of major events such as the birth of a child, the death of a loved one or as a result of a major career promotion.
3. **The value of personality to marketers -** The personality of individual consumers affects the products that they tend to buy.

5.1.1.6 Lifestyle

Marketers use lifestyle to discover how people spend their time, what they find interesting and important, and how they view themselves and the world around them. Lifestyle is related to values. A person's set of values plays a very important role in consumption activities-many products are purchased because people believe these products will he p them to attain a value-related goal.

<u>5.1.2 GROUP FACTORS INFLUENCING CONSUMER BEHAVIOUR</u>

Most individuals tend to be involved with other people on a daily basis, whether this is the family, cultural group, social class, reference groups, peer groups or opinion leaders. These groups exert a great influence on the individual.

5.1.2.1 Family

There are two levels of family. The first is the nuclear family comprising a husband, wife and children. The second is the extended family, which includes grandparents or other relatives who live under the same roof as the nuclear family.

Family roles

There are five roles in the family decision-making process:

1. **The initiator -** This is the first person to suggest that a specific product should be bought. This is also the person who collects information about the product or service. Teenagers often act as initiators.
2. **The influencer -** This person influences the final decision either explicitly or implicitly in the sense that his or her suggestions and wishes are reflected in the family's decision.
3. **The decision maker -** This person takes the actual decision and makes the final choice between alternatives.
4. **The purchaser -** This is the person who buys the products. Some purchasers are forced to carry out the instructions of the decision maker, whereas others have the authority to choose for family members.
5. **The user -** This is the person who uses the product at the end.

Family types

Families are usually classified in terms of the dominant member. The following family types are distinguished:

1. **Husband-dominant family** - where the husband makes all or most of the purchase decisions.
2. **Wife-dominant family -** where the wife makes all or most of the purchase decisions.
3. **Nuclear family** - where decisions are made by both spouses. Today this type of family is coming more and more to the fore.
4. **Child-dominant family** - where the children have a major say in the purchase decisions.

5.1.2.2 Cultural group

Culture is the system of shared beliefs and behaviours in a society that are learnt and transmitted from generation to generation. Cultural groups share a commonality of cultural values, rules, norms, symbols and experiences that are passed down from generation to generation. The bounds that culture sets for behaviour are called **norms.**

Norms are simply rules that specify or prohibit certain types of behaviour in certain situations and are based on cultural values. Violation of cultural norms results in sanctions or penalties ranging from mild social disapproval to banishment from the group.

Social class

Social class refers to groups of people who have the same social standings in society and who show similar behaviour. The behaviour of a social class is a function of occupation, income and education. The gap in income between the richest and poorest people is measured by the Gini coefficient. A social class structure usually consists of the upper, middle and lower class. Some of the marketing implications of social class are the following behaviours:

- **Media usage -** More-educated individuals generally focus more on reading and going to the theatre than the less educated, who would spend more time watching TV.
- **Collection of information -** Higher social groups are more informed and are more exposed to information sources.
- **Store choice -** The types of stores patronised by the different classes differ - the higher social classes shop more at branded stores than at discount stores.
- **Leisure pursuits -** Individuals in the higher social classes spend more time on leisure activities, often related to some level of prestige - for example being part of an exclusive golf club.

5.1.2.3 Reference Groups

In all reference groups there are distinctive norms of behaviour, and members are expected to conform to these norms in order to avoid sanctions being applied against them. We distinguish between the following types of reference groups:

1. **Membership groups -** These are groups to which an individual has gained membership.
2. **Automatic groups -** These are groups that individuals fall into as a result of gender, age, race, etc.
3. **Negative groups -** These are groups that individuals intentionally avoid being associated with.
4. **Associative groups -** These are groups that individuals work towards being a part of. Typical members of associative reference groups are often used as models in advertisements in order to show potential consumers the type of person who buys the product and also the way in which the product can be used.

5.1.2.4 Opinion Leaders

A reference group need not necessarily be a group of persons, but can also be a reference person or individual to whom others will look when forming opinions and taking consumer decisions. The reference person can therefore be regarded as an opinion leader. The opinion leader need not be well known or enjoy high status, but can be an ordinary person or even an imaginary one.

5.1.3 Consumer Decision-making Process

Consumers display distinctive behaviour patterns in the decision-making process. Let us first consider the different types of decision making.

Types of decision making

- **Real decision making -** This is a complex process and involves extensive problem solving, such as the decision to buy a new house or car.
- **Impulse decision making -** This refers to unplanned action on the spur of the moment as opposed to conscious planning during real decision making.
- **Habitual decision making -** This occurs when a consumer is brand loyal, for example buying a large tin of a particular coffee automatically without even considering other brands.

Phases in Consumer Decision Making

1. **Need recognition -** This refers to when the consumer recognises or becomes aware of a need. For example, because John's wife is pregnant, so he recognises a need for a bigger apartment or house.
2. **Search for information -** The consumer will do research and find information from various sources. For example, John may first use internal sources, such as memory and experience, and then external sources such as the advice of family members and friends, or marketing sources such as real estate magazines or websites.
3. **Purchase decision -** A decision is made once the consumer has chosen the best alternative. John also has to decide what he can afford and if he will use a real estate agent.
4. **Post-purchase evaluation -** The consumer re-evaluates his decision. If his expectations in his dealings with the real estate agent are met, this can lead to brand loyalty. If his expectations were not met, he may complain and never consider using the company again. This condition is known as **cognitive dissonance**.

Adoption of new products

When a product is new and unknown, and there is a certain degree of risk attached to its use. The perceived risk attending the adoption of a new product includes:

1. **Financial risk** - the money spent on the product will be wasted if the product is unsatisfactory);
2. **Functional risk -** there is a danger that the product may not perform as desired);
3. **Social risk** - consumers may feel that others may look down on them if they purchase the product!; and
4. **Physical risk** - the potential for personal harm or health hazard).

Consumers usually move through the following five stages in arriving at a decision to purchase or reject a new product:

1. **Awareness -** The first stage, consumers are exposed to the product innovation. They know about the new idea but lack sufficient awareness about it.
2. **Interest -** The consumer becomes interested in the product and seeks more information about it.
3. **Evaluation -** consumers draw conclusions about the innovation or determine whether further information is necessary. This stage represents a kind of 'mental trial' of the new product.
4. **Trial -** At this stage, consumers use the product on a limited basis. Their experience with the product provides them with the critical information that they need to adopt or reject.
5. **Adoption or rejection -** The adoption of some products may have minimal consequences.

Characteristics of people who adopt an innovation at different points in time:

1. **Innovators -** These are younger individuals and are more willing to try new things. They are also more educated.
2. **Early adopters -** These are willing to take calculated risks.
3. **Early majority -** These adopt after the innovation has been successful.
4. **Late majority -** These are sceptical about innovations, tend to be older and have less social status, and often adopt more in response to social pressure.
5. **Laggards -** These are more traditional and are the last people to adopt an innovation. They are less likely to try anything new and do not have much social interaction.

5.2. MARKET SEGMENTATION, TARGETING AND POSITIONING

5.2.1. Definitions of Market Segmentation, Targeting and Positioning.

- **Market Segmentation -** The process of dividing total market into market segments or target market of consumers with common needs or characteristics and selecting one or more segments to target with a distinctive marketing mix.
- **Targeting -** The process the marketing mix is tailored to focus on a specific target.
- **Positioning -** The way customers perceive proposed or present products or services in the market.

5.2.2. Why Use market Segmentation

1. **Improved Marketing -** Better to focus on specific customers than trying to serve everyone.
2. **Finding niches -** Identifying unserved or underserved markets.
3. **Efficiency -** Saving time and money by focusing on specific consumers.

5.2.3. Level of Market Segmentation

1. **Mass Marketing –** The mass production of consumer goods, the use of mass distribution and mass promotion for all consumers.
2. **Segmentation Marketing –** Total market is divided into broad market segments making marketing more effective and efficient.
3. **Niche Marketing –** A small group of the market segment and usually attracts one or a few competitors.
4. **Mirco Marketing –** The marketing of products or services to suit the needs of specific individuals.

5.2.4. Evaluating Market Segment

The following three factors should be considered.

1. **Segment size and growth**
2. **Segment structural attractiveness**
3. **Organisational objectives and resources.**

5.2.5. Selecting Market Segments

A target market segment consists of consumers sharing the same needs, wants or characteristics. Marketers consider the following three market coverage strategies:

1. **Undifferentiated marketing –** Also known as mass marketing strategies.
2. **Differentiated marketing** – Target various market segments or niches with separate offerings for each.
3. **Concentrated marketing –** Used by smaller organisations with limited resources and skills.

5.2.6. Prerequisites for market segmentation

For market segmentation to be effective, it must meet the following criteria:

1. **It must be measurable**
2. **It must be large enough.**
3. **It must be accessible.**
4. **It must be actionable.**
5. **It must be differentiable.**

5.3. BASES FOR SEGMENTING CONSUMER MARKETS

The marketing manager can use different variables to segment a market. These variables can generally be classified according to:

Psychographic segmentation

Psychographic research is the psychology behind why customers make purchase decisions

- **Lifestyle -** People are classified according to their values, beliefs, opinions and interests.
- **Personality -** Personality is the amalgamation of physical, emotional, social and behavioural characteristics.
- **Social class -** The population is divided according to socioeconomic groupings.

Geographic segmentation

The marketer divides the total market into different geographic areas, such as countries or regions. Variations such as the size of the city or town, or population density, may also be appropriate bases.

- **Geographic region -** Divided into world regions, countries, cities and suburbs.
- **Size of city or town -** This could influence the location of a company targeting major city centres.
- **Density of the population** - This refers to population numbers within a region, urban, suburban or rural.
- **Climate -** is refers to the climate within a region, such as summer rainfall, hot and humid, or cold and windy.

Demographic segmentation

Probably the most common base for segmenting consumer markets because it is clearly identifiable, consumer needs are often strongly associated with these variables.

- **Race -** Customers may be segmented according to their race
- **Education -** This refers to the qualifications that consumers have.
- **Age -** Customers fall into age groups.
- **Gender –** Male or female.
- **Family size -** Segmentation is done according to the family dynamics.
- **Family life cycle -** young married couples without children, married couples with children, single parents, etc.
- **Annual income -** This influences loans or credit approval.
- **Occupation -** This influences buying decisions that consumers may have.
- **Religion**

Behavioural segmentation

The basis of consumer buying behavior.

- **Attitude to product -** A customers regard for a product, may be positive, neutral or negative.
- **Purchase occasion -** Consumers' frequency of usage a product may vary
- **Benefits sought -** The benefits that customers may need from a product.
- **User status** - This relates to the frequency that a customer uses a product.
- **Usage rate -** This may be heavy, medium regular or occasional.
- **Loyalty status -** This may range from no loyalty to medium or strong.
- **Readiness stage -** The customer may be unaware, informed about, interested in or intending to buy the product.

5.4. MARKET SEGMENTATION PROFILES

Segmentation profiling involves describing each segment fully in terms of size, demographic, psychographic, lifestyles, behavior patterns and product usage. It allows marketers to focus their market offerings.

5.5. CRITERIA FOR EFFECTIVE TARGETING OF MARKET SEGMENTS

- **Identification –** Segment must be easily identifiable
- **Sufficiency –** large enough with sufficient consumers
- **Stability –** Must be stable in terms of demographic and psychological factors
- **Accessibility –** Segment must be economically accessible

5.5.1 Criteria for Selecting Potential Target Markets

Before a specific market segment is selected as a target market, it must first be evaluated according to five important evaluation criteria:

1. **Segment size and growth possibilities**
2. **Attractiveness and potential profitability**
3. **The resources and skills of the enterprise**
4. **Compatibility with the enterprise's objectives**
5. **Cost of reaching the target market**

5.5.2 Target Market Segments

Marketers may choose one, two or multiple market segments to target. Marketers can choose between three broad segmentation approaches to the market:

1. **Undifferentiated marketing -** (the aggregation strategy) Is used when the company chooses to ignore the differences that are found in the market. It pursues the total market with one offering.
2. **Differentiated marketing -** The enterprise elects to target two or more market segments, developing a unique marketing strategy for each one.
3. **Concentrated marketing -** Concentrating the market offering on one specific segment can lead to greater expertise in production, distribution and marketing communications.

5.6. PRODUCT POSITIONING

Positioning is the way customers perceive a product in terms of its characteristics and advantages, and its competitive positioning relative to products of competing organisations.

5.6.1 The Positioning Process

1. Identify which variables are most relevent to consumer needs and wants
2. Determine the consumer's perceptions of your brand and competiting brands
3. Analyse the strength of major brands
4. Analyse the brand's current position
5. Determine which variables consumers prefer
6. Develop a positioning strategy that best satisfies consumer preferences

5.6.2 Positioning Methods

In general, seven positioning methods can be distinguished:

1. **Attribute positioning -** The enterprise positions itself in terms of one or more outstanding attributes. Castle Lite has chosen to position its beer as the leading premium light beer and 'cold'.
2. **Benefit positioning -** This positioning method emphasises the unique benefits that the enterprise or product offering offers its customers. For example, Vanish promises effective stain removal.
3. **Use application positioning -** An enterprise can position itself or its products in terms of the product use or application possibility - Graga, for example, is positioned as a wine to be enjoyed at all kinds of fun occasions.
4. **User positioning -** The enterprise may position its products with its users in mind. Marketers of skydiving can position their market offering to appeal to thrill-seekers.
5. **Competitor positioning -** Some products can best be positioned against competitive offerings. BMW finds it useful to position its cars directly against those of Mercedes-Benz, its closest rival in South Africa.
6. **Product category positioning -** An enterprise can position itself in a product category not traditionally associated with it, thereby expanding business opportunities. A museum or planetarium, traditionally regarded as an educational institution may elect to position itself as a tourist attraction.
7. **Quality/price positioning -** The enterprise may claim its product is of exceptional quality or the lowest price. While Woolworths is known for high-quality garments, Mr Price is known for unbeatable prices.

STUDY UNIT 6: PRODUCT DECISIONS

A product is an item, idea or service, or a combination of all three, that is marketed or sold to a customer to serve a need or satisfy a want.

6.1 THE PRODUCT CONCEPT

A product includes everything that a customer receives in an exchange. There are five layers that represent the product concept

1. **The core product -** essentially what the customer is buying. The product benefits.
2. **The tangible or physical product** - includes the unique features of the product, such as aesthetics, appearance or packaging
3. **The augmented product** - The tangible product plus additional consumer services and benefits or features. These can include a warranty, credit, delivery, installation, etc.
4. **The potential product** -The absolute reason as to why consumers are purchasing it.
5. **The product image** - Encompasses all the previous layers and refers to how the product is perceived by consumers.

6.2 CLASSIFYING PRODUCTS AND SERVICES

Classifying products according to their durability:

1. **Durable products -** products that are used or consumed over a long period of time, usually at least three years
2. **Non-durable products -** used or consumed over a short period of time, or after one or a few uses. Include grocery items, food and clothing.
3. **Services -** Services are intangible benefits that are purchased by consumers, but do not involve ownership

Classification of consumer products:
Consumer products can be loosely defined as those products bought by individual consumers for their personal or family use

1. **Convenience products -** Those products the customer wants to purchase with the least amount of effort.
    a. **Staple –** regularly and routinely purchased products
    b. **Impulse –** Purchased on the spur of the moment.
    c. **Emergency –** Prices and quality are the least important factors
2. **Shopping Products -** prepared to shop around for these products and compare prices and features before making a decision.
    a. **Uniform -** are those products seen as being similar in quality by the customer, but different enough in price to justify shopping comparisons
    b. **Non-uniform** - product features are often more important than price
3. **Specialty products -** Products which are perceived as being unique with specific characteristics and for which the consumer will make a special effort to search and buy.
4. **Industrial products -** Those products bought for further processing or for supporting the manufacturing of other products directly or indirectly. The distinction between a consumer product and an industrial product is based on the purpose for which the product is purchased.
    a. **Production goods –** Include raw materials and manufactured materials
    b. **Installation and accessories –** Buildings, fixed equipment, factory and office equipment
    c. **Supplies and services –** Operating supplies, repair items, advisory services.

6.3 PRODUCT MIX AND PRODUCT LINE DECISIONS

6.3.1 Product Line Decisions

A product line is a group of products manufactured by one company that are similar in nature as they have the same function and the same target market, and are marketed through similar outlets or fall within the same price range. Product line stretching occurs when:

1. **Trading down** – When current products A, decrease in both quality and price for a new product B.
2. **Trading up –** When current product A, increases in both quality and price for new product B
3. **Trading both ways -** When current products A, decrease in both quality and price for a new product B as well as increase in both quality and price for new product C.

6.3.2 Product Mix Decisions

Product lines consist of several sub-lines, while each sub-line consists of various product items. A product mix can be described as having a certain:

1. **Breadth of product mix -** refers to how many different product lines the company carries. Defy, for example, carries a number of product lines, including stoves, extractor fans, dishwashers, fridges and microwaves.
2. **Depth of product mix -** refers to the number of versions offered of each product in the line. Colgate toothpaste comes in three sizes and two formulations
3. **Consistency -** refers to how closely related the various product lines are in end use, production requirements, distribution channels, or in some other way
4. **Product diversification -** the expansion of the product mix by adding new product lines or items.

6.4 BRANDING, PACKAGING AND LABELLING

A brand is a product, service or concept used by a company to differentiate itself from others by creating an image based on the perceptions of consumers.

6.4.1 Brand Decisions

We should first become familiar with the language of branding with the following key definitions:

- **A brand -** is a name, term, sign, symbol, design or a combination of these intended to identify the goods or services of one seller and to differentiate them from those of competitors.
- **A brand name** - is that part of a brand which can be vocalised, for example Nike and McDonald's.
- **A brand mark -** is that part of a brand which can be recognised but is not utterable, such as a symbol or design
- **A trademark -** is a brand or part of a brand that is given legal protection in that it protects the seller's exclusive rights to use the brand name or brand mark.
- **A copyright -** is the exclusive legal right to reproduce, publish and sell the matter and form.

6.4.2 The Benefits of Branding

Consumers' perspective

Branding holds various benefits for consumers:

- Branding facilitates product identification.
- It communicates the product features and benefits.
- It helps with product evaluation.
- It reduces risk in purchasing.
- It creates interest and character for the product image.

The manufacturer's perspective

The manufacturer benefits from the relationship the buyer has with the brand. The following are the benefits:

- Branding helps create brand loyalty.
- It creates differential advantage.
- It allows premium pricing.
- It facilitates product diversification.

The retailer's perspective
The retailer also benefits from branding to a certain extent; however, the retailer often does not want the consumer to be too brand loyal. Branded products are well supported by advertising and other marketing activities, and so the retailer has some assurance that they will sell.

6.4.3 Types of Brands
We distinguish between the brands emanating from different types of organisations.

1. **Manufacturer (national) brands and private (dealer) brands**
    a. **A manufacturer brand** - is designated, owned and used by the manufacturer or producer of the product.
    b. **A private brand -** is designated, owned and used by a wholesaler or retailer; it is sometimes called a dealer or store brand, such as Pick n Pays 'no name' brands.
2. **Generic brands -** A non-branded product that is identified only by its product category such as 'paper towels' or 'tea'. Generic brands are unbranded, plainly packaged and less-expensive versions of common products
3. **Individual or family brands** - Marketers preferring national brands have at least three branding options, namely:
    a. **Individual brands -** This is a separate brand assigned to an individual product item within a product line. This approach is followed by Brandhouse for its beer products,
    b. **Family brands -** This brand is assigned to an entire line or mix of product items. KOO makes KOO baked beans, KOO concentrated wet stock, KOO pasta meals, and KOO canned vegetables, for example.
    c. **Company names with a brand -** Some manufacturers use their company name along with an individual brand name for each product. Colgate South Africa follows this branding approach for its toothpastes, for example Colgate Total, Colgate Max White and Colgate Prevident.

6.4.4 Other Branding Issues
We will now look at three other important branding issues, namely:

1. **Brand extension -** A brand-extension strategy is any effort to use a successful brand name to launch new or modified products. Virgin, has extended across airlines, bank accounts and cellular networks to gyms.
2. **Brand equity -** Many marketers nowadays talk about brand equity when they refer to the value of a brand name.
3. **Selecting a brand name -** The following guidelines may be used in the selection of a 'good' brand name:
    - It must say something about the product's **benefits.**
    - It must be easy to **pronounce, recognise and remember** by the target market.
    - It must be **original and distinctive**.
    - It must create a unique **image of exclusivity**, even if it is sometimes difficult to pronounce.
    - It must indicate **high quality**.
    - It must be **versatile and applicable** to a product line or even the entire product mix.
    - It must **translate into foreign languages**.

6.4.5 Packaging
Initially, the main aim of packaging was to protect the product. Packaging serves a variety of functions:

1. **Enclosure and protection -** Packaging facilitates the safe and easy dispatch, storage and handling of the product.
2. **Reusability -** Packaging makes the product reusable and easy to store.
3. **Communication -** Packaging communicates a specific product image through its design, labelling, colour, etc.
4. **Market segmentation -** Enables the organisation to direct its products at specific market segments.
5. **Distribution -** Packaging must satisfy the needs of the wholesaler, retailer and consumer.
6. **Product development -** A new package can be an important innovation for the enterprise.
7. **Differentiation -** The packaging differentiates a product from virtually identical competing products.

6.4.6 Types of Packaging

1. **Family or individual packaging -** Used for all the company's products, or whether separate and unique packaging is to be used for each product item. Family packaging denotes eithera general uniformity, or uniformity with regard to one or several principal features of the packaging used.
2. **Special packaging** - The purpose of this type of packaging is to give a product an exclusive image.
3. **Reusable packaging** - An enterprise may market its products in containers that are designed to be used for something else once the original contents have been consumed.
4. **Multiple packaging -** This strategy entails the packaging of related products in a single container. Multiple packaging is particularly useful as a means of introducing a new product and to win brand recognition.
5. **Kaleidoscopic packaging -** Regularly altering certain details on the packaging. World cup promotions. The intention is to create a demand for the product by creating a demand for the packaging.

6.5 NEW PRODUCT DEVELOPMENTS

6.5.1. Types of New Products

New products are categorised in terms of how they are perceived by businesses and the marketplace.

1. **New-to-the-world products -** Product innovations that create entirely new product categories. Such products are truly new, and only 10% can be placed in this category.
2. **New-to-the-marketer products -** In this case the product is new to the marketer but is already being offered in the marketplace by other competitors. The marketer may be following the market leader.
3. **Line extensions -** A line extension is a product that applies the marketer's brand to new products that supplement a firm's established product lines.
4. **Repositioned products -** Here a product is marketed in a new way to change its position in the marketplace.
5. **Improved products -** An improved version of an existing product which provides better performance or greater perceived value. This is the least risky and least innovative category.

6.5.2. The New Product Development Process

The steps in the process follow a logical sequence. The implementation of this process depends on the type of organisation and its markets.

The steps in the new product development process are as follows:

1. **Idea generation** - Come up with innovative ideas for products
2. **Idea screening** - Screen the ideas to determine which ones are viable
3. **Concept testing -** Test the different concepts to determine whether consumers will accept them
4. **Business analysis** - Analyse the business to determine whether it has the capability, skills or resources to develop the idea
5. **Product development -** Develop the actual product to be sold to consumers
6. **Test marketing** - Test different marketing strategies to determine which one will be the most effective
7. **Commercialisation -** Commercialise the product into the market

6.6 THE PRODUCT LIFE CYCLE

The aim of this section is to explain the general characteristics of a typical consumer product life cycle

- **Phase 1: Introductory phase –** Begins after preparations for entering the target market have been completed and the product is offered for sale. The initial sales are usually relatively small
- **Phase 2: Growth phase -** Characterised by a strong growth in sales in the target market, especially because of the increase in repurchasing and purchases by the early majority of consumers.
- **Phase 3: Maturity phase -** Sales growth and demand level off. The late majority is also already buying the product, and few non-consumers remain. Few competitors enter the market. Improved products are launched, attracting the innovators and early adopters. A stage of market saturation is eventually reached.
- **Phase 4: Decline phase** - Characterised by a rapid decline in sales. New uses for and consumers of the 'old' product are totally lacking, and all the new competing (and substitute) products enjoy increasing acceptances the target market.

STUDY UNIT 7: MARKETING COMMUNICATION DECISIONS

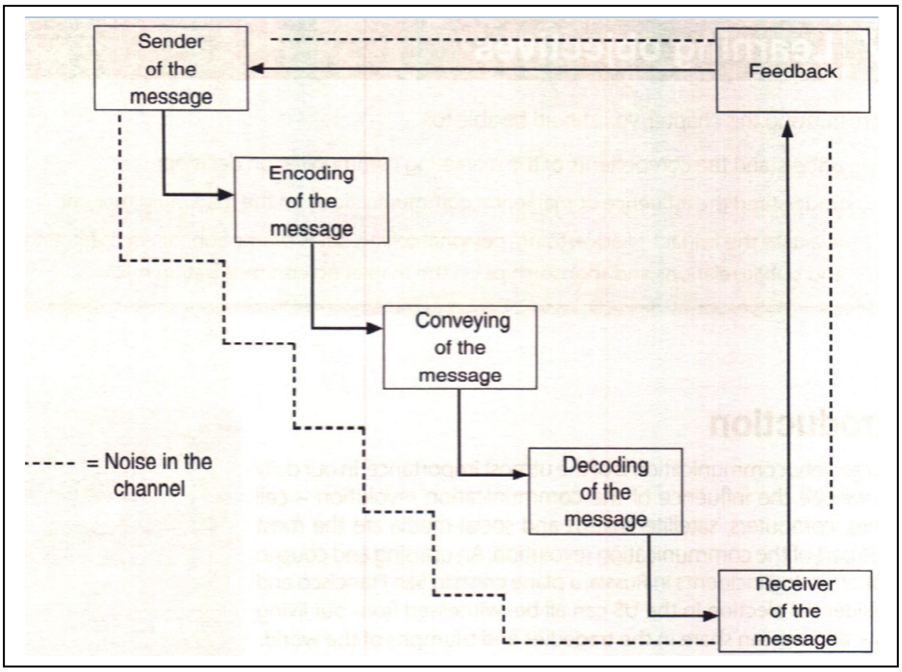
This communication process aims to achieve three objectives:

1 **To inform -** The company must inform potential customers about the availability of the product or service.

2 **To persuade -** The aim of marketing is to sell-that means in essence that the potential customer must be persuaded to buy the product. Even the most mundane advertisement includes an element of persuasion.

3 **To remind -** Consumers tend to forget communication messages, which is why manufacturers must remind them about their products or services.

7.1 THE COMMUNICATION PROCESS



The message that is encoded must meet the following requirements:

- It must attract and hold the attention of the target audience.
- It must convey a message that the audience will be able to understand.
- It must convince the audience about the benefits mentioned in the message.
- It must enable the audience to react positively, for example state where the product will be available.

During the whole process, noise occurs. Noise means that a message has been distorted because of disturbances. Three types of disturbances can occur:

- **Internal disturbances** occur when consumers disagree with the message.
- **External disturbances** happen when a physical disturbance prevents consumers from receiving the message correctly.
- **Competitive disturbances** occur when two competing services are advertised on the same page of a website.

7.2 INTEGRATED MARKETING COMMUNICATION

Integrated marketing communication (IMC) is necessary in a business so that synergy can be achieved in the communication with the consumer. The four basic instruments that can be used to communicate with the consumer are:

1. **Advertising**
2. **Personal selling**
3. **Sales promotion**
4. **Public relations and sponsorship**

In addition, direct marketing is also added as a communication instrument. These instruments will be discussed in the following sections. It is important that the marketer uses the optimal combination of the instruments to reach the target audience. To accomplish this, the marketer should follow an integrated sponsorships.

7.2.1 Marketing Communication Planning

This management of the marketing communication effort is divided into the following nine steps:

1. **Determine the marketing communication opportunity or threat.**
2. **Determine the communication objectives.**
3. **Organise the marketing communication effort.**
4. **Identify the target audience.**
5. **Determine the communication message.**
6. **Select the correct communications mix.**
7. **Calculate the budget required.**
8. **Implement the communications plan.**
9. **Measure the results (the control process).**

Step 1: Determine the marketing communication opportunity or threat.
Opportunities may be the reason why a manufacturer or retailer decides to commence with a new marketing communications campaign. In some cases, a negative issue must be addressed so the business can reduce the damage to the image.

Step 2: Determine the communication objectives.
The three basic objectives of a marketing communications campaign are to inform, to persuade and to remind the consumer. The following sub-objectives may be identified:

- To **create awareness** about the product
- To **create understanding** about the product
- To **create changes or change perceptions** about the product
- To **reward positive behavior**

Step 3: Organise the marketing communication effort.
Once objectives have been set, the organisation must determine whether it has the resources to achieve them. This means realities such as the current organisational structure must be taken into account after the objectives have been set.

Step 4: Identify the target audience
The target audience is all the people in the marketplace that the organisation can reach by using a combination of communication instruments.

Step 5: Determine the communication message
Conveying the right message is the most important factor in the marketing communication campaign.

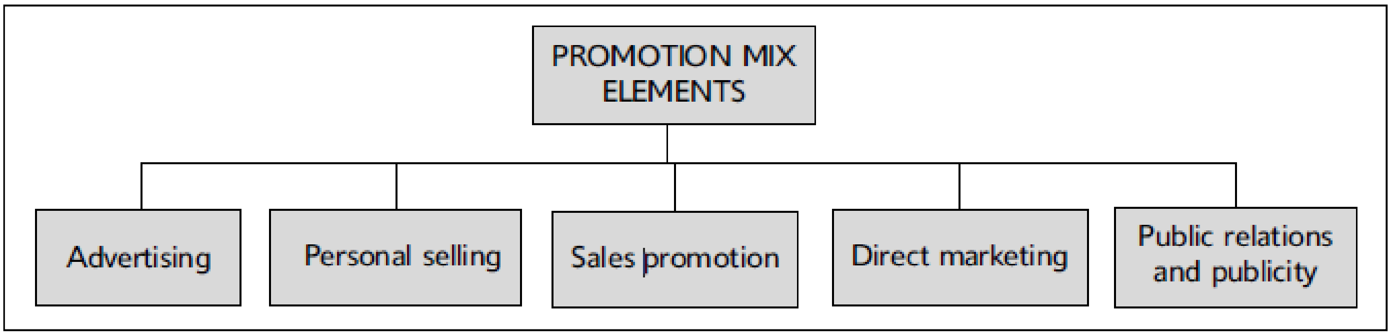
Step 6: Select the right communications mix
The right communications mix refers to the use of the communication instruments available. All four of these instruments may be needed to sell some products

Step 7: Calculate the budget required
The amount of money available for the communications campaign will determine factors such as the duration of the campaign and what media instruments will be used.

Step 8: Implement the communications plan
The time frame and the responsibilities of the people involved with the campaign must be determined.

Step 9: Measure the results (the control process)
This is one of the most difficult factors in the communication campaign.

7.3. PROMOTIONAL MIX ELEMENTS



7.3.1 Advertising

Advertising is the most visible part of marketing and is perceived to be the one marketing communication instrument that will always deliver the message. We can see that there are certain key concepts to describe what advertising can do are:

1. **Non-personal** - which means that advertising is not person-to-person communication. Advertising takes place in the mass media, such as a radio advertisement.
2. **Ideas, products and services** - which implies that advertising can be used to promote an idea or a service such as a cell phone provider, or a conventional product such as shoe polish.
3. **Identifiable sponsor** - Advertising is used as a means of promotion by a person, business or organisation. There is always a sponsor that can be identified in advertising.
4. **Paid** - There is always a sponsor in advertising that is prepared to pay (invest) money to promote his or her product, service or idea.

7.3.1.1 Different types of advertising

In this section we look at the different types of advertising that can be used.

1. **Product advertising –** The most straightforward and widely used form of advertising.
2. **Institutional advertising –** Used by institutions such as the Cancer Ass of South Africa (Cansa) or the Drive Dry.
3. **Pioneer advertising -** Used to promote a brand new concept or service for the first time.
4. **Comparative advertising -** Used when two products are physically compared in an advertisement.
5. **Competitive advertising -** Used when one company advertises that its product is better than the rest of the products on offer.
6. **Defensive advertising -** Used by companies when they realise that a new threat has entered the market and that their sales or market share may be harmed.
7. **Reminder advertising -** Used remind consumers about a product that has been on the market for some time
8. **Reinforcement advertising -** This type of advertisement is used after the sale has taken place, and is used to reinforce the positive attitude of the buyer.

7.3.1.2 Above and Below-the-line Communication

It is important to explain these two concepts:

- **Above-the-line communication -** This refers to advertisements in the mass media such as the press, radio, television and cinema. Earnings for an advertising agency that executes the advertisement are above-the-line in the form of a commission.
- **Below-the-line communication -** This refers to the use of media such as direct mail, packaging, merchandising and, more recently, social networks, podcasting and event marketing. The advertising agency earns a fee for executing this activity. Most of the activities of below-the-line communication are classified as part of sales promotion (see the discussion later in this chapter).

7.3.1.3 Steps in managing the advertising campaign.
The nine steps in the advertising campaign are:

- Step 1: **Analyse the present situation**
- Step 2: **Set the advertising objectives**
- Step 3: **Determine the advertising budget**
    - Look at the previous advertising budget.
    - Spend what the competitors are spending.
    - Budget for a fixed percentage of the sales of the previous year.
- Step 4: **Select the media**
- Step 5: **Create the message**
    - Rational approach
    - Humorous approach
    - Fear-inducing approach
- Step 6: **Pre-test the advertising campaign**
- Step 7: **Launch the advertising campaign**
- Step 8: **Coordinate the advertising campaign**
- Step 9: **Revise the campaign**

7.4 PERSONAL SELLING

Personal selling is one-on-one communication between the customer and the business through its representative as a means of convincing the specifically targeted customer to purchase the product, service or idea.

- It is a personal (**face-to-face**) selling situation.
- The **per capita costs** involved are higher in reaching the customer.
- There can be a **greater impact on consumers** as they are directly confronted.
- The biggest advantage of personal selling is the fact that it is **flexible communication**.
- Expensive durable products (cars or appliances), require the services of a salesperson to secure the sale.

7.4.1. Types of salespeople
Three basic types of salespeople can be identified:

1. **Order getters -** prospect for new customers
2. **Order takers -** call on existing customers and their objective is to make another sale.
3. **Support personnel -** support the order getters and order takers, and execute the sales orders.

7.4.2 Steps in the personal selling process
There are several steps in the personal selling process:

1. **Attaining knowledge -** A knowledge of the customer's characteristics, motives, needs and behaviour is essential.
2. **Prospecting -** The focus is to seek new customers who can be identified in various ways, e.g. referrals.
3. **The pre-approach to selling -** The salesperson must obtain enough information about the prospective customer (the needs of the customer) to stand a reasonable chance of making a sale to the customer.
4. **Making the approach -** With the initial approach it is all about first impressions.
5. **Presentation -** The cornerstone of the sale.
6. **Handling objections -** There are usually objections to a product or service, such as that the price is too high.
7. **Closing the sale -** It is important to reassure customers to get them to agree to the sale.
8. **Follow-up -** This is the step in the personal selling process that is the most neglected by salespeople.
9. **Staying in close contact -** The salesperson should maintain a database of all clients information.

7.5. SALES PROMOTIONS

Sales promotion is used as a short-term communication instrument to promote the company's product, service or idea. It complements advertising, personal selling and public and is specifically aimed at ensuring that the customer buys with incentive-offering and interest-creating activities.

- **Consumer sales promotions -** Sales promotions are regarded as an aid to elicit a specific response from the consumer.
- **Trade promotions** - Trade promotions are aimed at making intermediaries (the wholesalers and retailers) buy and sell large quantities of the company's products.
- **Sales force promotions -** Aimed at the company's sales force as a means of encouraging them to sell more of their product to intermediaries, increase distribution, promote new or seasonal products, and find prospects and build up morale.

7.6 DIRECT MARKETING

Direct marketing is when marketing materials are provided directly to the consumer on an individual basis, eliminating the middleman by communicating j information about a product or service directly, which aims to elicit an action.
the focus of direct marketing is as follows:

- **Response -** Direct marketing aims to make consumers send in order forms by mail or over the Internet, and to make telephone calls in response to invitations and offers.
- **Interaction -** Direct marketing is interactive in the sense that there are two parties involved, namely the supplier and the customer.
- **Relationship -** In some cases, the process is on-going so a relationship develops between the two parties.
- **Databases** - A database is constructed that focuses on weeding out unproductive activities so that cost-effective procedures can be determined.
- **Part of an overall strategy -** Direct marketing forms an integral part of the overall marketing communications strategy.

Benefits for the customer	Benefits for the marketer or supplier
• Trend of 'cocooning' to centre activities on the family and home • It provides greater shopping convenience and service • It allows the use of credit cards and other forms of electronic payment (cashless society)	• Means to build a lasting relationship with the customer • Directly at an identified person or household • Results can be precisely measured • It provides the marketer with a database • The supplier retains control of the distribution channel

7.6.1. Direct marketing methods

The various methods that can be used are:

1. **Telemarketing**
2. **Direct mail**
3. **Catalogues**
4. **Direct-action/response advertising**
5. **Interactive electronic media**
6. **Internet commerce (also called e-commerce)**
7. **In-home personal selling**

7.7 PUBLIC RELATIONS AND PUBLICITY

Public relations refers to the management task that aims to build good relations with the public. The internal public of the business includes the employees and the shareholders. The external public includes the government, suppliers and competitors.
Public relations aims to enhance the reputation of a company by communicating with and through the media, which are key influencers in the hopes of obtaining favourable publicity, building social responsibility, or preventing and minimising negative publicity.

7.7.1 Public relations activities

Following are examples of public relations activities:

1. **Open-house policy and tours -** These visits help to create a feeling of transparency and goodwill to the ultimate benefit of the company.
2. **Exhibitions and shows -** The activities also fall within the parameters of a public relations exercise.
3. **Organised social activities** - The company golf day, it is also a forum for networking with the external public.
4. **Lobbying -** Lobbyists work with government representatives on behalf of the company.

7.7.2 Publicity

Publicity is part of the marketing communications function and can be described as the non-personal influencing of consumers by means of the media. Some forms of publicity include the following:

- **Press/news releases** - contain newsworthy information provided to the press, and relate to the introduction of new products or the significant improvement of old ones.
- **Special events** - can be organised by the business to gain attention and to create an opportunity for journalists to write about the business.
- **Sponsorship** - companies should be seen to be socially responsible citizens and is effective for gaining favourable publicity.

STUDY UNIT 8: DISTRIBUTION DECISIONS

8.1 DISTRIBUTION AND ITS INTERACTION WITH THE MARKETING INSTRUMENTS.

A distribution channel is the way in which a firm sells its products, including all the parties who play a part in the process, from production of the products to the final user.

8.1.2. Distribution Channel Participants

The major channels for consumer goods are;

- Producer to consumer
- Producer to retailer to consumer
- Service provider to agent to consumer
- Producer to wholesaler to retailer to consumer
- Producer to wholesaler-agent to wholesaler to retailer to consumer.

The major channels for organisational products are:

- Producer to user
- Producer to wholesaler to user
- Producer to agent-wholesaler to user.

Wholesaler - Is a business that sells goods to other businesses such as retailers and industrial institutional or commercial users, who will then resell those goods to the final user.
Retailer - Is a business that conducts all the activities involved in selling goods and services directly to customers for their personal, non-business use.

8.1.3 Industrial Distribution Channels (B2B: business-to-business)

There are two ways to analyse industrial distribution channels:

1. The first focuses on the **basic flow of industrial materials between manufacturers and end users**. End users are not regarded in this instance as a final Consumer purchasing a product for own or household use.
2. The second way focuses on the **network of intermediaries involved in the processing of raw materials into eventual consumer goods**

8.1.4 Channel Strategy

Distribution management consists of two major decision areas:

1. The **formation of a sequence of intermediaries** who participate voluntarily or non-voluntarily in a distribution channel. Selection criteria are influenced by:
   a. Elements in the marketing mix,
   b. Resources and
   c. Environmental factors.
2. The **physical flow of products through a distribution system**. Selecting the number of wholesalers and/or retailers determines the number of outlets where potential customers can expect to find the product.
   a. **Intensive distribution** seeks to obtain maximum exposure for a product at the wholesale or retail levels. Selling a product through as many suitable wholesalers or retailers as possible
   b. **Selective distribution** restricts the sale of a product to a limited number of outlets
   c. **Exclusive distribution** carries with it the expectation of a maximum sales effort from the retailer or of a benefit from association with the prestige or efficiency of the retail outlet. This is selling through only one middleman in a particular geographic area.

8.2 THE FOUR BASIC DISTRIBUTION CHANNELS

1. **The direct channel for consumer goods and services**
   An arts and crafts shop that creates ornaments on the premises and sells them from there is an example of reaching consumers via a direct channel.
2. **The manufacturer (producer) to retailer to consumer channel.**
   An example is when chocolate is produced at a factory, sold to a retailer such as Woolworths, and then sold by that retailer to its customers.
3. **The manufacturer wholesaler to retailer to consumer channel.**
   An example is when milk is produced on a farm (manufacturer), sold to Makro (wholesaler), who then sells it to a spaza shop owner (retailer), who in turn sells it to customers.
4. **Channels that include agents**
   Travel agents such as Flight Centre are the middlemen of these transactions, where a consumer books flights, accommodation, car rentals and activities through one organisation (the agent).

8.2.1 Channel Activities or Functions

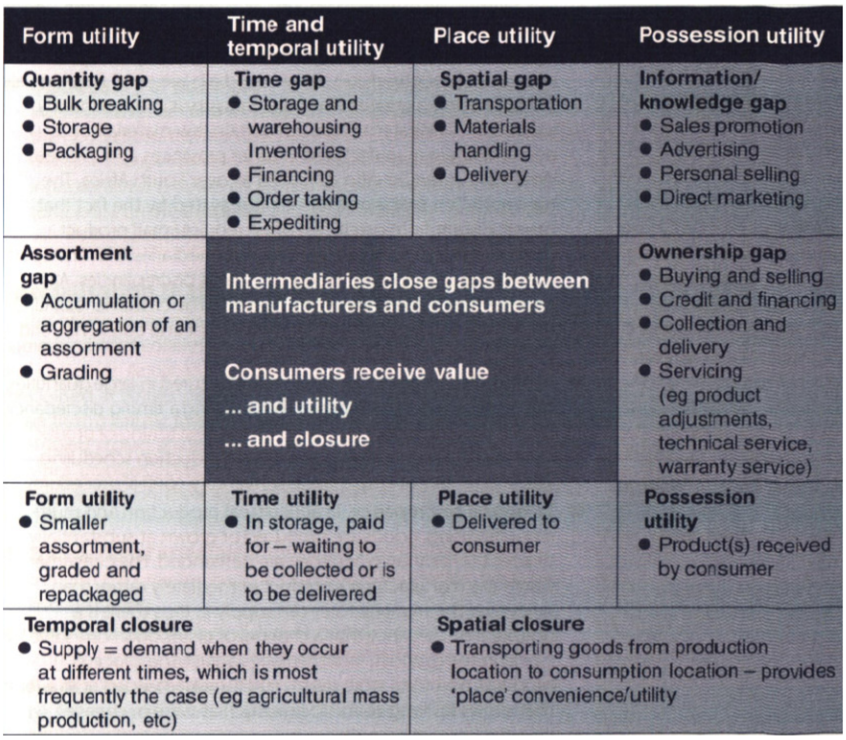
- They develop and disseminate persuasive communications to stimulate purchasing.
- They reach agreement on price and other terms so that transfer of ownership or possession can be effected.
- They place orders with manufacturers.
- They acquire the funds to finance inventories at different levels in the marketing channel.
- They assume risks connected with carrying out channel work.
- They provide for the successive storage and movement of physical products.
- They provide for buyers' payment of their bills through banks and other financial institutions.
- They oversee actual transfer of ownership from one organisation or person to another.

8.2.2 The Functions and Activities Performed by Intermediaries

1. Intermediaries close gaps and provide utility
2. Intermediaries resolve discrepancies
3. Specialisation in the distribution channel

1. Intermediaries close gaps and provide utility

- Form utility
- Time and temporary utility
- Place Utility
- Possesion utility



2. Intermediaries resolve discrepancies

These discrepancies are as follows:

1. **Spatial discrepancy -** Supply sources are geographically dispersed throughout the country, and a basic need for physical transportation is created.
2. **Timing discrepancy -** Goods are manufactured in large quantities, but retailers order smaller ones thus creating a timing discrepancy. Emphasis is subsequently placed on the best timing of product flow.
3. **Temporal discrepancy -** In agricultural production and multi- manufacturing, goods are produced or grown at substantially different times than when they are demanded.
4. **Discrepancy of quantity and assortment -** A discrepancy of quantity and assortment exists because manufacturers make large guantities of products, whereas consumers purchase in single units as part of an assortment. Sorting is the ability of channel partners through the following processes:
    a. **Standardisation -** collecting uniform products from alternative suppliers and manufacturers. These products are subsequently graded according to aspects such as size, quality and weight.
    b. **Accumulation -** assembling standard products according to aspects such as size, quality and weight into large quantities for transport to other distribution channel intermediaries.
    c. **Allocation -** thegeneral wholesale stage of providing adequate supply for numerous customers such as tools, hardware and building materials.
    d. **Assortment -** the assembly of specific goods into a customised order for specific customer groups such as department stores that offer merchandise assortment consisting of clothing, appliances, hardware and furniture. An example of such a store is Woolworths.
5. **Discrepancy of possession, knowledge and/or ownership** - Intermediaries are also involved in the transfer of possession of the goods from the manufacturer to the customer.

3. Specialisation in the distribution channel

Three main types of specialised activities may be identified:

1. **Transactional activities -** are involved in moving the goods through the channel, such as buying, selling, pricing, promoting and risk taking.
2. **Physical activities** - include warehousing, order-processing, storing, sorting, transporting and repairing goods.
3. **Facilitating activities -** ease the sale of the goods to end users by, for example, product grading, marketing research, providing advice on the product's use and assisting customers with financing of the purchase.

Two types of specialist service providers exist:

1. **Functional service providers -** are actively engaged in the day-to-day performance of the channel moving, modifying or otherwise physically handling a product during the distribution process.
2. **Support specialists -** are firms that facilitate overall channel performance by providing essential ingredients or services.

8.3 FRANCHISING

Franchising may be defined as an agreement between a business owner and an independent individual to increase the business's geographic reach by releasing additional branches in separate areas. The owner of the business (franchisor) gives the right to the independent individual (franchisee) to operate his or her business.

Franchising has the following advantages:

1. Franchise systems help provide advice on the **best locations, customer trends and other market information**.
2. The franchise system provides needed **investment incentives** by making substantial sales, service and management assistance available to potential franchisees.
3. Franchising has also opened up opportunities to empower **members of disadvantaged communities** to own successful business formats.
4. Franchising has been the most successful way of **side-stepping state-controlled distribution systems** in those countries where few incentives exist to deliver products on time.

Services offered at the beginning of the franchise endeavour	Services offered during the running of the franchise outlet
1. **Training -** Training for managers and staff to embed the culture of the business in their minds 2. **Operating advice -** Operating manuals, market studies, business forms, merchandising methods 3. **Financing -** Franchise fee, equipment, lease of building, service fees 4. **Market surveys -** Trade area analysis, site selection, market forecasting 5. **Supervision -** Employee retraining and field supervision, advice on dealing with employee challenges 6. **Quality control** - Regular inspections, maintenance of cleanliness, plans forcasting. 7. **Facilities -** Design and layout of the site, lighting, signage and banners, decor	• **Business counselling -** Ongoing advice on profitability (cost control and budgeting) and business activities (eg marketing, customer service and financial management) • **Image building -** Ideas on how to build and maintain the image of the brand more effectively improvement • **Sales promotion -** Point-of-sale materials, competitions, free samples • **Product development and packaging** - Upgraded products, new packaging

8.3.1 Vertical marketing system (VMS)

A vertical marketing system (VMS) is a distribution channel arrangement in which all the main members of the channel work together in unity in order to satisfy consumer needs and generate profit, instead of the traditional channel where all intermediaries are working for themselves.

Types of vertical marketing systems

1. **Corporate systems -** This type of VMS is characterised by total ownership. A corporate VMS is a single firm that owns and operates two or more consecutive levels of the distribution channel. Ownership connects two or more channel members with this system.
2. **Contractual systems -** Characterised by a legal relationship. In a contractual VMS, dependency is defined in a formal contract. There are three types of contractual VMS arrangements:
    a. **Wholesaler-sponsored** - voluntary chains organise groups of independent retailers to compete better with large chain organisations.
    b. **Retailer cooperatives** - arise when the stores take the initiative and organise a new business entity to carry on wholesaling and possibly some production. Profits are passed back to members in proportion to their purchases.
    c. **Franchise organisations** - are created when a channel member, called a franchisor, links several successive stages in the production-distribution process.

8.4 FACTORS DETERMINING THE SELCTION OF A DISTRIBUTION CHANNEL

8.4.1 Cooperation and Conflict

- **Channel cooperation** - occurs when members share harmonious marketing objectives and strategies. Coordinated efforts by channel members whose marketing objectives and strategies complement each other reflect channel cooperation.
- **Channel conflict -** occurs when members cannot agree and it must be managed. Conflict exists when channel members have disagreements and an antagonistic relationship, often caused by the absence of a clearly identified locus of formal channel power or disagreements about common purpose or responsibility for activities,
- **Channel power** - is the ability of one organisation in a channel to exert influence over the other members, where the most powerful is the leader. Channel captains are able to exert power in a distribution channel.
- **Referent power -** occurs when other members respect, admire and identify with the channel leader, for example, Coca-Cola.

Types of conflict

1. **Vertical channel conflict -** This means conflict between different levels within the same channel.
2. **Horizontal channel conflict -** This involves conflict between members at the same level within the channel.
3. **Multichannel conflict -** This type of conflict exists when the manufacturer has established two or more channels that sell to the same market.

8.4.2 Physical Distribution (logistics)

Logistics describes the entire process of moving raw materials and component parts into the firm, moving in-process inventories through the firm, and moving finished goods out of the firm. The following terms are important:

- The **supply chain** is used to describe all the organisations that regularly supply a marketing company and all members of the channel of distribution. It involves planning, implementing and controlling the efficient flow of both inbound materials and outbound finished products.
- **Supply chain management**, or **logistics management** involves planning, implementing and controlling a chain of organisational relationships to ensure the efficient flow of both inbound materials and outbound finished products.
- **Materials management** is concerned with bringing raw materials ard supplies to the point of production, and moving in-process inventory through the firm.
- **Physical distribution** is a term used to describe the broad range of activities concerned with the efficient movement of finished products from the end of the production line to the consumer. The purpose of physical distribution is to minimise cost while maximising customer service.

A cross-section of the physical distribution system

Physical distribution consists of several activities which include:

- **Inventory management** - order timing and order quantities;
- **Order processing** - receiving, filing and handling orders;
- **Warehousing and storage** - accumulating, allocating and assorting, and readying goods for re-shipping to other locations;
- **Materials handling** - moving items within the warehouse using standard pallets and forklift trucks;
- **Protective packaging and containerisation** - providing appropriate protective covering, which is essential in reducing the incidence of damaged goods during movement in transit (also referred to as industrial packaging); and
- **Transportation** - moving products, parts and materials into the production facility; moving semi-finished goods between production points; and moving finished goods to retailers or final consumers.

Managing the components of physical distribution
Physical distribution activities include five major areas of concern: transportation, warehousing, inventory control, materials handling and order processing.

The Advantages and Disadvantages of Different Transport Modes
- **Rail transportation**- moves freight over long distances at low cost, especially when the Shipment size is large. Railroads are therefore best at moving large, heavy or bulky items. As shipment size rises, railroads become more attractive to shippers.
- **Road transportation** - efficient at moving goods over short distances, is flexible, and has a far better record than railroads with less damage in transit for cartons, and on-time delivery. Trucks are more expensive to use than several competing transportation modes.
- **Airfreight** - fast but expensive. The primary advantages of airfreight are its speed and distance capabilities. Air transport is generally the most expensive of all modes, but rates near the top in terms of speed and reliability.
- **Water transportation** - is inexpensive but slow. It is generally the least-costly mode of transportation, but limited to places where ports and waterways. This mode of transport is suitable for easily protected, inexpensive, bulky products. Water transportation, compared to other modes, is thus not particularly reliable, and has a poor damaged- goods reputation.
- **Pipelines -** are efficient movers, but can deliver only to specific terminals. Pipelines are the most specialised means of transport, designed to carry specific products.

Warehousing
The holding and housing of goods between the time they are produced and the time they are shipped to the buyer refers to warehousing, or to the newer term distribution centres. Warehousing strategy involves two basic decisions:
- **Determining the optimum number, location and types of warehouses needed; and**
- **Calculating the proper levels of inventory to be stocked.**

The best' plan is the one that maximises customer service, minimises costs and provides a strategic advantage.

Inventory control
Inventory control involves decisions concerning how large or small inventories should be and how overstocking of inventory can be weighed against costly stock-outs. Three major costs of inventory include:
- **Acquisition costs -** the expenses incurred in obtaining inventory;
- **Holding costs -** the expenses incurred to keep inventory housed; and
- **Out-of-stock costs -** the losses that occur when customers demand goods the marketer cannot provide.

Economic order quantity (EOQ) is a mathematically determined purchase order size that yields the lowest total order-processing and inventory holding costs.

Materials management or handling
This component of distribution involves the physical handling and moving about of inventory — a process that is increasingly being mechanised and automated. Materials management refers to the activities involved in getting raw materials and parts to the point of production.

Order processing
Order processing is the procedure followed to fill customer orders after these have been received by the company. The process begins when orders are received, and ends when merchandise has been shipped and bills sent to customers.

Customer service
Customers want products, not excuses. In terms of distribution, customer service refers to how rapidly and dependably a firm can deliver what customers want. Physical distribution provides maximum satisfaction to buyers while reducing costs.
- The central objective of physical distribution is to keep costs down while keeping the level of service up.
- Quality is defined in terms of customer satisfaction.

Performance dimensions to analyse customers' desired service output levels

Because the point of a marketing channel is to make a product available to customers, the marketer must understand what its target customers actually want, for example:

- **Lot size -** This is the number of units the channel allows atypical customer to purchase on one occasion.
- **Spatial convenience -** This is the level of accessibility the marketing channel delivers to the customers.
- **Product variety -** This is the number of products provided by the channel.
- **Service backup -** This refers to the add-on services (credit, delivery, installation, repairs) provided by the channel.
- **Cost -** This is always a concern, even for companies that compete primarily on some other dimension.
- **After-sales support -** This can be a critical performance dimension, especially if the purchased good or service has a high price tag or is critical to customers' success.
- **Product availability -** Is the ability of the supplier to provide products on demand.
- **Capability -** The length of time required to fill orders, the ability of the logistics system to adapt to special requirements, and the avoidance of errors such as damage or incorrect shipments.
- **Information support -** This is the ability of the logistics system to support a product throughout its life cycle, including the ability to handle situations such as installing, servicing, updating and product recall.
- **Waiting time -** This is the average time customers of a channel wait for receipt of the goods. Customers normally prefer fast delivery channels.
- **Quality -** The concept of quality is a broad one that can be subdivided into the following categories:
- **Functionality -** What are the characteristics or features of a product. Products with many features or services that provide superior performance are often thought of as being of 'higher quality:
    - **Conformance -** Was the product made or the service performed to specification? Examples of conformance quality include degree of purity, the weight of a product and the amount of time it takes to perform a service.
    - **Reliability -** Will a product work for a long time without failing or requiring maintenance? Does a service operation perform its tasks consistently overtime?
    - **Durability** - Can a product withstand adverse conditions, such as temperature extremes or rough handling? What is its expected lifespan?
    - **Safety -** Was the product or service designed to be safe?
    - **Serviceability -** If necessary, can the product be easily repaired or serviced?
    - **Aesthetics -** Does the product/service appeal to the senses?
- **Accuracy -** Another measure of delivery reliability is the accuracy of the quantity shipped.
- **Flexibility -** Many operations and supply chains compete by responding quickly to the unique needs of different customers. Different types of flexibility include:
    - **Mix flexibility** refers to the ability to produce a wide range of different products.
    - **Change over flexibility** is the ability to begin production of a new product with minimal delay.
    - **Design flexibility** refers to the ability to change the design of a product to accommodate specific customers.
    - **Volume flexibility** is the ability to produce whatever volume the customer needs.

Supply Chain Management

Described as moving a product from **'cradle to grave'** or from **'dirt to dirt'.**

Supply chain management (SCM) is the integration of the logistics requirements of the supplier, distributor and customer into one cohesive process that includes demand planning, forecasting, materials requisition, order processing, inventory allocation, over fulfilment, transportation services, receiving, invoicing and payment.

1. **Developing -** New product development and design; product innovation; and/or product adaptation.
2. **Planning -** Determining the quality of the final product; designing or adapting manufacturing processes.
3. **Sourcing -** Choosing suppliers; locating suppliers; raw materials to order; transportation channels.
4. **Production -** Location of production plants; whether to make, buy or lease production facilities, plants and tools; deciding on the capacity of production plants; decisions about manufacturing products according to quality specifications and market focus.
5. **Inventory -** How much inventory of raw materials, intermediate products, semi-finished products or finished products to hold (safety stock); deciding on whether the company should follow a JIT approach (just-in-time according to orders); how much to order; when to order.
6. **Transportation logistics -** The best way to get the product to the customer (road, rail or air); mode of transport; shipment size; location of distribution centres to keep customer service high and costs low.

STUDY UNIT 9: PRICE DECISIONS
9.1 THE NATURE OF PRICING

The meaning and role of price
Marketers in general want both a satisfactory *profit or return on their investments,* and the *highest possible sales volume.* These two areas are often in conflict.
A price is the value given in exchange for something else, which in our modern economic system is paid in money.

Price setting
Price setting is the process of determining the cost to consumers of a company's product or service offering that they will be willing to pay under particular circumstances at a particular time.
The procedure for setting prices in a marketing-orientated manner consists of three stages.

1. **A market price is decided on**. This is the price that most consumers of a particular product will be prepared to pay.
2. **A target price is calculated** which will meet any price objective of the firm, taking into consideration the capital and other costs required to manufacture and market the product.
3. **The market price and the target price can be compared**, and decisions made on a final selling price.

The Price Setting Process

- **Step 1: Determine price objective**
- **Step 2: Demand determinant of price**
- **Step 3: Cost determinant of price**
- **Step 4: Selection of price**
- **Step 5: Price adjustment considerations**

Step 1: Determine price objective
Pricing objectives are goals that give direction to the whole pricing process. Before marketers can set selling prices for their merchandise, they must set specific, measurable price objectives that correspond to their marketing and enterprise objectives. Price objectives can be divided into three categories:

1. **Price-oriented objectives -** Enterprises usually utilise pricing objectives, profit maximisation, target profitability and return on investment for the guiding pricing decisions
2. **Sales-oriented objectives -** Enterprises set sales volumes or market share to establish growth sales or to maintain current sales levels
3. **Status quo-oriented objectives -** Competitive objectives are objectives intended to either meet or prevent competition, or they consist of non-price objectives

Step 2: Demand determinant of price
Demand estimation is when the enterprise needs to estimate the amount of demand for a product or service. By calculating according to the demand, the enterprise can avoid over- and under-pricing the product.
The following factors may affect customers' sensitivity to price changes:

1. **Buyers' perceptions and preferences** - Customers are less price sensitive, and so less likely to be concerned about the price of a product if they perceive it to be special or have unique benefits
2. **Buyers' awareness of alternatives or substitutes** - When buyers are unaware of substitute or alternative products, then they are less price sensitive.
3. **The buyer's ability to pay -** Purchasing power consists of the total personal income of an individual, a family or a group after deduction of certain compulsory expenses.
4. **Discretionary purchasing power -** which is the amount of money a consumer unit has left over after its expenditure on necessities and which can be used for acquiring luxury goods and services of all sorts.
5. **Expenditure for the products or services is relatively low in proportion to their total income** - As their income increases, consumers spend proportionally less on necessities such as food, clothing, housing, transport, and so on, and proportionally more on items such as household appliances, cars, garden furniture, recreation and travel.

Step 3: Cost determinant of price
All income from the sales of products or services is achieved at a cost, and costs should therefore be analysed and controlled. Various types of costs

- **Fixed costs (FC) -** Fixed costs are those expenses that remain constant despite the change in quantity of goods or services offered or sold.
- **Variable costs (VC) -** Variable costs fluctuate as the quantity of products and services offered and sold fluctuate.
- **Total cost (TC) -** Total cost (TC) is the sum of the total fixed costs (FC) and the total variable costs (VC)

Step 4: Selection of price
In the process of determining prices several, factors other than costs could influence the marketer's final decision.

- **Competition -** Competition varies for each product life cycle, which may also affect the pricing decisions.
- **Characteristics of the merchandise -** Characteristics of products may influence the pricing such as avocados, which are lower priced when in season and end-of-range summer clothes.

Other factors to consider
The basic price may also be influenced by the other elements of the marketing mix:

- **The product -** The end use of products is important.
- **Channels of distribution used -** The type of distribution chosen for a product influences the manufacturer's pricing strategy.
- **Promotional methods used -** The type of methods used to promote a product or service will influence the price strategy utilised.

The basic methods of price setting. By combining all the available information on potential demand, costs and competition, managers can arrive at a price for a product or service by using one or more of the following pricing methods:

1. **Demand-based pricing**
2. **Cost-Based pricing**
3. **Competition based pricing**

Demand-based pricing
Also referred to as customer-based or value-based pricing. In demand-based pricing, the perceived worth that consumers consider the product or service to be is used, as opposed to setting the price in terms of the actual cost of the product.

- **Skimming pricing -** 'The objective of skimming pricing is to obtain maximum revenue for a new high- end product before substitute products enter the market.
- **Penetration pricing -** Price policies that involve the setting of relatively low prices. Widely used practice to start at a relatively low price during the initial stages so that the product life cycle can be extended.
- **Price lines -** A certain pricing zone or pricing point for merchandise. The objective of a price lining policy is to aim retail selling prices at target market consumers
- **Odd-even pricing -** A manipulative method of pricing as items are priced in such a way as to make corsumers believe that they cost less than they actually do.
- **Multiple pricing -** Retailers sometimes offer bulk items at a lower price than if the retailer had sold the same items separately.
- **Unit pricing -** Where prices are set per unit of measure, i.e. per kilogram, metre, litre, and so forth.
- **Bundle pricing -** Bundle pricing is the combination of products that are sold as one product.
- **Premium pricing -** Also called prestige or image pricing. Strategy of consistently pricing at, or near, the high end of the possible price range to help attract status-conscious consumers. Consumers will buy a premium priced product because:
    - they believe the high price is an indication of good quality;
    - they believe it to be a sign of self-worth (I'm worth it'), it authenticates the buyer's success and status,
    - they require flawless performance in this application - the cost of product malfunction is too high to buy anything but the best
- **Demand backward -** Prices are established based on the consumers 'willingness to pay for the items.

Cost-based pricing

- **Cost-plus pricing -** This method involves the setting of a price of one unit of product equal to the unit's total cost (that is, fixed plus variable costs) plus a desired profit.
- **Break-even analysis -** Calculates the number of sales in units of rand that are necessary for total income to be the same as the total costs.
- **Competition-based pricing -** This occurs when the company bases its pricing on that of the competing products instead of en the costs involved.
  - **Setting prices lower than competitors' prices -** The aim is to effect a large turnover in rand as well as have a high stock turnover rate. These sellers normally have a low-price image.
  - **Setting prices equal to competitors' prices -** Price is not used as the basis for competition, but the focus is on location, service, promotion, etc.
  - **Setting prices higher than competitors' prices -** Prices must be justified by offering benefits such as better after-sales service, higher-quality products, exclusive products, etc.
- **Leader pricing -** Retailers aim to attract customers to their stores by charging low prices on specific items. The idea is to increase the sale of other products whose prices have not been specially reduced

Step 5: Price adjustment considerations

In this section we will discuss the various types of discount, namely trade or functional discounts, quantity discounts, cash discounts, advanced purchase discounts and promotional allowances.

- **Trade discounts -** Also known as functional discount, offered by the seller to trade channel members who perform certain functions.
- **Quantity discounts** – A price reduction offered to buyers who buy large volumes. There are of three kinds:
  - **Non-cumulative quantity discounts** - are based on the size of an individual purchase order. They encourage large individual purchase orders, not a series of orders.
  - **Cumulative quantity discounts -** apply to the accumulation of purchases of a product over a given time period, usually a year. Encourage a single customer to repeat purchase.
  - **Minimum-order discounts** -make it obligatory for wholesalers to purchase minimum quantities (usually measured in cases, truck loads, etc).
- **Cash discounts -** A cash discount is a price reduction to buyers or customers who pay their accounts promptly.
- **Advance purchase discounts -** Offered to consumers for buying products or services well in advance.
- **Promotional pricing -** Promotional pricing is the act of lowering a price below the normal one in order to enhance the effectiveness of the product sales efforts.