

Introduction to **MARKETING**

Only study guide for

MNM1503



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Preface

Dear Student

We have great pleasure in welcoming you to the module *Introduction to Marketing* (MNM1503). We would like you to share our enthusiasm for this field of study, and as a first step we urge you to read this preface in detail. Refer to it as often as you need to, since it will definitely make studying this module a lot easier.

The field of marketing is extremely dynamic and challenging. The learning content and activities contained in this study guide will therefore afford you opportunities to explore the latest developments in this field and help you to discover the field of marketing as it is practised today.

1 AIM OF THIS MODULE

The aim of this module is to enable you to gain an understanding of the basic principles of marketing. We will endeavour to explain marketing concepts and terms to learners at first-year level, people who are involved in and need marketing in their daily activities, and people aspiring to a career in marketing.

2 LEARNING OUTCOMES

After completing this module, you should be able to

- demonstrate an understanding of the nature and basic principles of marketing
- explain and illustrate all the variables in the components of the marketing environment. This includes
 - investigating the microenvironment, market environment and macro-environment of marketing
 - developing a marketing information system
 - conducting marketing research
 - performing market segmentation, targeting and positioning
 - analysing the behaviour of consumers
- explain and illustrate the elements of the marketing mix, namely product, marketing communication, distribution and price
- explain the integration of the marketing mix elements

3 OVERVIEW OF THE MODULE

Every company that is profit driven needs to have a marketing department that is responsible for the company's marketing activities. Marketing is an integral part of any

company because it defines the needs and wants of customers and directs the company resources to meeting these needs and wants in the consumer market. It is the responsibility of marketers to provide products and services that will satisfy these different needs and wants. Marketers should therefore divide the consumer market into various groups with similar needs and wants.

Rapid changes in the marketing environment in recent years have raised awareness of the significance of marketing. All businesses operate in the marketing environment, which consists of both internal and external environments. For marketers to implement marketing decisions, they require information about the characteristics, needs and purchasing patterns of their target markets. Marketing research and information systems provide information, and their effectiveness is measured by improvements in a marketer's ability to make decisions. The product decision is the first of the four decision-making areas, also referred to as instruments, of the marketing mix. The distribution channel is the marketing instrument that delivers the products to the final consumers. Promotion is one of the areas of marketing that has experienced tremendous change because of environmental factors such as increased competition and changes in the promotional tools available to markets. Finally, price is the only marketing instrument that generates income for the business.

The content of this study guide is by no means comprehensive, and you, as a student of marketing, will need to read through and study the relevant sections in the prescribed book.

4 THE STUDY MATERIAL

The study material for this module consists of this study guide, a prescribed book and several tutorial letters. The tutorial letters and study guide will be sent to you during the course of the year. The prescribed book is of vital importance because you will not be able to complete this module successfully without studying it. In addition to the prescribed book, you are encouraged to consult other sources such as those available in Unisa Library.

Please consult Tutorial Letter 101 for the details of your prescribed book.

5 THE APPROACH TO LEARNING AND TEACHING IN THIS MODULE

The purpose of this study guide is to afford you the opportunity to put into practice those theoretical concepts introduced in the prescribed book, and at the same time to provide a few exercises and questions that will help you prepare for the examination. It is essential that you work through the study guide because this will improve your chances of doing well in the examination. However, there is no substitute for being thoroughly familiar with the theory as discussed in the prescribed book. Your prescribed book and study guide complement each other in that the study guide assists in the learning process, but studying it on its own, and ignoring the prescribed book will not guarantee success in the examination.

5.1 Suggestions on how to approach your studies in this module

Tutorial Letter 101 and the study guide will explain how to approach the learning and all other resources and to consider how you can use these to your benefit, for example, how to make the best use of SMSs, peer collaboration groups, learning centres and career counselling. As a distance education student, you need to know whom to contact about academic and administrative matters and how to manage your time.

In the study guide, we distinguish between the parts of the prescribed book that you have to read and those that you need to study.

5.1.1 *Studying*

The sections that have to be studied are clearly indicated and form the basis of the assignments and examination. To be able to do the activities and assignments for this module, to achieve the learning outcomes and to pass the examination, you will need a thorough understanding of the content of these sections in the study guide and the prescribed book. In order to understand the study material properly, you need to accept responsibility for your own studies and realise that learning is far more than mere memorisation. You will be expected to show that you understand and are able to apply the information, not just remember it.

5.1.2 *Reading*

Some parts of the study guide will instruct you to read a certain section in the prescribed book or the study guide. This means that you should note the content of this section because it usually provides useful background information or offers another perspective or further examples. It will give you some context, improve your ability to take notes and enhance your understanding.

You will need to spend at least 120 hours on this module. This includes approximately 40 hours of reading and studying the study material, 40 hours of activities and assignments and 40 hours of preparation for the examination. We encourage you to follow the proposed schedule for the allocation of time for the various topics, study units and other activities as supplied in Tutorial Letter 101. You are welcome to read more widely than only the study guide and the prescribed book. When you read information in the prescribed book or other sources, do not simply accept it without question. Critically evaluate the ideas and information you encounter.

Test your understanding of the ideas that you learn about in this module by doing your best to apply them to real-life situations.

5.2 The importance of completing the activities, assignments and self-assessment questions

5.2.1 *The activities*

You will come across various types of activities in this study guide. They will require you to

- reflect on the work covered
- complete the assessment questions
- do self-assessment

We consider your completion of the activities in the study guide and the assignments crucial to your successful completion of this module. Firstly, the activities in the study guide will help reinforce your learning, and secondly, they will give you an idea of the type of application questions that will be asked in the examination.

5.2.2 The assignments

You will find the assignments for this module in Tutorial Letter 101. The completion of assignments is crucial to helping you achieve the learning outcomes. By completing the assignments, you will get a feel for the type of question you can expect in the examination and obtain first-hand feedback from the lecturer. The assignment questions also afford you the opportunity to apply the theory to a case study or a practical situation relating to your workplace. We will inform you of the purpose of each assignment and which module outcomes will be assessed by the assignment. We will also supply the criteria for assessment so that you understand how to approach and answer specific questions.

Details of the assignments with their associated assessment criteria and the format of and requirements for the examination are provided in Tutorial Letter 101.

5.2.3 The assessment questions

At the end of each section, you will find a list of possible assessment questions based on the work covered in that section. We advise you to work through these questions diligently, since they provide useful opportunities to prepare for possible examination questions. Self-assessment plays a vital role in the mastery of learning outcomes and you should therefore complete the self-assessment activities in the study guide.

You will find most of the answers to these questions in the study material in the study guide and prescribed book. We believe that you should not be faced with any surprises in the examination. It is therefore in your own interest to work through all the assessment questions.

To do well in essay questions, you need to structure your answers logically. Also, use appropriate headings and subheadings and include a bibliography at the end of your essay. You will find guidelines on the technical presentation of assignments in Tutorial Letter 301 MNALLEQ.

5.2.4 Assessment of the module

During the semester you will be assessed on your assignments, whereas in the examination at the end of the semester you will be assessed against transparent assessment criteria relating directly to the outcomes for the module. The compulsory assignment mark(s), together with your final assessment, will count towards your total mark. Further details of the assessment and examination requirements for this module are supplied in Tutorial Letter 101.

6 THE EXAMINATION

6.1 The prescribed material

All of the study material is relevant for the examination. Besides understanding the theoretical principles provided, we expect you to be able to apply these principles to a practical situation in a given case study or scenario.

6.2 Format of the examination paper

The duration of the examination is two hours. The paper comprises several short questions or multiple-choice questions worth 70 marks. There will be no essay questions in the examination paper for this module.

6.3 Answering questions and the allocation of time

You need to prepare thoroughly for the examination. In answering examination questions, always write neatly, use point form where possible, leave a blank line between paragraphs and underline keywords if you have time. Start each question on a new page (but write on both sides of the page). This will make your answers more readable and ensure that the lecturer does not overlook anything. Make it easy for the examiner to read and understand your work. Remember, what we cannot read, we cannot mark properly.

The time limitation means that you need to plan your time carefully. Do not waste time with long introductions and summaries, and do not include a bibliography in an answer to an examination question. Practical application means more than simply mentioning the name of a particular company you must apply the theoretical principles to the operations of the business in the given case study or scenario.

On the cover page of the examination answer book, write the numbers of the questions you have answered, in the order in which you answered them.

7 KEY CONCEPTS IN THE ASSIGNMENTS AND THE EXAMINATION

When we formulate assignment and examination questions, we word them in specific ways so that you know exactly what is expected of you. For example, we may ask you to *list*, *describe*, *illustrate* or *demonstrate* something, *compare* two things, or *construct*, *relate*, *criticise*, *recommend* or *design* something.

Below is an explanation of the various levels of cognitive thinking that you will be expected to apply, and the kinds of instructions that we will give you with regard to each. This system is known as *Bloom's taxonomy*.

- **Knowledge.** This is essentially memorisation and the recall of information. At its simplest, it involves the recall of facts or terminology, such as names, dates and definitions. It may also involve the recall of principles and generalisations, or ways




of doing things. Outcomes/instructions written at this level will typically use verbs (these are the words that tell you what you have to do) such as *name, list, define, label, select, state, write, describe, identify* and *recall*.







- **Comprehension.** This involves making sense of things, instead of simply remembering them. Comprehension usually requires you to translate information into your own words. Outcomes/instructions written at this level will typically use verbs such as *convert, illustrate, distinguish, interpret, rewrite, discuss, give examples* and *summarise*.
- **Application.** This is the ability to use information and ideas in new situations, such as in solving problems that have a single or best answer. Outcomes/instructions written at this level will typically use verbs such as *calculate, demonstrate, construct, compute, solve, relate, show, use* and *apply*.
- **Analysis.** This is the ability to examine information systematically in order to identify the main ideas, the relative hierarchy of those ideas and the relations between the ideas. Outcomes/instructions written at this level will typically use verbs such as *analyse, differentiate, categorise, classify, relate, illustrate, outline, compare, contrast, discriminate, explain* and *hypothesise*.
- **Synthesis.** This is the ability to construct something new by combining several pieces of information to make a coherent whole (such as a plan). Outcomes/instructions written at this level will typically use verbs such as *plan, adapt, combine, create, compile, compose, construct, model, revise, design, develop, formulate* and *organise*.
- **Evaluation.** This is the ability to make judgements about the quality or value of things (either with reference to internal evidence or external criteria). Outcomes/instructions written at this level will typically use verbs such as *assess, judge, choose, criticise, rate, argue, justify, evaluate, decide, recommend* and *conclude*.

In this module, you will be asked to operate on all levels of Bloom’s taxonomy. Please make sure that you know what is expected of you in each question.

8 USE OF ICONS

The icons that will be used in this study guide are listed below, together with an explanation of what each means:

Icon	Description
	<p>Key concepts. The key concepts icon draws your attention to certain keywords or concepts in the topic or study unit.</p>
	<p>Learning outcomes. The learning outcomes icon indicates which aspects of the particular topic or study units you have to master. You will need to demonstrate that you have mastered these aspects.</p>
	<p>Study. The study icon indicates which sections of the prescribed textbook or the study guide you need to study and internalise.</p>

Icon	Description
	Read. The read icon will direct you to read certain sections of the prescribed textbook for background information.
	Activity. The activity icon refers to activities that you must complete in order to develop a deeper understanding of the study material.
	Assessment. When you see the assessment icon, you will have to test your knowledge, understanding and application of the material you have just studied.
	Feedback. The feedback icon indicates that you will receive feedback on your answers to the self-assessment activities.
	Time-out. The time-out icon indicates that you should take a rest because you have reached the end of a study unit or topic.
	Summary. The reflection icon requires you to reflect on the important issues or problems dealt with in the study unit.

9 IMPORTANT ADVICE

The likelihood of your success will be improved if you note the following hints:

- Study the prescribed study material conscientiously according to the guidelines provided.
- Discuss the subject matter with colleagues and specialists.
- Do the activities.
- Prepare your compulsory assignments so that you can submit them on time and also make an effort to do the noncompulsory assignments.
- Apply your knowledge in practice.
- Prepare properly for the examinations.

10 WHAT YOU CAN EXPECT FROM UNISA

You can expect us to do the following:

- Provide you with up-to-date and relevant study material that is regularly compared with and benchmarked against similar local and international programmes.

- Ensure that the study material is in line with the needs of industry and commerce by consulting regularly with the profession and with industry leaders and government officials.
- Assist you by affording you the opportunity to develop competencies and skills at a certain level. You will be assessed according to the level descriptors of the National Qualifications Framework level five.
- Support you whenever you require assistance. You may contact your lecturers by making an appointment to see them in person, telephoning them or contacting them via e-mail or the internet. We understand that studying by means of distance learning is more challenging than attending a residential university.
- Provide you with clear indications of what we expect from you in terms of your assessment.
- Provide prompt feedback on assignments. We will return your assignment and our feedback within three weeks of the due date, if you submit an assignment on or before the due date.

We trust you will enjoy your studies. We are certainly looking forward to being your partners in this exciting endeavour.

Best wishes

Your lecturers in Introduction to Marketing

MODULE FRAMEWORK

Topic

Study unit



Topic 1

Introduction to marketing

AIM

The aim of this topic is to understand the nature and role of marketing as well as the evolution of marketing thought.



Learning outcomes

On completion of this topic, you should be able to:

- define the term "marketing"
 - explain the exchange process in marketing
 - explain the role of the internet in the exchange process
 - identify the gaps that should be bridged between a business and its customers
 - distinguish between the different marketing activities involved in the transfer of a marketing offer to buyers
 - explain primary, auxiliary and exchange marketing activities
 - explain the role of the marketing function in the organisational structure
-

TOPIC CONTENT

Study unit 1: The nature of marketing

Study unit 1

The nature of marketing

Contents

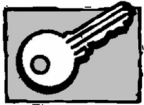
Key concepts

Overview

- 1.1 Definition of marketing
- 1.2 Gaps between a business and its customers
- 1.3 Marketing activities to bridge the gaps
- 1.4 The place of the marketing function in the organisation
- 1.5 Management tasks in marketing
- 1.6 Evolution of the marketing concept
- 1.7 The marketing concept

Assessment

Summary



Key concepts

You will need to master the following key concepts in order to meet the learning outcomes for this topic:

- Marketing
 - Marketing activities
 - Marketing concept
 - Green marketing
 - Relationship marketing
 - Internal marketing
 - Total quality management (TQM)
-

Overview

As a point of departure, it is necessary to ask yourself the following questions: What is the importance of studying marketing? How does marketing affect our daily lives and buying decisions?



Activity 1.1

Think about it – why exactly did you choose to study marketing and not engineering? Quickly jot down in two to three sentences why you decided to study marketing instead of other modules or subjects. Write whatever comes to mind.



Feedback

Obviously you probably all have different reasons explaining why marketing is important to you and to society at large. There is no doubt that marketing affects our decisions to buy or not to buy, what to buy and where to buy. There are two facets of marketing philosophy and management orientation. Management orientation emphasises customer satisfaction and the activities used to implement this philosophy. Bear in mind that if a firm, whether or not it is profit driven, does not satisfy its customers' needs, it will not survive in the long term.

In this module, we explore the dynamics of modern marketing. This study unit looks at the nature of marketing and thus sets the tone of exploring the principles and dynamics of the subject. This study unit covers chapter 1 in the prescribed book.

The following figure provides a broad overview of the nature of marketing:

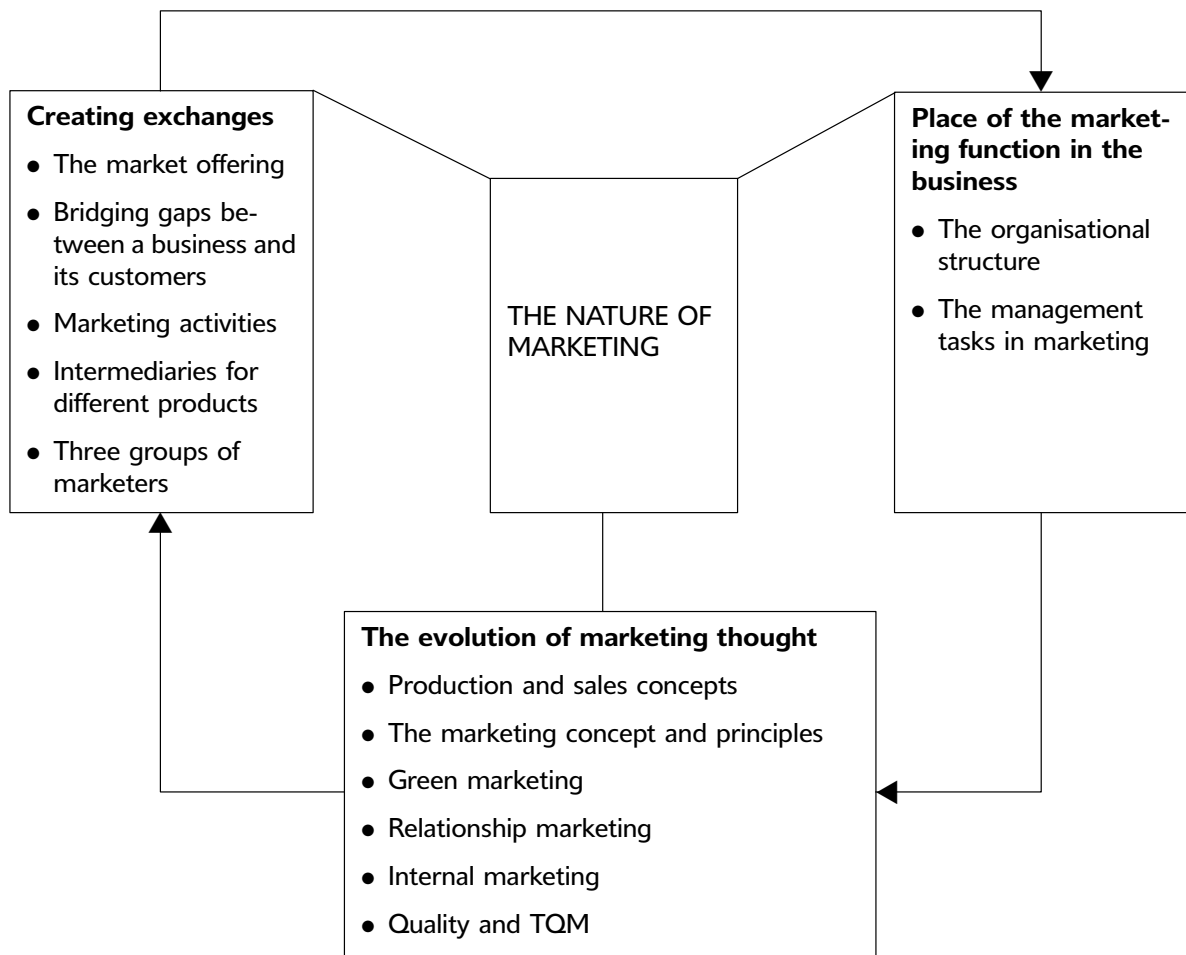


FIGURE 1.1: Broad overview of the nature of marketing

1.1 Definition of marketing



(Study this section in the prescribed book.)

After you have studied this definition, you should be able to explain it in your own words. The definition of marketing in the prescribed book emphasises the process and exchange of goods and services.

This definition highlights several factors, but for the purpose of this study, we will focus on the following two only:

- 1 *Exchange*. Marketing occurs only if two or more people exchange something of value with each other. If you buy a Coca-Cola from Pick n Pay, you have to pay money in return for it. In other words, an exchange takes place.
- 2 *Marketing mix*. A typical marketing process takes the four marketing mix elements into consideration, namely product, price, place and promotion. These are known as the four P's of marketing.

1.2 Gaps between a business and its customers



(Study this section in the prescribed book.)

It is clear from the various definitions of marketing that there are gaps between businesses and their customers. In order to do the activity below, you need to study the gaps between production and consumption in the prescribed book.



Activity 1.2

There are seven gaps between production and consumption. Column A indicates the different gaps, while column B indicates the statements that explain the gaps in column A. You are expected to match the statements in column B with the type of gap in column A.

Column A	Column B
(1) Information gap	(a) A company that produces wool is based in Durban and Johannesburg. Its customers are found in all the provinces in South Africa. The gap could be bridged through the establishment of branches in the other provinces.
(2) Quantity gap	(b) A seasonal product such as winter clothing is produced throughout the year but only used in winter.
(3) Value gap	(c) A company uses only print media such as newspapers to advertise its products.
(4) Assortment gap	(d) Jet-Mart retail stores supply a variety of products such as homeware, clothing and groceries.
(5) Ownership gap	(e) Motor vehicle manufacturers supply consumers with cars that have features, such as airbags, special engine capacities, ABS brakes and navigation systems. Consumers value these cars for their features.

Column A	Column B
(6) Space gap	(f) When a customer purchases a car on an instalment basis, the dealer will repossess the car if the customer does not meet his or her payment obligations.
(7) Time gap	(g) SAB distributes beer in bulk to liquor merchants and wholesalers, and sells smaller quantities of beer to bottle stores and taverns.

Feedback

1 = c, 2 = g, 3 = e, 4 = d, 5 = f, 6 = a, and 7 = b

1.3 Marketing activities to bridge the gaps



(Study this section in the prescribed book.)

In the previous section, we discussed the gaps between production and consumption. In this section, we look at the marketing activities that facilitate the exchange process and thus close the existing gaps. These comprise primary marketing activities, auxiliary marketing activities and exchange marketing activities. After studying this section, you should be able to explain all the marketing activities involved in bridging the gaps.

- *Primary marketing activities.* The primary marketing activity is transport. This includes all forms of transportation, from nonmotorised (eg horses or walking) to motorised transportation (eg trucks and buses).
- *Auxiliary marketing activities.* Auxiliary (secondary) marketing activities include obtaining and supplying information, standardisation and grading, storage, financing and risk-taking.
- *Exchange marketing activities.* These activities involve buying and selling.

1.4 The place of the marketing function in the organisation



(Study this section in the prescribed book.)

If you look at figure 1.1 below, you will notice that organisations have different departments that work together to achieve the organisation's objectives.

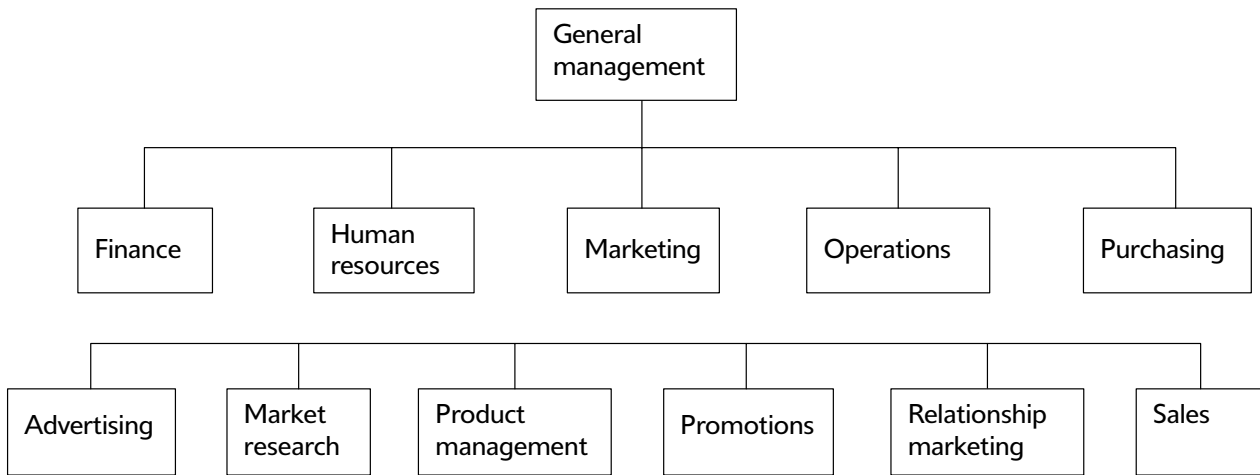


FIGURE 1.2: The marketing function in the organisation



Activity 1.3

Identify the marketing activities in the scenario below to show that you understand the marketing function in the organisation.

Sisulu Enterprises (SE) produces and sells dairy products, such as cheese, milk, butter and milk shakes. The firm is located in Rosslyn, Pretoria, and its major customers are located in Gauteng, North West, Mpumalanga and Limpopo. SE is planning to market its products on television and local radio stations and in national newspapers. The firm also engages in personal selling, using catalogues at the Soshanguve (north of Pretoria) annual soccer tournament. SE is the main sponsor for the soccer tournament and every year puts up banners with its branding and products. The firm recently conducted a few surveys in tertiary institutions about the extent of students' knowledge of healthy eating habits. SE constantly endeavours to manage the introduction and withdrawal of its products and its product packaging and branding. In order to constantly improve the quality of its products and service, the firm also makes a point of finding out what its suppliers and customers feel.



Feedback

- Advertising. SE is planning to market its products on television and the local radio stations and in the national newspapers.
- Market research. SE has conducted a number of surveys in tertiary institutions about the extent of students' knowledge of healthy eating habits.
- Product management. SE constantly endeavours to manage the introduction and withdrawal of its products and its product packaging and branding.
- Promotions. SE is the main sponsor for the annual soccer tournament and puts up banners with its branding and products.
- Relationship management. SE frequently finds out from its suppliers and customers what they think of the quality of its products and services, and makes the necessary adjustments.
- Sales. SE does personal selling by means of catalogues at the Soshanguve (north of Pretoria) annual soccer tournament.

1.5 Management tasks in marketing



(Study this section in the prescribed book.)

After studying this section in the prescribed book, you should be able to explain all the management tasks. Note that the management tasks involve an ongoing process of planning, implementation and control. This means that the subsections of the marketing section should plan, implement and control the marketing processes. An integrated approach should be followed at all times. An integrated approach involves ensuring that all activities function as a unit/whole in a coordinated manner. This is absolutely essential if an organisation wishes to satisfy the needs of its customers.

1.6 Evolution of the marketing concept

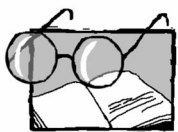


(Study this section in the prescribed book.)

Marketing, like many other business processes, has evolved considerably over the years. Owing to radical changes in the business environment, many businesses and countries are compelled to change the way they appeal to their stakeholders, especially their customers. For example, the escalating interest rate in South Africa has resulted in a huge decline in car sales. This has forced car dealers to review their marketing approaches in order to remain in the industry. In the light of the above, it is therefore necessary to study the evolution of marketing thought. Note the following in respect of marketing thought:

- Production orientation stems from the idea that consumers prefer cheaper products that are always available.
- Sales orientation comes from the idea that large-scale selling and promotional efforts are important to attract customers to the firm's products/services.
- Marketing orientation arises from the idea that a firm can only achieve its goals by determining and thus satisfying the demands of its target market more adequately than its rivals.

1.7 The marketing concept



(Study this section in the prescribed book.)

Four key principles of the marketing concept include customer orientation, profit orientation, systems orientation (organisational integration) and social responsibility. Study these marketing concepts in the prescribed book so that you can explain them.

1.7.1 Green marketing

Green marketing includes all those processes and programmes directed towards the enhancement of the environmental image. According to the American Marketing Association, **green marketing** is the marketing of products that are presumed to be environmentally safe. "According to Doug Johnson, General Manager of Hewlett-Packard Laserjet Supplies, Green Marketing provides an enlightened look at the importance of the environmental perceptions to marketplace consumers. A key insight, substantiated by HP's experience, is that investing in the environment pays solid dividends in improved customer loyalty."



Source: <http://www.green-markets.org/context.htm>



Activity 1.4

Name a few products in supermarkets that are ozone and environmentally friendly.



Feedback

Products such as certain deodorants claim to protect the ozone layer. Retailers such as Checkers are renowned for being in favour of protecting the environment. This is why Checkers converted to using environment-friendly grocery bags to comply with legislation. This is what green marketing is all about.

1.7.2 Relationship marketing



(Study this section in the prescribed book.)

In defining this concept, the prescribed book states that relationship marketing stems from the fact that businesses should strive to build personal bonds with their customers in such a way that both parties benefit. However, customers are not the only important group – the needs and views of various stakeholders, such as suppliers and intermediaries (middlemen) should also be taken into account. According to Gordon (1998:9) relationship marketing focuses on the following six areas:

- 1 *Growth through scope and partnering.* A business can only grow stronger through partnerships with its stakeholders.

- 2 *Improvement of chains of relationships.* The business should endeavour to improve its relationships with its supply chain partners in order to remain appealing to them.
- 3 *Reconsideration of the four P's of marketing.* The traditional methods of marketing and doing business may have to change because stakeholders are more involved in the way businesses operate. For example, suppliers may lower the price of their products to allow the business to sell its products to customers at a reasonable price.
- 4 *Relationship managers.* These are people who closely monitor relationships/partnerships and proactively endeavour to make them productive.
- 5 *Selection and rejection of customers.* It is a known fact that not all customers are profitable to the business. Hence selected/exclusive customers need to be managed and the relationships with them maintained at all costs.
- 6 *Technology in communication.* Telecommunication gadgets, such as teleconferencing and e-mail facilities enhance the relationship between a business and its partners/stakeholders.

1.7.3 Internal marketing



(Study this section in the prescribed book.)

After working through this section, you should be able to define the term "internal marketing" in your own words. Internal marketing stems from the idea that employees are regarded as internal clients/customers. Hence all organisations should seek to take good care of their employees and encourage them to produce quality goods and services. Nowadays, many organisations are investing huge resources in their employees, for example, in the form of study bursaries, training, allowances and better remuneration packages. Such incentives encourage employees to improve the quality of the goods they produce and services they render. This is what total quality management (TQM) is all about.



Assessment

- 1 Use a diagram to illustrate where marketing fits into the organisational structure.
 - 2 Discuss marketing activities that can be used to bridge the gaps between producer and consumer.
 - 3 Identify and describe the gaps that exist between production and consumption, and give your own practical examples of each gap.
-



Summary

In this study unit, we discussed the significance of marketing in the organisation and society at large. We also mentioned how marketing has evolved over the years. We examined the place of marketing in the broader organisation.

In the next study unit, we shall focus on the marketing environment and all its variables. You need to understand the marketing environment because it has a direct and indirect impact on the operation of the business.



Topic 2

The marketing environment

AIM

The aim of this topic is to understand the components of the marketing environment, and how the variables in the microenvironment, market environment and macro-environment can influence a business.



Learning outcomes

On completion of this topic, you should be able to predict how the variables of the microenvironment, market environment and macroenvironment influence a specific business.

More specifically, you should be able to

- identify the components of the marketing environment
 - describe the variables in the microenvironment
 - explain how the variables in the market environment influence a business
 - explain how variables in the macroenvironment influence a business
 - conduct a SWOT analysis to determine the internal strengths, weaknesses, external opportunities and threats in a business
-

TOPIC CONTENT

Study unit 2: The modern marketing environment of business

Study unit 2

The modern marketing environment of business

Contents

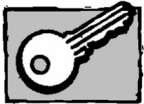
Key concepts

Overview

- 2.1 Components of the marketing environment
- 2.2 Variables in the microenvironment
- 2.3 Variables in the market environment
- 2.4 Variables in the macro environment
- 2.5 SWOT analysis

Assessment

Summary



Key concepts

You will need to master the following key concepts in order to meet the learning outcomes for this topic:

- Marketing environment
 - Microenvironment
 - Market environment
 - Macroenvironment
 - SWOT analysis
 - Suppliers
 - Competitors
 - Consumers
-

Overview

In much the same way as people cannot exist in isolation, businesses also require constant interaction with their surroundings. Hence it goes without saying that if a business is to survive, it needs healthy relationships and interaction with its environment. This means that a business should do its bit for the environment by, say, producing environmentally friendly products, whereas the environment should provide the business with the necessary resources such as land and labour to enable it to operate.

The bombing of the US World Trade Centre on 11 September 2001 (9/11) had a huge impact on global business environments. Both the USA and the international community had to change the way they did business. South Africa was also affected

by 9/11 in the sense that it had to change its business dealings with the USA. The economy of the whole world was affected because US businesses lost valuable employees from all over the world and some of the families of the victims were left without a breadwinner. Moreover, many global investors had to move their markets to other world markets such as China and India. All of the above affected the rand/dollar exchange rate, which, in turn, had an impact on other trade transactions. This shows the close interrelationship between business and the environment.

In this study unit we explore the interdependence between a business and its three environments, namely the market environment, the macroenvironment and the microenvironment. The first two deal with the external environment and the third with the internal environment. All these environments are dynamic and complex to manage. The external environments are those that are beyond the business's control and thus merit careful attention. This study unit covers chapter 2 in the prescribed book.

The diagram below indicates the different variables that form part of the micro-, market and macroenvironments. These variables can be taken into consideration when conducting a SWOT analysis in order to identify the internal strengths, weaknesses, external opportunities and threats in a business.

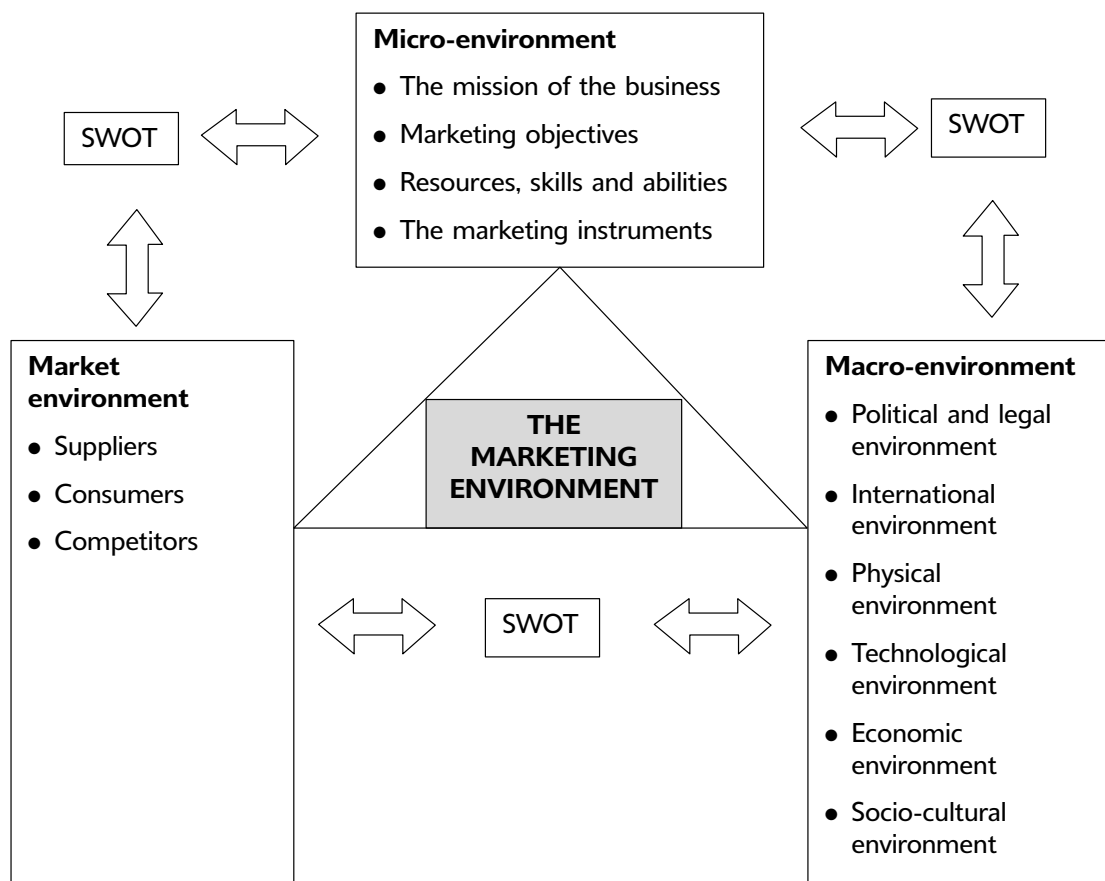


FIGURE 2.1: Components of and variables in the marketing environment

2.1 Components of the marketing environment



(Study this section in the prescribed book.)

As indicated in figure 2.1, the marketing environment consists of the following three components:

- The micro-environment. The variables in the microenvironment can be controlled by management.
- The market environment. The variables in the market environment are forces in the enterprise that cannot be controlled but can be influenced by marketing management, such as customers, suppliers and competitors.
- The macro-environment. The variables in the macro-environment, such as economic, political and social variables, impact on a business.

2.2 Variables in the micro-environment



(Study this section in the prescribed book.)

The micro-environment, as reflected in table 2.1 in the prescribed book, consists of the following variables: the enterprise's mission, target market, marketing objectives, resources and marketing instrument.

Let us first consider the mission of an organisation. This mission defines the organisation's fundamental, unique purpose and identifies its products or services and customers. Every business requires a mission statement as a guiding principle to explain the reason for its existence.

An organisation's mission statement is a vital aspect of the microenvironment on which management needs to concentrate and is an expression of the organisation's future direction. Note the following requirements for an effective mission statement:

- It should describe the business and its customer domains. The business domain should answer the question: What is the business and what should it be? The customer domain should provide answers to the question: Who is the customer?
- It should describe the organisation's responsibilities to the people with whom it interacts, namely its customers, community, shareholders and employees.
- The mission statement should provide details of how the organisation's objectives will be realised, for example, by supplying high-quality products by means of superior merchandising and enthusiastic staff.
- The mission statement should also show how the business should compete in the marketplace, and how it should interact with its suppliers, marketing channels and competitors.
- It should also be realistic and acknowledge how it will acquire, maintain and use resources, which include financial assets and liabilities, the organisational structure, the human resource component and store facilities.

- It should refer to the organisation's sustainable competitive advantages, which may include exclusive supplier arrangements, inventory planning, top-quality products and control systems.
- Obviously an organisation's mission statement should clearly be more concerned with its customers than with other processes or problems.



Activity 2.1

After studying the requirements for an effective mission statement, evaluate the mission statement of RTM Logistics provided below.

We serve with our hearts. With our minds, we create good business.

Do you think this is a good or bad mission statement?



Feedback

You should have noticed that most of the requirements for an effective mission statement are not met. A good mission statement should:

- describe the business and its customer domain
 - describe the organisation's responsibilities to the people with whom it interacts
 - provide details of how the organisation's objectives will be realised
 - indicate how the business will compete in the market
 - be realistic
-

2.3 Variables in the market environment



(Study this section in the prescribed book.)

After studying this section in the prescribed book, you should be able to explain the variables that exist in the market environment. An organisation functions in a certain market environment, that is, the second sub-environment which lies just outside the business. The variables in the market environment will influence the enterprise to some extent. It is the task of management to evaluate these variables and their influence on the business, and to recommend strategies to utilise the opportunities in the market environment and counteract threats from, among others, competitors, to ensure the enterprise's long-term prosperity.

As explained in the prescribed book, the market environment has a supply and demand side, as depicted in the figure below.

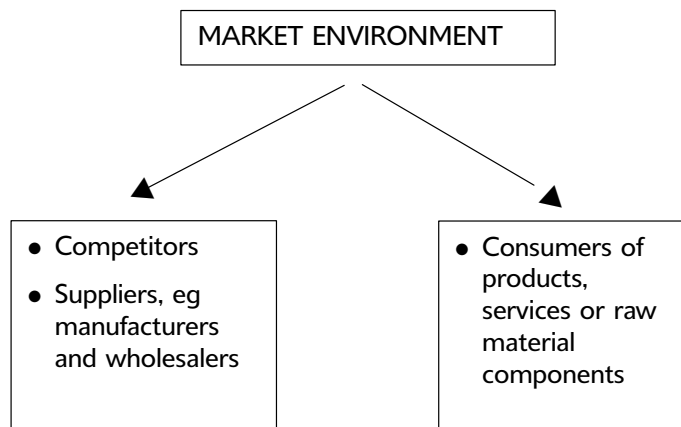
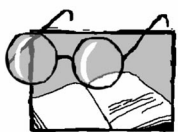


FIGURE 2.2: The supply and demand side of the market environment

We will now examine each of the above variables in the market environment.

- *Consumers.* They are the people who buy a business's products and services. Identifying the target market for one's product or service is a crucial activity performed by management.
- *Competitors.* All businesses that offer a product or service are constantly faced with competition. Competition can be defined as a situation in the market environment in which several businesses offering similar kinds of products or services compete for the patronage of the same customers.
- *Suppliers.* The supplier is a vital link in the chain. Losing a key supplier of resources can interrupt the flow of production or services. You should know that the choice of suppliers, negotiation of terms and relationship building are of primary importance. Suppliers are a crucial part of the business because they provide resources that assist in manufacturing products or rendering services.

2.4 Variables in the macro-environment



(Study this section in the prescribed book.)

The macro-environment refers to those factors in the environment over which the individual business has no control and on which it has little effect. These factors influence the business and need to be constantly monitored because they continually change. We will examine these variables in the macro-environment in the form of an activity. After studying this section in the prescribed book, you should be able to explain all the variables in the marketing environment and show how they influence the operation of a given business.



Activity 2.2

First study this section in the prescribed book, and then answer the following question:

As the manager and owner of Eezee Enterprises, which sells trendy, imported women's clothing, Mr Sambora asks you to explain to him how each variable in the macro-environment may influence his business operations.



Feedback

You should have identified the following six variables that may affect Eezee Enterprises in different ways:

- *The technological environment. This environment is affected by innovation and change. For example, new manufacturing processes and new technology may influence the type and quality of clothing being sold by Eezee Enterprises. Think, for example, of the new types of material available, such as those combining natural and synthetic fibres used to create crease-resistant material.*
 - *The economic environment. This variable is well known. An increase in the inflation rate, changes in the exchange rate and a higher rate of personal tax are examples of how the economic environment may influence Eezee Enterprises and Mr Sambora in his personal capacity.*
 - *The social environment. Social changes are prevalent throughout the world and in South Africa. A decline in the population growth rate may eventually have a negative impact on the sales of trendy imported clothing to a declining target market. The changing role of women in society (eg more women in full-time employment and more career women) may be a positive variable in the case of Eezee Enterprises, and could result in a higher turnover.*
 - *The physical environment. This variable is of great concern to people all over the world. Scarce resources are utilised in the packaging of clothing, and the wastage of packaging material should be of concern to Eezee Enterprises.*
 - *The political-governmental or institutional environment. This variable in the macro-environment would be of particular concern to Eezee Enterprises. One example of the effect of this variable would be the surcharges on imported clothing. This would have a direct influence on the selling price of the clothing the firm sells in South Africa.*
 - *The international environment. South Africa is part of the global village. As such, our economy and its businesses are directly influenced by the political problems in, say, Middle Eastern countries. Eezee Enterprises could benefit from a better exchange rate, thus enabling Mr Sambora to import his clothing at a cheaper price.*
-

By now you should have realised that the macro-environment is an active force which influences each and every enterprise in South Africa, and which no enterprise, large or small, can ignore.

2.5 SWOT analysis



(Study this section in the prescribed book.)

According to Elhers and Lazenby (2007:81), a SWOT analysis is one of the best-known techniques for conducting an environmental analysis. SWOT is an acronym for the words **s**trengths, **w**eaknesses, **o**pportunities and **t**hreats, and provides a framework for

analysing these elements in the organisation's external and internal environment. SWOT analysis highlights the basic material of specific conditions in the business's environment for environmental analysis.

Make sure you can define and differentiate between the four aspects of a SWOT analysis.



Activity 2.3

Compile a SWOT analysis for the following business:

Buthelezi Clothing Factory (BCF) operates in Ulundi, KwaZulu-Natal. The firm specialises in women's and children's clothing. BCF has been in existence since 2001 (for more than eight years). It currently employs 57 people, who sell clothing to various local wholesalers and retailers. The firm has an excellent management team and technologically advanced equipment. For the past two years, profits have started to shrink, and BCF has thus had to revisit its business processes. Sixteen of its staff members had to be laid off because BCF lost business to its global competitors, especially those in China. These competitors can produce their products far more cheaply than those in South Africa. After much deliberation, the South African government had to step in to rescue BCF and some of the local textile industry businesses. Restrictions on clothing products were thus imposed in an effort to rescue BCF and other businesses. In the past few months, BCF's profits have started to improve because of the restrictions imposed on its international competitors, and cheaper oil prices which enable the firm to transport its products at lower rates.



Feedback

The strengths of this business are its outstanding management team and technological equipment. Its weakness involves the fact that it had to retrench some of its staff hence the loss of valuable employees. Owing to the restrictions imposed by the South African government on its international competitors, BCF has had the opportunity to improve its profits. The fact that some of the international textile businesses can produce goods more cheaply than BCF is a serious threat. Hence businesses like BCF need to constantly scan the environment and endeavour to improve the way they do business.



Assessment

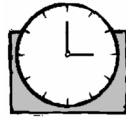
- 1 Explain the concept "marketing environment".
 - 2 Explain the interaction that takes place between a business and its marketing environment.
 - 3 What do you understand by the term "macro-environment"? Use examples to illustrate the importance of this macro-environment to the marketing management of an organisation with which you are familiar.
 - 4 Discuss the main international macro-environmental factors that affect marketing firms operating in today's international business environment.
-



Summary

In this study unit, we introduced you to the market environment, the microenvironment, the macro-environment, and the composition of the marketing environment. The macro-environmental factors discussed thus far are not the only factors, but demonstrate the main areas of environmental change. Other sub-environments can impact on marketing management. In a number of countries, for instance, the religious environment may be a significant source of opportunities and/or threats. We concluded the study unit by discussing SWOT analysis.

The next topic deals with marketing information and research.



Topic 3

Marketing information and marketing research

AIM

The aim of this topic is to discuss the nature and role of a marketing information system and marketing research.



Learning outcomes

On completion of this topic, you should be able to explain the value of market information and marketing information systems to ensure valid marketing decisions.

More specifically, you should be able to

- explain why market information is needed for a successful marketing strategy
 - distinguish between data and information
 - explain how a marketing information system (MIS) and a marketing decision support system (MDSS) can help marketing managers to make decisions
 - explain why marketing research is conducted
-

TOPIC CONTENT

Study unit 3: Marketing information

Study unit 4: Marketing research

Study unit 3

Marketing information

Contents

Key concepts

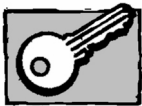
Overview

3.1 The need for marketing information

3.2 Information management

Assessment

Summary



Key concepts

You will need to master the following key concepts in order to meet the learning outcomes for this topic:

- Marketing information
 - Data
 - Marketing information system (MIS)
 - Marketing decision support system (MDSS)
-

Overview

The marketing environment is continuously changing. The South African marketing environment is an apt example of the changes that have taken place in the past 15 years. This environment is becoming increasingly competitive and is now officially part of the global business environment. This has all changed, because previously a large section of the population was not considered to be part of the target markets of certain companies, and information on their needs and wants was not readily available.

Effective market performance therefore depends largely on the continuous gathering of information on customers, internal and external forces and competitors. However, more has to be done than simply collecting of information – the information has to be analysed in order to choose the most suitable markets, improved marketing planning is necessary and new exciting offerings have to be developed in designing a marketing information system.

Coca-Cola is a perfect example of a company that has developed successful marketing information systems in order to understand consumer behaviour, preferences and wants. The company knows that the average consumer sees 69 of its commercials

every year, puts an average of 2 to 3 ice cubes in a glass and prefers buying his or her can of Coke at a vending machine if the outside temperature reaches 35 degrees Celsius.

This study unit covers the first section in chapter 5 in the prescribed book. Here we will explore the reasons why market information is so important to companies to enable them to develop successful marketing strategies. We will also discuss the components in the market information environment. You will notice that marketing research also forms part of chapter 5 in the prescribed book, but it will be dealt with in the next study unit.

Figure 3.1 provides an overview of what we will be discussing in study unit 3.

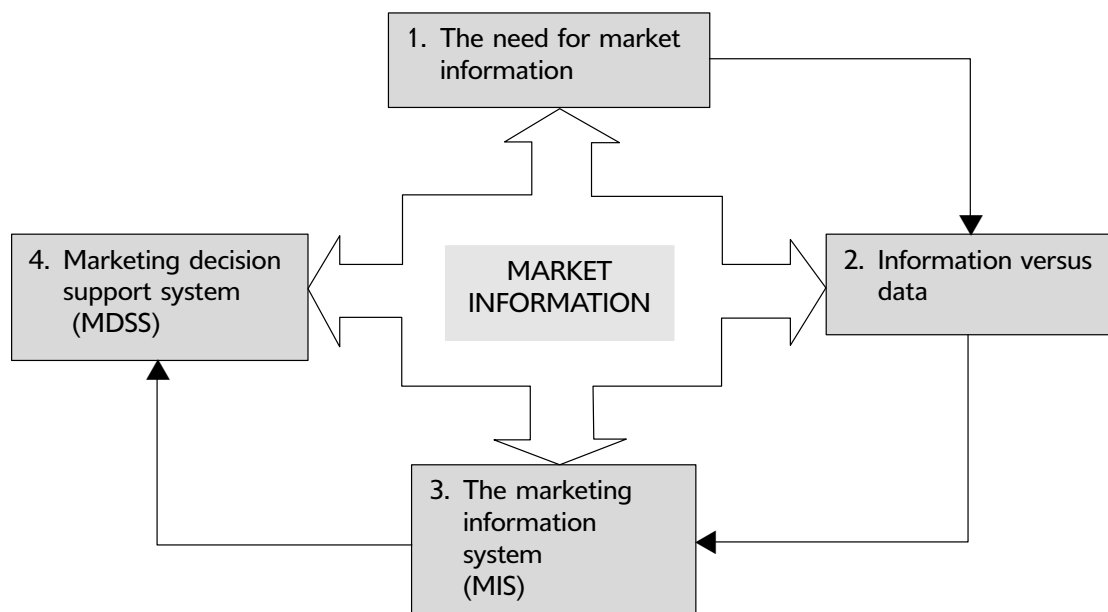


FIGURE 3.1: Market information

3.1 The need for marketing information



(Study this section in the prescribed book.)

Marketing managers rely on various internal reports on sales performance, market share position, prices and other important factors such as inventory levels, receivables and payables as a source of data input in the decision-making process. This is an example of internal information and can be obtained from the microenvironment of the business – in other words from sources inside the organisation.

External information, however, can be obtained from the firm's macro-environment and market environment (ie from sources outside the organisation). Data on consumers, competitors, suppliers and market structure are apt examples. The macroenvironment provides useful data when elements such as the current economic situation, socio-cultural factors and technological developments for marketing managers are the trend.

Make sure that you can distinguish between the above two sources and give a brief discussion of each.

Gathering data from consumers also raises the issue of whether this is in fact an invasion of the consumer's privacy. We have all had the experience (usually at dinner time) of receiving a telephone call from a telemarketer trying to sell some or other product or timeshare. Should one ask such a person where she obtained your details, she usually refuses to disclose her source. The collection, analysis and interpretation of information on consumers should be undertaken with integrity and honesty and according to a well-developed set of ethics standards. There are, however, a number of acceptable standards and practices that one can apply, such as respecting the following consumer rights:

- *Privacy.* Every citizen has the right to refuse to participate in research or a study.
- *Access.* Everyone has the right to be well informed about the reasons and purpose of the study. The results of the study should also be accessible to all the participants, should they wish to see this information.
- *Anonymity.* Every participant in a study has the right to remain anonymous.

Using the above example of the telemarketer, one could apply the principle of the "pseudo poll", which represents an errant practice currently on the rise. You might have completed a survey received from a well-known cell phone company's outsourced research company. The information that was divulged to this company was then sold to the telemarketer's company in order to sell products or timeshare to you. One needs to heed the fine print when participating in these surveys, and always consider one's right to privacy, access and anonymity. Companies who commission such surveys should also respect the citizen's rights.



Activity 3.1

A well-known fruit juice manufacturer in the Western Cape, which started the business in the late 1980s, is showing a decline in profits and market share. The managing director tasks the marketing manager to investigate and analyse this worrisome trend. On completion of the task, the marketing manager will be required to make recommendations to the managing director on possible corrective measures and how to implement such plans. The managing director has made it clear that he is not considering selling the business or closing its doors. As the marketing manager, how would you tackle the following?

- 1 What internal sources of data would you use as part of the information you would need to better understand the above scenario?
- 2 Would you consider using external sources of data, and what type of information do you think you would need to help you better come to grips with the above scenario?
- 3 In order for the above data to become meaningful marketing information to assist in the decision-making process on the way forward, it needs to meet certain criteria. Using the criteria on page 82 in the prescribed book, do you think the data you received will meet the criteria?



Feedback

- 1 One of the most valuable sources on internal data is the existence of sales information systems. The information the fruit juice manufacturer in such a situation could use, would be sales reports by region. In these reports, the marketing manager would be able to see the regions showing a decline in sales and market share. These reports would also indicate the sales representatives showing the most significant decline compared with the budget and last year's sales. Another internal source of information is the actual financial statements. By measuring the gross and net profits, the marketing manager would be able to see if there is any price pressure on the firm's products.
 - 2 The marketing manager should consider obtaining external information. Analysis of the internal information would give her a better understanding of what the problems are, but would not provide information on, say, new competitors entering the market, their product and service offerings and whether or not the preferences of the consumers have changed. In order to obtain such information, the marketing manager would need to commission a marketing research project.
 - 3 The fruit juice manufacturer needs meaningful marketing information that meets the following criteria:
 - High quality. The sales information system gave enough information for the marketing manager to understand which region contributed most to the decline in sales and profits. It also indicated pricing trends and probably the business representatives who were underperforming.
 - Relevant: Yes, it could definitely provide trends and reasons for the decline in profit and market share.
 - Timely. Maybe not. If the marketing manager had the information on hand, she could have been proactive and given feedback to the managing director.
 - Complete. The internal information could have provided some of the reasons for the decline, but it was incomplete in the sense that it did not give the full picture. Obtaining external information by conducting market research would assist the marketing manager in such a way that she could ultimately recommend possible corrective measures to the marketing director.
-

3.2 Information management



(Study this section in the prescribed book.)

3.2.1 A marketing information system (MIS)

Bear in mind that a certain procedure is followed in a marketing information system, as illustrated in figure 5.1 in your prescribed book. In a marketing information system, the routine data component typically focuses on a firm's internal and external environment.

It is essential that you are able to describe what a MIS is and the functions it performs.

Let us return to our fruit juice manufacturer's predicament. The problem was clearly

defined as being a noticeable decline in profit and market share. All available internal information was examined. Furthermore, it was decided to gather additional information. The company's sales force reported that the firm's major competitor had changed its packaging and added two new flavours to its range (internal marketing information). Major retailers also reported that the main competitor had lowered its pricing in the Western Cape region specifically. After studying the above information, the marketing manager decided to obtain external data as well.

According to Kotler (2000:100), a marketing information system consists of people, equipment and procedures to gather, sort, analyse, evaluate, and distribute the required, timely and accurate information to marketing decision makers. Of interest in this example was that, although much information was obtained by the marketing manager, it was not within the framework of a proper, well-designed MIS.

According to Kotler (2000:100), the primary role of an MIS is to assess the manager's information needs, develop the required information, and distribute that information continuously. The information is developed through MDSSs, internal company records (sales information systems), marketing intelligence activities and market research.

3.2.2 A marketing decision support system (MDSS)

Computer systems play a huge role in the analysis of data in order to collect meaningful information to assist marketing managers in making the right decisions. Current computerised systems allow managers to "look forward". Such systems provide real-time information and assist in the analysis of research findings.

With reference to our fruit juice manufacturer, an MDSS would answer "what-if" questions, such as what would happen to the firm's profitability if it were to decide to reduce the price on some of its fruit juice flavours.

If we had to compare the current MIS in place at the fruit juice manufacturer against the above factors there would be obvious gaps. Although some of the information was available, it was not readily and timeously available, as per our definition of an MIS. The marketing intelligence activities and the internal company information available need a coordinated effort in an MIS. Making use of an MDSS would be a future consideration. As mentioned earlier, the marketing manager of the fruit juice manufacturer would need to conduct market research.



Assessment

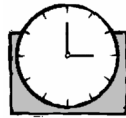
- 1 Explain why there is a need for marketing information.
 - 2 Explain the difference between data and information.
 - 3 Define an MIS.
 - 4 Explain the various components in an MIS.
 - 5 Define an MDSS.
-



Summary

In the ever-changing marketplace, companies need to focus more on the consumer in order to gain an advantage in the marketplace. More knowledge about the consumer is required and the technological revolution has made it possible for vast amounts of data to be gathered, processed and stored. This has led to the development of large MISs that facilitate better decisions on ways and means to service the customer's needs.

Study unit 4 looks at marketing research and the marketing research process, with the focus on the steps to follow when conducting a research project.



Study unit 4

Marketing research

Contents

Key concepts

Overview

4.1 Marketing research

4.2 The marketing research process

Assessment

Summary



Key concepts

You will need to master the following key concepts in order to meet the learning outcomes for this topic:

- Marketing research
 - Research design
 - Exploratory research design
 - Descriptive research design
 - Causal research designs
 - Predictive research designs
 - Primary data
 - Secondary data
 - Primary data collection method
 - Data collection instruments
 - Sampling
-

Overview

This study unit covers the second part of chapter 5 in the prescribed book. In the previous study unit we discussed the importance of marketing information in detail. This study unit deals with the role of research in the context of marketing. Most of us have been exposed to research without even realising it. For example, we may have been stopped by a person in a shopping mall asking us a few questions about a specific product. Such surveys are typical examples of marketing research.

In your studies you might have come across the term "marketing intelligence". However, it is difficult to actually grasp the real difference between marketing intelligence and marketing research. Marketing intelligence is an ongoing function designed to provide continuous information for marketing decision-making, whereas marketing research is generally undertaken for unique projects with specific objectives.

Our focus in this study unit will be on the research process as it can be applied in the marketing environment. The marketing research process consists of four critical steps designed to maintain the control needed for obtaining accurate and relevant information. Bear in mind that these steps should never be viewed in isolation, but as an integrated whole. This study unit discusses these steps in the marketing research process in detail.

The figure below provides an overview of what we are going to discuss in this study unit.

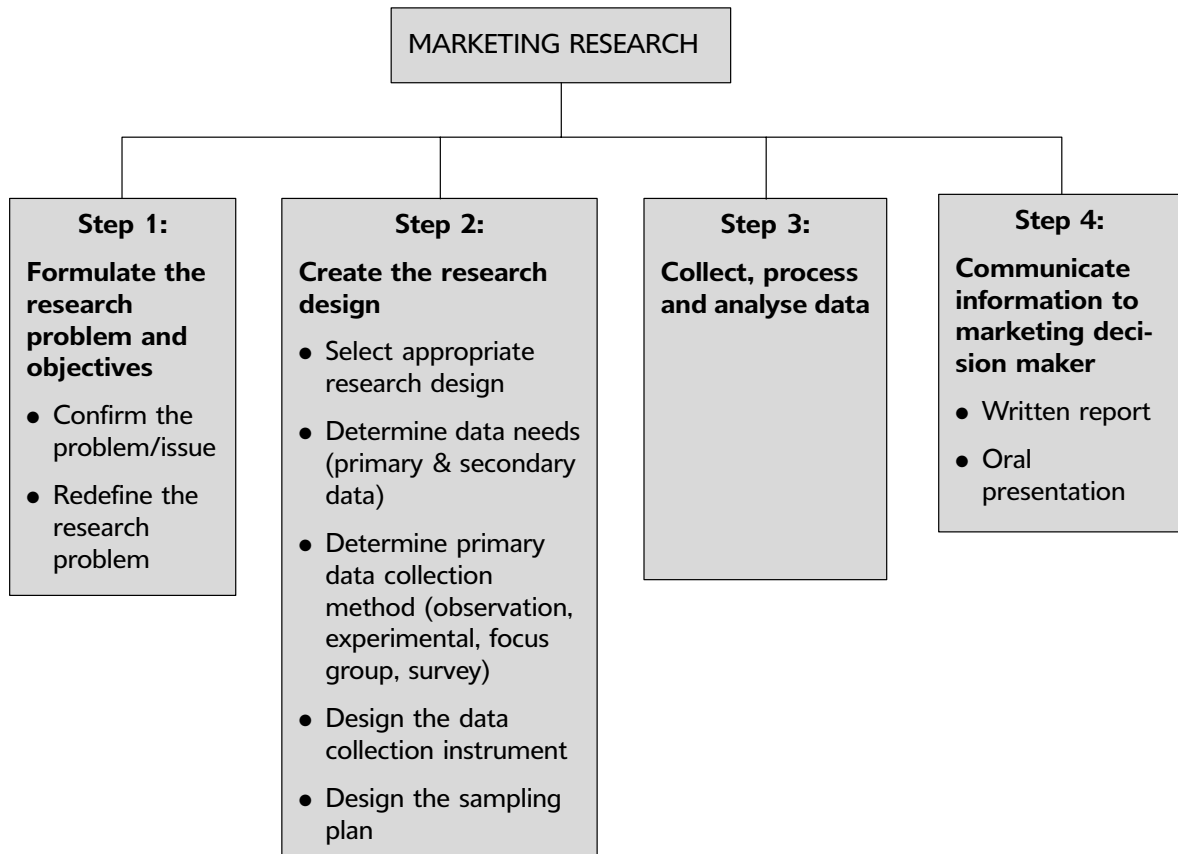


FIGURE 4.1: The marketing research process

4.1 Marketing research



(Read this section in the prescribed book.)

Marketing research helps the marketing executive to make better informed and less risky marketing decisions. There are several reasons for conducting marketing research. Take the following example: A new product is about to be launched, and the marketing manager is tasked to develop a new marketing strategy or to investigate an exciting new and attractive market opportunity for a well-known airline wanting to offer the latest blockbuster movies on its international flights. Another example would

be if it becomes clear to management that one of the possible reasons for the decline in sales might be that the preferences of the firm's target market are changing hence the need for research.

4.2 The marketing research process



(Study this section in the prescribed book.)

A marketing research project should not be carried out haphazardly, but should be well planned. The basic steps in the marketing research process are indicated in figure 5.3 of the prescribed book, and you should be able to discuss each. In the examination, you could be asked a theoretical question or to apply the process to a case study. Note the following situation:

1Time Airlines, the well-known value-for-money airline is constantly looking for new ways to add additional value to its service offering, which, in a highly competitive market, differentiates the airline from their competitors. In a board meeting, one of the managers mentions that the current in-flight entertainment is limited to short videos, the in-flight magazine and access to a few radio stations. He believes that the airline should consider offering more and suggests that it could even consider renting a Sony Playstation to clients in order to enhance the value offering as well as opening a new potential market to attract younger clients. The marketing manager contacts someone at Sony, who says that the cost of one Sony Playstation is R1 500,00. By charging R100,00 for each rental, the airline could possibly break even after 15 flights. The marketing manager requests a research company to find out how air travellers would respond to this new proposed value-added offering.

4.2.1 Step 1: formulate the research problem and objectives



(Study this section in the prescribed book.)

Before the researcher can begin with the research project, he or she has to define a research problem. The researcher needs to answer questions such as "What is the purpose of this research project?" and "What are the objectives of the research?" The research project will be misdirected if these questions are not answered at the outset. The problem should not be defined too broadly or too narrowly. In other words, the research problem should be the core of the project. Once the research problem has been confirmed and redefined, the research objectives can be set.



Activity 4.1

The research company involved instructs you to formulate the research problem and research objectives for 1Time.

- 1 Define the research problem.
- 2 Formulate the research objectives.



Feedback

There is a wide spectrum of possibilities here, ranging from a narrow perspective, where the research problem can be defined as “Would our customers be willing to pay R100,00 to rent a Sony Playstation when flying with 1Time?” On the other side of the spectrum, the research problem could be posed as follows: “How do air travellers spend their free time and what are their specific hobbies?”

One could agree to define the research problem as follows: “Would the introduction of the rental of a Sony Playstation on 1Time flights enhance the customers’ experience in such a way that it would lead to a loyal customer base as well as attracting younger customers?”

The research objectives could then be formulated as follows:

- *to identify what kind of passengers would make use of this service*
 - *to identify whether the introduction of this new service would attract new, younger passengers*
 - *to establish how to rate the current customer loyalty levels and by how much these would increase should the new service be introduced*
-

4.2.2 Step 2: design the research plan



(Study this section in the prescribed book.)

The second step in the marketing research process calls for developing the most efficient plan for gathering the required information. The following two methods can be considered here.

- 1 **Qualitative research methods.** Only a few respondents are involved in the process, in which certain techniques are used to encourage them to provide descriptive information about their thoughts and feelings. This is then projected to the whole population.
- 2 **Quantitative research methods.** A large number of respondents are part of the process in which techniques are used to generate information that can be projected to the whole population.

Researchers can use the following research designs:

- exploratory

- descriptive
- causal
- predictive

Make sure that you understand each of the above research designs – they are important.

The main goal of exploratory research is to shed light on the real nature of the problem and to suggest possible solutions or new ideas. For example, a company wishing to understand the reasons behind the decline in sales would consider exploratory research in order to understand the reasons for the changes in consumer preferences.

The aim of descriptive research is to ascertain certain magnitudes, such as how many people would be interested in paying R140,00 to watch the most recent blockbuster movie on an international flight.

The following basic activities in research design creation should be followed:

- 1 Determine the data requirements.
- 2 Determine the data sources.
- 3 Determine the primary data collection method.
- 4 Design the data collection instrument.
- 5 Design the sampling plan.

Two broad groups of data requirements exist, namely primary data and secondary data. Primary data are gathered for a specific purpose or for a specific research project. Establishing the reasons for a decline in sales is a case in point. The reasons for the decline are not understood until primary research has been conducted – hence, apart from establishing trends, secondary data would be of no use to the researcher.

The data sources are indicated in figure 5.4 in the prescribed book. Primary data can be collected in four ways, namely observation, experimental, focus group and surveys. As part of an observation research process, 1Time could persuade the researchers to fly on a competitor's aeroplane in order to observe the quality of its in-flight service.

Focus group research is a useful exploratory step. Six to ten consumers could form part of a focus group, facilitated by the researcher trying to understand the reasons for the decline in sales and the reasons for the change in the consumer preference. Lastly, companies undertake surveys to enable them to learn about people's preferences, beliefs and knowledge. The airline company might want to do a survey on how many people know it as a company, have flown on its aeroplanes, prefer it and would enjoy the availability of the blockbuster movies on flights.



Activity 4.2

Read the following scenarios and identify which research method would be most appropriate to gather the necessary data.

Scenario	Method
(1) M-Net wishes to determine its customers' likes or dislikes regarding the newly launched PVR decoder.	
(2) The Gauteng government is concerned about the current service delivery at the provincial hospitals. It would like to know how the public rate the hospitals' service.	
(3) 1Time wishes to establish the needs of a regular air traveller.	
(4) Simba Chips is planning to change the packaging of its well-known Lays chips. The company is uncertain about whether the new packaging would increase sales, and whether the consumer would prefer the Simba brand to that of its competitors.	
(5) Samsung has developed the first prototype DVD recorder. The company wishes to determine the strengths and weaknesses of the new product idea.	
(6) BMW has invested in a new customer service-related programme which has been in operation for four months. The company wishes to find out from all clients of the past four months if they have experienced an improvement in the service provided.	
(7) Floro is in the process of introducing four new categories of margarine in the market. The company is unsure about the relationship between the price it is asking and the perceived value the consumer will experience. What method could Floro use to establish this relationship?	



Feedback

Compare your suggestions with the answers below. Do you agree with all the answers? Study the topic again if you are uncertain or contact your lecturer for further insight.

Scenario	Method
M-Net	Focus group
The Gauteng government	Survey
1Time	Survey
Simba Chips	Observation
Samsung	Observation
BMW	Survey
Floro	Experimental

Designing the sample plan after deciding on the research instruments and approach requires three decisions.

- 1 *Sampling unit.* Who is to be surveyed? The target population in the case of the company experiencing a decline in sales could be people between the ages of 25 and 65. Would it be necessary to interview men and women?

- 2 *Sample size.* How many people should be surveyed?
- 3 *Sampling procedure.* How should the respondents be chosen? Two basic sampling methods are available: probability sampling and systematic sampling.

After the successful completion of the research design, the collection, processing and analysis of data, that is, step 3 of the marketing research process, can follow.

4.2.3 Step 3: collect, process and analyse the data



(Study this section in the prescribed book.)

The most expensive phase of marketing research is generally the collection of data. Although this step is the most prone to error, data collection methods are rapidly improving because of advances in computers and telecommunications. Personal or telephone interviews or observation are two of the methods used to gather data.

Extracting findings from the collected data is challenging. The researcher will rely on various computer programs to assist in the tabulation of the data. The transformation of the raw data into the information needed is therefore the researcher's key objective. Analysing the data in order to understand the results, examining trends and finding the answers to the original research problem will follow, and to this end, the researcher will employ various techniques.

4.2.4 Step 4: communicate information to the marketing decision maker



(Study this section in the prescribed book.)

This is the final step in the marketing research process. The researcher presents all major findings that are relevant to the major marketing decisions facing management. The findings can be presented in a formal written format or in an oral presentation. The researcher must understand the results and draw conclusions. The managers who read the report will expect to see interpretive conclusions about the information presented in the research report.



Assessment

- 1 *Name and explain the basic activities in research design creation.*
 - 2 *Why is the formulation of the research problem so important?*
 - 3 *Distinguish between primary and secondary data.*
 - 4 *Explain in your own words how you would design the sample plan as part of a research project.*
 - 5 *Explain and give an example of all the data collection methods available.*
-



Summary

This study unit focused on the marketing research process. Four critical steps should be followed in order to conduct successful research projects. By applying these steps, the quality of information received by the ultimate decision maker will be of such a high standard that meaningful decisions can be made.

Study unit 5 deals with market segmentation, which is an extremely important topic because it forms the foundation of the marketing strategies the business will develop.



Topic 4

Market segmentation

AIM

The aim of this topic is to understand the main factors involved in marketing segmentation.



Learning outcomes

On completion of this topic, you should be able to interpret consumer behaviour in order to divide the consumer market into various groups with similar wants and needs.

More specifically, you should be able to:

- identify six individual factors that can influence consumer behaviour
 - identify group factors that can influence consumer behaviour
 - distinguish between the different types of decision-making
 - identify the different phases in the consumer decision-making process
-

TOPIC CONTENT

Study unit 5: Segmenting the consumer market

Study unit 5

Segmenting the consumer market

Contents

Key concepts

Overview

- 5.1 Consumer behaviour
- 5.2 Marketing segmentation, targeting and positioning
- 5.3 Bases for segmenting consumer markets
- 5.4 Market segmentation profiles
- 5.5 Criteria for the effective targeting of market segments
- 5.6 Product positioning

Assessment

Summary



Key concepts

You will need to master the following key concepts in order to meet the learning outcomes for this topic:

- Individual factors
 - Motivation
 - Perception
 - Learning ability
 - Attitudes
 - Personality
 - Lifestyle
 - Group factors
 - Family roles
 - Cultural groups
 - Social class
 - Reference groups
-

Overview

Businesses constantly seek to improve their revenue and the way in which they offer products/services to society. This means that in order to operate profitably, businesses need to know their target market and be familiar with the behaviour of the consumer in a given market segment. For example, Truworths Man could target middle-aged men with clothing that best identifies with this age group. However, if the organisation

is to survive in the industry, it may have to consider issues such as the consumers' income brackets, demographics and buying behaviour. This study unit explains how to segment a market and also focuses on consumer behaviour in a particular segment.

This study unit covers most of chapter 3 and 4 in the prescribed book. Chapter 3 explores consumer behaviour and why organisations should be aware of these behaviours. Chapter 4 focuses on segmenting the consumer market in order to service only those markets that are profitable. You will notice that there is a direct link between consumer behaviour and segmentation of the consumer market in the sense that an organisation can better serve consumers in a given market if it is willing to study the behaviour of these consumers.

Note figure 5.1 below, which represents the key issues considered when engaging in market segmentation.

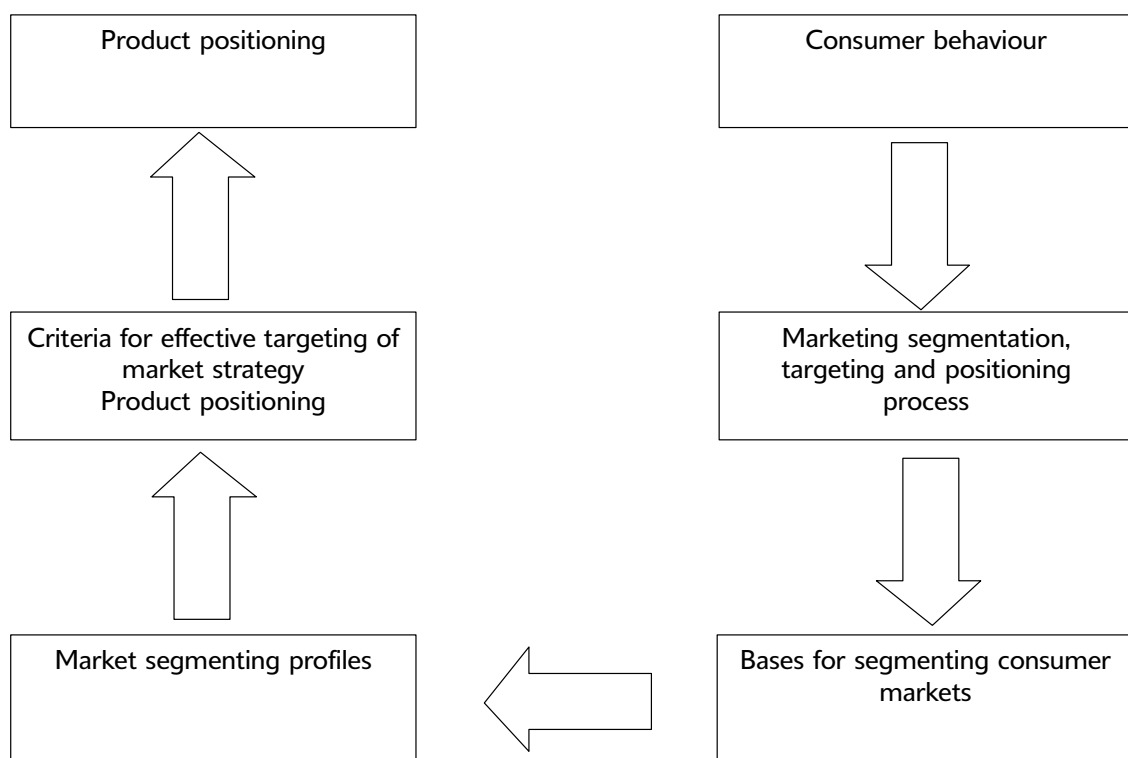


FIGURE 5.1: The process of market segmentation

5.1 Consumer behaviour



(Study this section in the prescribed book.)

When you study this section in your prescribed book, note the definition of consumer behaviour and how the buying decisions of consumers are continually influenced by certain factors. These factors are known as individual and group factors that impact on consumer decision-making.

Individual and group factors will be discussed first and then the consumer decision-making process.

5.1.1 Individual factors that influence consumer behaviour



(Study this section in the prescribed book.)

Individuals tend to behave in certain ways at different times. Human behaviour is directly related to the way in which human beings think, which in turn determines their buying patterns. As marketers, it is essential to monitor and respond to such patterns in order to do business profitably.

Individual factors, as highlighted below, are those factors inherent in human behaviour that influence an individual's behaviour as a consumer.

- motivation
- perception
- learning ability
- attitudes
- lifestyle

Let us consider the following scenario as an illustration of how individual factors influence consumer behaviour: If you enjoy a certain cool drink, such as Coca-Cola, you probably buy it when you are thirsty (motivation). You will probably buy Coke in a store with reasonable prices (perception). You prefer Coke to Tab because you find the latter too sweet (attitude). You always watch soccer with your pals (lifestyle and personality), and when watching matches, you all drink Coke.

After studying this section in your prescribed book, you should be able to complete the following activity:



Activity 5.1

Provide an example of each individual factor that affects individual consumer behaviour. Using Powerade (the energy drink for sportspeople) as the product you are analysing, provide an example of each of the individual factors that influences consumer behaviour.



Feedback

- Attitude. Whenever you are asked whether you like or dislike a product or an advertisement, you are in fact being asked to express your opinion. For example, if you say that you like Powerade, it means that you have a positive attitude towards it. However, if you tell someone that you do not like beer, you are in fact saying that you have a negative attitude towards it. For health and energy reasons, an active sportsperson would choose Powerade over beer.
- Learning ability. Powerade was specifically designed as a healthy sports drink, and

sportspeople have learnt that they perform better if they consume the healthy drinks when exercising. As human beings, from an early age, we start learning about the world we live in. We learn what food to eat, what clothes to wear and ultimately what products to buy.

- Lifestyle. Victor goes to work in the morning and when he returns home in the evenings he carries on working at his computer, often working late into the night. Rudzani, however, watches television and visits his friends in the evenings after work, and is a real "party animal". These two individuals have different interests and social activities and therefore different lifestyles.
 - Motivation. An overweight woman might decide to join the local gym because she is motivated to lose weight and keep fit.
 - Perception. Because of the Powerade advertisements, a sportsman may perceive that his performance will improve if he drinks this particular brand of sports drink.
 - Personality. If you describe your friend, Siphso, as outgoing and witty or aggressive and opinionated, you are describing his personality. Everyone has a unique personality.
-

5.1.2 Group factors that influence consumer behaviour



(Study this section in the prescribed book.)

The group factors that influence all consumers are the family, cultural group, social class, reference group and opinion leaders. Consider the following scenario. John Brown, an English-speaking South African, has a wife and three children and rents a house in a working-class suburb of Johannesburg. He was educated at the Tshwane University of Technology (TUT) and works as technician for a telecommunications company. He earns a salary of R10 000 a month and in his free time plays tennis at the local tennis club.

The above information tells us that John belongs to various groups. He is part of a family; he is part of the English-speaking cultural group; he belongs to the lower middle class; and his reference group is the tennis club. John (like most other consumers) therefore does not live in isolation. The cultural and social influences as well as the family and reference groups in John's world, affect his behaviour. These groups also influence the types of products that he buys.

Now complete the following activity:



Activity 5.2

Give your own example of each group factor that influences consumer behaviour.



Feedback

You should have provided examples such as the following:

- Social class. People in the highest social class are usually wealthy. They tend to buy the most expensive products.
 - Family. If the father in a family is a dominant personality, he will probably make most of the decisions about money in the family.
 - Cultural group. Most Jewish people avoid eating pork and pork products.
 - Opinion leader. A fashionable woman who has just returned from a shopping trip to Paris would probably be the opinion leader in the latest fashion trends. Her friends might look to her for advice on fashion.
 - Reference group. Most teenage girls belong to a reference group that prescribes what its members should wear, and what fashions are unacceptable. Mary, who is a member of such a group, refuses to wear a dress her mother bought her, because she is convinced that her friends will laugh at her.
-

5.1.3 Consumer decision-making



(Study this section in the prescribed book.)

This section explains the different types of decision-making.

- *Real decision-making.* This is a complex process which involves extensive problem-solving, such as the decision to rent or buy accommodation in Johannesburg.
- *Impulse decision-making.* This is an unplanned action that occurs on the spur of the moment, as opposed to conscious planning. An impulse decision, for instance, would be to buy a snack for lunch.
- *Habitual decision-making.* This occurs when a consumer is loyal to a particular brand, such as Colgate toothpaste. This consumer is convinced that this product offers her better value for her money, and she therefore purchases it habitually.

We now look at the phases involved in real decision-making. Burger and Theron (1999:275) explain the effectiveness and efficiency of group decision-making as opposed to individual decision-making. Groups tend to be more effective because they are more accurate, creative and enjoy greater acceptance than individuals. However, individuals usually work faster on their own and are therefore able to make snap decisions. There is a link between an individual's decisions and the group he or she belongs to. For example, a member of a certain religious group may only be allowed to buy certain kinds of food and clothing. All these factors should be taken into consideration when studying consumer behaviour and decision-making.

The phases in consumer decision-making are as follows.

The decision-making process is known as real decision-making. It is a complex process that involves extensive problem-solving, including such decisions as those one would make when buying a new house or car. The process entails the following successive phases:

- need recognition
- the search for information

- evaluation
- the purchase decision
- post-purchase evaluation

In your prescribed book, the example of John is used to illustrate the phases in the decision-making process. Apply the above phases to a different product, such as a technologically advanced hi-fi system. You will notice that the search for information, for example, will be quite different.

5.2 Marketing segmentation, targeting and positioning



(Study this section in the prescribed book.)

Marketing segmentation is part of a three-phase process comprising segmentation, targeting and positioning. Note the following definitions of market segmentation, targeting and positioning:

5.2.1 Definitions of market segmentation, targeting and positioning

“Market segmentation is thus defined as the process of dividing a 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 distinct marketing mix.” Market segmentation thus involves focusing on certain kinds of consumers and working on how to better service them on the basis of their common needs. This is not an easy process but may be effective in that it will enable an organisation to channel its marketing efforts in a specific direction.

Targeting deals with the process whereby the marketing mix is tailored to focus on a specific target, say, female customers who play golf and require special women’s golf gloves.

Positioning can be defined as follows: “Positioning deals with the way customers perceive proposed or present products or services in the market.”

5.2.2 Why use market segmentation?

According to the prescribed book, there are obvious reasons for dividing a market into smaller segments, as explained below.

- *Improved marketing.* It is better to focus on specific customers than trying to serve everyone. It is easier to monitor their behaviour. For example, a sports clothing store might decide to stock only cricket togs instead of rugby, soccer and tennis clothing. Underserved or unserved markets can be identified by means of market segmentation. For example, Hollard Insurance could team up with a soccer team like Orlando Pirates to sell its insurance products to thousands of football fans who need insurance.

- *Finding niches.* This involves identifying underserved or unserved markets.
- *Efficiency.* The organisation could save time and money by focusing on specific consumers. For example, a sports clothing store could decide to cater exclusively for Kaizer Chiefs football fans, and in this way improve its efficiency.

5.2.3 Levels of market segmentation

Market segmentation consists of the following four levels:

- *Mass marketing.* This involves the mass production of consumer goods, and the use of mass distribution and mass promotion for all consumers. It creates the largest potential market which leads to lower costs. However, differences in consumer needs, different communication media used by consumers and the various types of distribution channels available make mass marketing more difficult to implement.
- *Segmentation marketing.* Here the total market is divided into broad market segments. This makes marketing more efficient and effective by targeting products or services, distribution channels and communication programmes, and by adapting products or services to those consumers who can best be served in the most profitable way.
- *Niche marketing.* A niche market is a small group of the market segment and usually attracts one or a few competitors. Niche markets afford small organisations an opportunity to compete by focusing their limited resources on serving markets that have been overlooked by larger organisations. Customers in niche markets are willing to pay premium prices.
- *Micromarketing.* This involves the marketing of products or services to suit the needs of specific individuals and geographic locations.

5.2.4 Evaluating market segments

The following three factors should be considered when evaluating market segments:

- segment size and growth, for example, current segment sales, growth rates and expected profitability
- segment structural attractiveness, for example, number of competitor products and the buyers' purchasing
- organisational objectives and resources, for example, long-term probability, human resources and financial resources

5.2.5 Selecting market segments

A target market segment consists of consumers sharing the same needs, wants or characteristics, that an organisation decides to serve. Marketers can consider the following three market coverage strategies to decide which and how many target market segments to serve:

- *Undifferentiated marketing.* This is also referred to as a mass marketing strategy, and involves organisations targeting the whole market with one product. For example, Pikoli Chicken Dealers could choose to sell its bulk chicken products to wholesalers, retailers and households instead of selling exclusively to retailers.
- *Differentiated marketing.* Organisations that follow a differentiated marketing

strategy target various market segments or niches, and design separate offerings for each. For example, Pikoli Chicken Dealers could decide again to only sell their products in bulk to specific retailers.

- *Concentrated marketing.* This strategy is commonly used by smaller organisations with limited resources and skills. Ngoepe Traders, for example, is a firm of wedding organisers that provides a customised service to satisfy the unique needs of wedding couples. In this way, the firm is able to minimise costs and eliminate wastage.

5.3 Bases for segmenting consumer markets



(Study this section in the prescribed book.)

After studying the bases for segmenting consumer markets in the prescribed book, you should be able to discuss and apply them to a given situation. The bases for segmentation are as follows:

- geographic segmentation
- demographic segmentation
- psychographic segmentation
- benefits segmentation
- market-value-based segmentation

After having studied the above bases for segmenting consumer markets, you should be able to do the following activity:



Activity 5.3

Give an example of each of the above segmentation bases.



Feedback

- Geographic segmentation. *Hlope Traders, an enterprise that sells cleaning materials, could group its customers according to geographic location, say, Cape Town, Durban and Johannesburg.*
 - Demographic segmentation. *Hlope Traders could choose to target housewives between the ages of 30 and 45.*
 - Psychographic segmentation. *To market its products, Hlope Traders could target ladies social clubs.*
 - Benefits segmentation. *Hlope Traders could target local clinics, because such clinics value health and hygiene more than any other benefits.*
 - Market-value-based segmentation. *Hlope Traders' products are well known for their spotless cleaning capacity.*
-

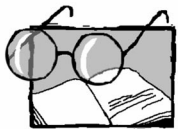
5.4 Market segmentation profiles



(Study this section in the prescribed book.)

Segmentation profiling involves describing each segment fully in terms of size, demographics, psychographics, lifestyles, behaviour patterns and product usage. Segment profiling enables marketers to select one or more segments on which to focus their market offerings, as well as to develop products, design communication messages and develop effective distribution plans. We will now look at the criteria for the effective targeting of market segments.

5.5 Criteria for the effective targeting of market segments



(Study this section in the prescribed book.)

The criteria are as follows:

- *Identification.* The market must be easily identifiable (eg a market for sports products for people between the ages of 16 and 30).
- *Sufficiency.* The market must be large enough and have sufficient consumers to make a marketing strategy worthwhile.
- *Stability.* The selected target market must be stable in terms of demographic and psychological factors, and consumer needs and wants must be likely to increase over time.
- *Accessibility.* The selected target market must be economically accessible (ie it should be possible to reach by means of selected communications media).

5.6 Product positioning



(Study this section in the prescribed book.)

A product's positioning is the place the product occupies in the minds of customers relative to those of competing products. The intention of product positioning is to influence demand by creating a product with specific characteristics and a clear image that differentiates it from the competitor's products.

5.6.1 Positioning as a target market strategy

Positioning has to do with the way in which a marketer influences its markets with the

messages it puts across about its brands and products. For example, by using the slogan, "Within arm's reach", Coca-Cola has managed to make the market think about it every day and this has made the product increasingly accessible.

5.6.2 Repositioning

Repositioning has to do with redoing, remoulding, rephrasing or replacing a particular product in order to make it more appealing to the market. This process has cost implications and should be handled with care. For example, in the early 1990s, Coca-Cola introduced the 1,5 litre bottle of Coke, but subsequently changed this to the 1,25 litre bottle, which proved to be more appealing in the market.



Assessment

- 1 You are the advertising manager of a cosmetics house and have been tasked to design an advertisement for cosmetics aimed at your target market consisting mainly of teenagers. How would you take into account the individual factors of perception and motivation in your advertisement? (Ask yourself the following question: What would be the motives for using this particular product?)
 - 2 Using the example in (1) above, how would you take into account the group factors of cultural group and social class in your advertisement?
 - 3 Explain the phases in the consumer decision-making process.
 - 4 Explain the reasons for market segmentation.
 - 5 Discuss the different levels of market segmentation that a marketer needs to be aware of. Use practical examples to illustrate your answer.
 - 6 Explain product repositioning by means of a practical example.
-



Summary

In this study unit, we looked at the individual and group factors that influence consumer behaviour, as well as group and individual decision-making. The significance of market segmentation for the organisation was highlighted. Segmentation allows enterprises to cater more effectively for their customers.

Topic 6 deals with the marketing mix, which is the cornerstone of all marketing activities in an organisation. It is important that you understand the basics of the 4P's at this early stage of your marketing studies.



Topic 5

The marketing mix

AIM

The aim of this topic is to discuss the four elements of the marketing mix.



Learning outcomes

On completion of this topic, you should be able to explain product, marketing communication and distribution and price decisions.

More specifically, you should be able to:

- explain the four levels of the product concept
 - identify the sequence of steps in the new product development process
 - explain how the communication process is used to help market products and services
 - discuss the steps in developing a promotion campaign
 - discuss the promotion mix elements of advertising, direct marketing, sales promotion, public relations and personal selling in terms of management issues, strengths and weaknesses and the methods used
 - indicate the influence of marketing instruments on the distribution channel
 - show how the factors involved in selecting a suitable distribution channel may be used to determine a distribution channel
 - explain the different pricing objectives that describe what a business hopes to achieve through its pricing activities
-

TOPIC CONTENT

- Study unit 6: Product decisions
- Study unit 7: Marketing communication decisions
- Study unit 8: Distribution decisions
- Study unit 9: Price decisions

Study unit 6

Product decisions

Contents

Key concepts

Overview

- 6.1 The product concept
- 6.2 Classifying products and services
- 6.3 Product mix and product line
- 6.4 Branding, packaging and labelling
- 6.5 Developing new products
- 6.6 The product life cycle (PLC)

Assessment

Summary



Key concepts

You will need to master the following key concepts in order to meet the learning outcomes for this topic:

- Product concept
 - Packaging
 - Introduction phase
 - Growth phase
 - Maturity phase
 - Declining phase
 - Branding
 - Labelling
 - Durable and nondurable products
 - Tangible and intangible products
-

OVERVIEW

There are more products on the market today than ever before. In fact, there is a product to satisfy almost every need that the consumer can think of. The product decision is the first step in the marketing mix. The product that needs to be sold must be designed and manufactured. The product decision does not stop with the design of the physical product, because the packaging, warranties and labelling of the product are just as important as the product itself. Marketing incorporates both the physical and nonphysical attributes, that is, the product itself, the price people are prepared to pay for it, the place where the product is available for purchase and the promotional activities used to show the product to potential buyers.

Note figure 6.1, which highlights the different aspects of product decisions.

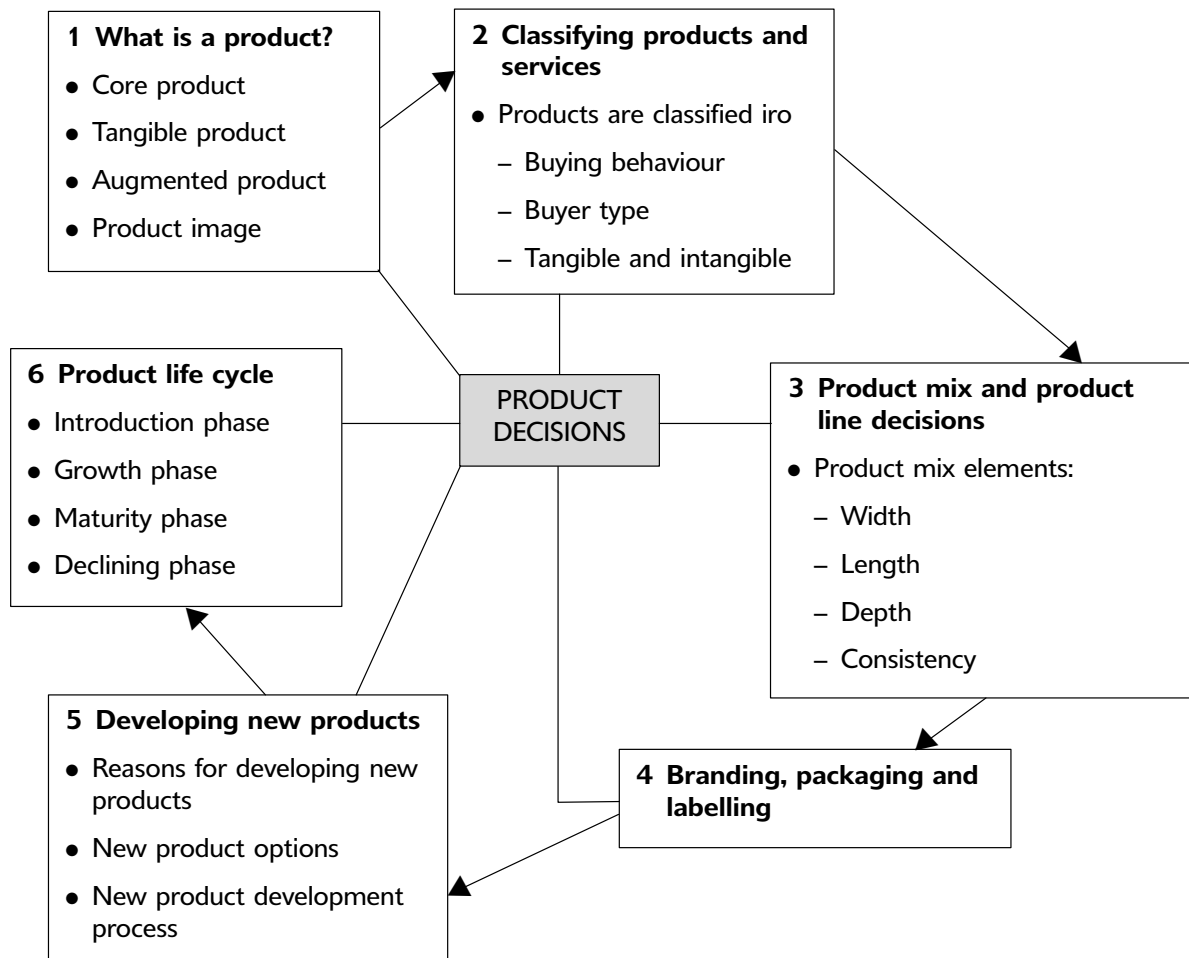


FIGURE 6.1: Product decisions

6.1 The product concept



(Study this section in the prescribed book.)

Customers look for products that satisfy certain needs. They are constantly in search of products that can help them create value in their everyday lives. The product concept comprises the following four levels:

- *Core product*. This is a physical product that the consumer buys to satisfy his or her needs and that provides certain benefits.
- *Tangible product*. The consumer looks for product attributes that can solve his or her problem and provide benefits. In today's competitive market, a product must differentiate itself from competitors' products by adding more value to the customer than simply being a basic product, and nothing else.
- *Augmented product*. This gives the consumer additional benefits, such as

warranties and installation. DSTV, for example, is useless to the consumer unless it is correctly installed and there are also warranties in the event of the equipment failing hence the added benefit of consumer peace of mind.

- *Product image.* In a highly competitive market, marketers position their products to create the image they feel will attract their target market. Woolworths Food is targeting young, upwardly mobile individuals and creates packaging and an environment that appeals to this market. The shops are open later than most other stores to cater for after-hour shoppers. Pep Stores caters for the lower-income groups and has shops in areas where these people either work or reside.

Ultimately, customers look for products/services that offer more than the core product. This represents the product value package, which gives customers the physical attributes together with additional benefits that they may not have known they need.

6.2 Classifying products and services



(Study this section in the prescribed book.)

As consumers we are not really aware of classifying products in our own minds. However, marketers need to classify products to enable them to apply the correct resources to the products so that consumers notice them. Note the following five categories into which products can be grouped.

- **Durable goods** last for a considerable time. Such products can be reused over a period of time, for example, a kettle which lasts for several years. The opposite applies to nondurable products which are used up quickly (eg teabags that are used on a daily basis and need to be purchased more frequently).
- Marketers are particularly interested in the buying behaviour of customers. This gives them an indication of how much information and effort are required on the part of the customer to make a decision. When choosing a product, the customer sometimes looks for pure convenience and does not really want to put a lot of effort into making the decision. When buying a magazine, for instance, an individual would probably want to find the magazine easily and not hours thinking about the product itself. This is why magazines are often placed at the pay point in a store where the customer can pick up the product without giving it a second thought. These types of products are referred to as **convenience products**. When buying a new pair of shoes, the customer will need to try on a few different pairs until she finds something that is both comfortable and suits her style. These items are classified as **shopping products** because they require more effort on the part of the customer.
- When buying a **speciality product**, the customer usually has to put more effort into the purchase because this is usually an expensive item and there might be an emotional attachment to the product. When buying jewellery, customers will shop around until they find exactly what they are looking for at the price that they are prepared to pay. However, some products are "necessary evils" in the sense that

the consumer may not want to buy the product, but is obliged to do so for his or her peace of mind (eg medical aid, which is paid every month, but hopefully will not have to be used). This is an example of **unsought goods**.

- Products classified in terms of **buyer type**. There are two main categories of buyers, namely business buyers and final consumers. When a business buys products, this is a far less emotional process and a more disciplined approach is adopted. Final consumers are more emotional buyers and follow a different decision-making process from a business.
- An **intangible product** relates mainly to services. The product may not necessarily be touched and seen hence the needs for the marketer to adopt a different approach. **Tangible products**, however, are end products that can be seen and felt and are often easier to market.

6.3 Product mix and product line



(Study this section in the prescribed book.)

Most companies offer their customers a variety of products. The product mix represents the range of products that the company has to offer. These products may be part of a range of products that complement each other, such as hair-care products that include shampoo, conditioner and hair gel. Some companies may offer a product mix that is totally unrelated, but their markets may be the same, such as Jeep motor vehicles and Jeep clothing.

When products are related in some way, this is referred to as a company's product line. One company may have several product lines. Nivea, for example, has a range of cosmetics for women and for men. The number of product lines a company has, will determine its product line width. Pick n Pay Hypermarket, for instance, has a long line of products because it carries all the different brands of toothpaste.

Coca-Cola offers a product line that has several flavours of the same product, such as Coke Light, Coke Light Lemon and Coca-Cola. This is known as the product line depth. The basic product is the same, but different versions are available.

Pick n Pay Hypermarket carries a wide variety of products such as hardware, electronics, cosmetics and food. The consistency of its products is therefore low because of the diversity of all the products it has in stock.

6.4 Branding, packaging and labelling



(Study this section in the prescribed book.)

Branding, packaging and labelling give a distinctive identity to a product in the same way as a name and a face give a person his or her identity. Competing products are

often fairly similar in terms of their physical features. Marketers therefore use branding, packaging and labelling to attain intangible product differences and help consumers differentiate the product from those competing with it. Note the following examples of different brands:



The Ferrari logo is a registered trademark of the Ferrari Corporation.



The Google logo is an extremely simple logo comprising a basic font and bright colours. In fact, it seems almost amateurish. The simplicity of the logo could represent the simplicity of the search engine.

Note the Coca-Cola service mark.



Brands today account for approximately one-third of the value of Fortune 500 companies. Brands are vital, because they allow companies to command premium prices for their products. Brands do not merely give a product its identity, but allow companies to enter new markets and categories more easily because consumers are familiar with the brand.

This goes to show that brands, labelling and packaging are sometimes more important to marketers than the product itself.

6.5 Developing new products



(Study this section in the prescribed book.)

Since new products enter the market all the time, it is imperative for companies to keep a competitive edge. All companies are under pressure to produce more environmentally friendly products. Toyota, for example, has introduced three hybrid models, namely the Prius, Camry Hybrid and Highlander Hybrid. There are different ways to renew one's product line. The figure below is an example of what can be done to keep one's competitive edge.

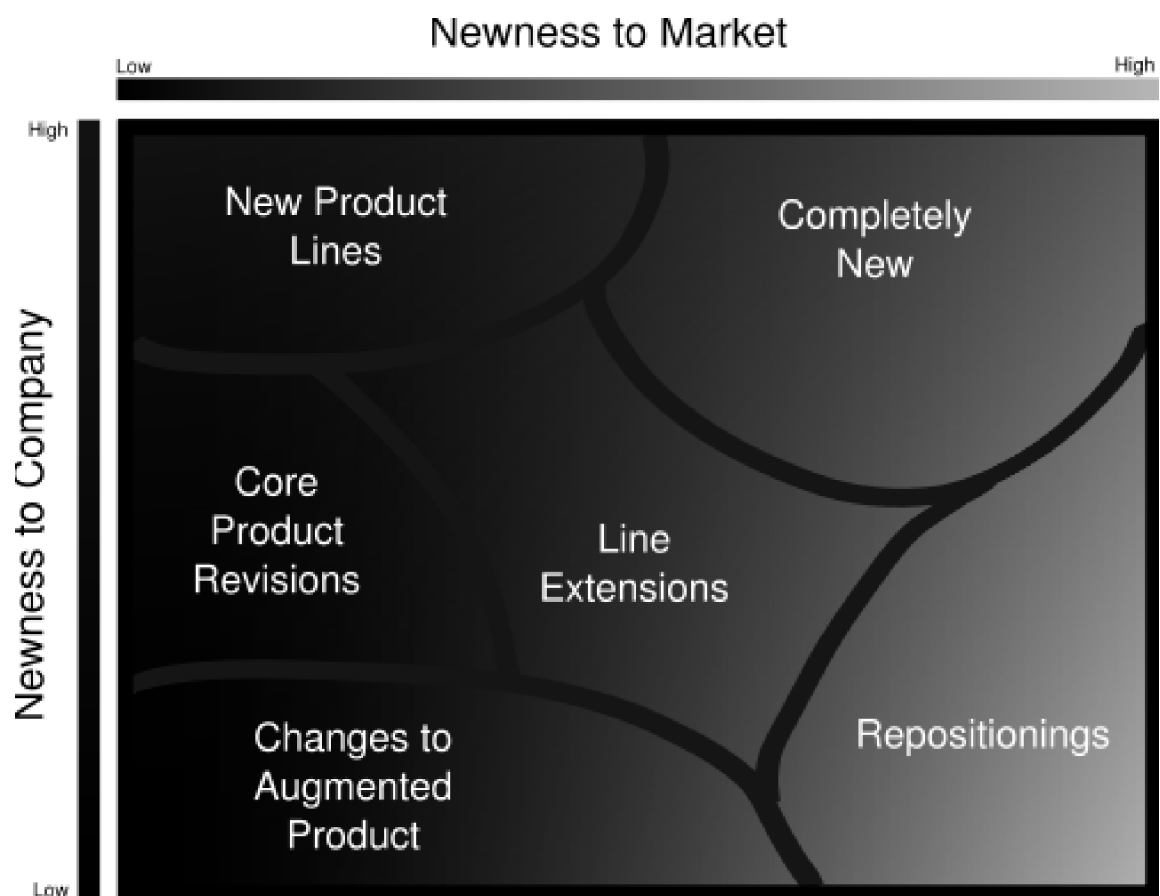


FIGURE 6.2: Types of new products

([Http://en.wikipedia.org/wiki/Product_development](http://en.wikipedia.org/wiki/Product_development))

The following types of new products can be identified:

Product modification involves the following:

- *Changes to the augmented product.* This is the simplest form of development, where improvements are made to the current product.

- *Repositioning*. There is no significant change to the actual product – it is simply marketed in a new segment.

Product line development entails the following:

- *Core product revision*. Here the company makes changes to its current set of products.

Line extensions involve additional products being added to the current range:

- Entry into related products
- New product lines. The company adds new product ranges.

Entry into a completely new field entails the following:

- *Completely new*. The company enters into a whole new industry or type of product that is not related to its current range of products. Jeep, for instance, was known only as a car manufacturer, but now also has a clothing range.

6.5.1 Reasons for developing new products

Note the following reasons for developing new products:

- There are business centres around the enterprise's products.
- Mature products are usually subject to strict competition, which restricts profit margins.
- Technological innovation is on the rise in most industries, and those that fail to keep up will invariably fall by the wayside.
- Certain environmental variables stimulate product development.
- The growing tendency towards one-stop shopping has led to a shortage of shelf space.
- Organisations usually need to consider launching more than one new product at a time because of the high rate of new product failure.

6.5.2 New product options

Bear in mind that new product development can be effected by modifying the existing product, extending the product line, developing related products and entering a totally new field.

6.5.3 The new product development process

Study the steps in this process in the prescribed book.

6.5.3.1 *Idea generation*

- Ideas for new products can be obtained from basic research by conducting a SWOT analysis and consulting the following sources: market and consumer trends, the company's R&D department, competitors, focus groups, employees, salespeople, corporate spies and trade shows. One can also search for information on user patterns and habits to gain insight into new product lines or product features.

- Idea generation techniques such as brainstorming can be employed to come up with new ideas about a new product, service or store concepts.

6.5.3.2 *Idea screening and testing*

- The objective is to eliminate unsound concepts prior to devoting resources to them.
- The screeners must ask at least three questions:
 - Will the customer in the target market benefit from the product?
 - What is the size and growth forecasts of the market segment/target market?
 - What is the current or expected competitive pressure for the product idea?
 - On what product idea are the industry sales and market trends based?
 - Is it technically feasible to manufacture the product?
 - Will the product be profitable when manufactured and delivered to the customer at the target price?

6.5.3.3 *Concept development*

- Develop the marketing and engineering details.
- Who is the target market and who is the decision-maker in the purchasing process?
- What product features must the product incorporate?
- What benefits will the product provide?
- How will consumers react to the product?
- How will the product be produced most cost-effectively?
- Prove feasibility through virtual computer-aided rendering and rapid prototyping.
- What will it cost to produce it?

6.5.3.4 *Test the concepts*

- Ask a sample of prospective customers what they think of the idea.
- Produce an initial run of the product and sell it in a test market area to determine customer acceptance.

6.5.3.5 *Develop a marketing plan*

- Estimate the likely selling price based on competition and customer feedback.
- Estimate the sales volume based on the size of the market.
- Estimate the profitability and breakeven point.

6.5.3.6 *Beta testing and market testing*

- Produce a physical prototype or mock-up. Test the product (and its packaging) in typical usage situations.
- Conduct focus group customer interviews or introduce the product at a trade show.
- Make the necessary adjustments.

6.5.3.7 *Launch the product*

- Produce and place advertisements and other promotions.
- Fill the distribution pipeline with the product.

6.6 The product life cycle (PLC)



(Study this section in the prescribed book.)

A typical product life cycle model has four phases: introduction, growth, maturity and decline. These phases differ in length depending on the product and the market. For example, the life cycle of the computer industry has short phases and computer products and the market change rapidly.

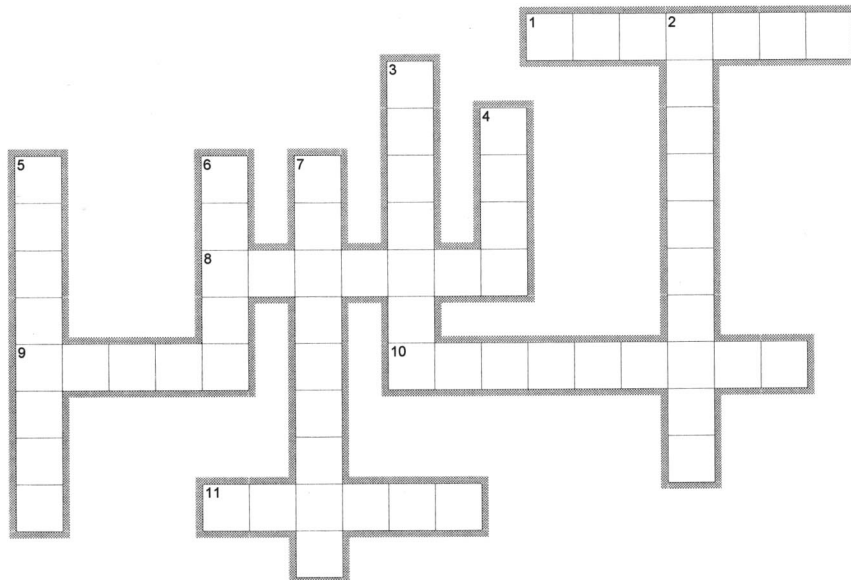
During the introduction phase, a brand is established and introduced to the market. The brand is then reinforced and built during the growth phase. It is often necessary to revitalise the brand during the maturity phase by assuring customers of the strength of the brand. When the product enters the decline phase, marketers work on reviving the brand to try and regain a competitive edge.

Marketers must constantly be aware of each phase in the life cycle so that they can implement the most appropriate marketing plan for each phase.



Activity 6.1

Complete the following crossword puzzle to remind yourself of the important concepts in product decisions.



EclipseCrossword.com

Across

- 1 The first "p" in the marketing mix.
- 8 The product life cycle consists of four phases: introduction, growth, maturity and _____ .

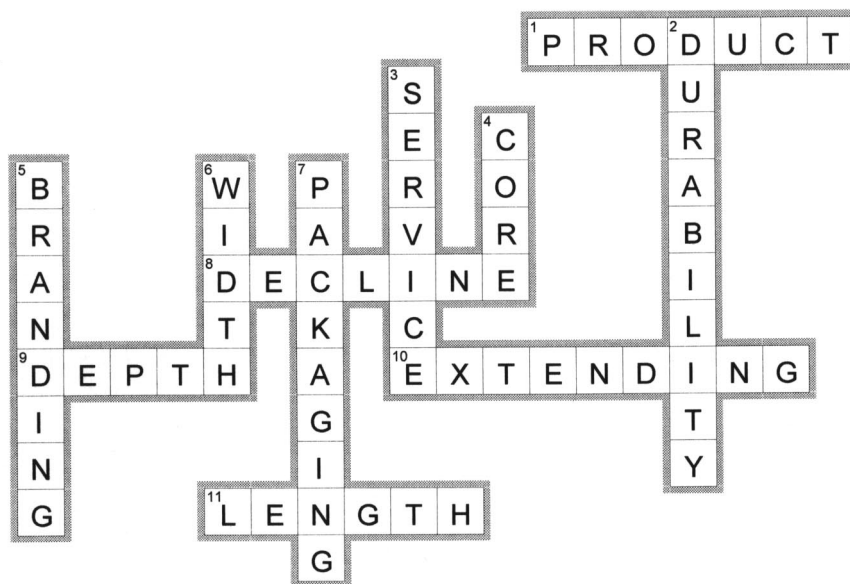
- 9 The _____ of a product line refers to how many versions are offered of each product item or brand within a product line.
- 10 New product development can be done by modifying the existing product, _____ the product line, developing related products or by entering a totally new field.
- 11 The _____ of a product refers to the average number of items the company carries in each product line.

Down

- 2 Products can be classified into different categories by using one of the four classification systems: _____, buying behaviour, buyer type and tangibility.
- 3 An intangible product can also be referred to as a _____.
- 4 The _____ product represents the main benefit/s consumers look for in a product to satisfy their needs.
- 5 _____, packaging and labelling give a product its identity in the same way as a name and face give a person his or her identity.
- 6 The number of product lines an organisation carries refers to its product line _____.
- 7 The product attributes can be placed in five categories: a quality level, features, styling, a brand name and _____.



Feedback



EclipseCrossword.com

Assessment



- 1 Use practical examples to discuss the different classification systems of products and services.

- 2 *Discuss the characteristics of each phase of the product life cycle.*
 - 3 *Branding is vital in today's market. Explain the benefits of having a strong brand.*
 - 4 *Explain the various new product development options.*
 - 5 *Explain the different levels of the product concept.*
-



Summary

Without a product or service there would be no business. It is necessary to understand that a product is more than just a tangible product or service. Products have a limited lifespan and marketers must know where their products are in the life cycle and how the lifespan of each product can be extended. New product development will help the organisation to extend its profitability in the long term. You need to understand the part that the product plays in the marketing mix.

In the next study unit, we will look at the marketing communication decisions. Bear in mind that all the marketing communication mixes work together to communicate a uniform message to the consumer.



Study unit 7

Marketing communication decisions

Contents

Key concepts

Overview

- 7.1 The communication process
- 7.2 Integrated marketing communication
- 7.3 Promotional mix elements
- 7.4 Personal selling
- 7.5 Sales promotion
- 7.6 Direct marketing
- 7.7 Public relations and publicity

Assessment

Summary



Key concepts

You will need to master the following key concepts in order to meet the learning outcomes for this topic:

- Communication process
 - Promotion strategy
 - Promotion mix
 - Advertising
 - Sales promotion
 - Direct marketing
 - Media
 - Promotion campaign
 - Promotion message
 - Personal selling
 - Public relations
-

Overview

In the Information Age we live in, consumers are constantly bombarded with information from various sources. This information is sometimes sought but often unsolicited. Marketers need to understand what elements of communication are available to them and the most effective way they can apply it to a particular product or service. This can be a daunting task. It is necessary to communicate both new and existing products to customers in an environment in which consumers are experiencing "information overload", which can dilute the efforts of marketers. Because promotion

can be an extremely costly exercise, marketers need to find the right communication elements to achieve their goals within budget. This study unit covers chapter 8 in the prescribed book.

This study unit will focus specifically on the marketing communication decisions highlighted in the figure below:

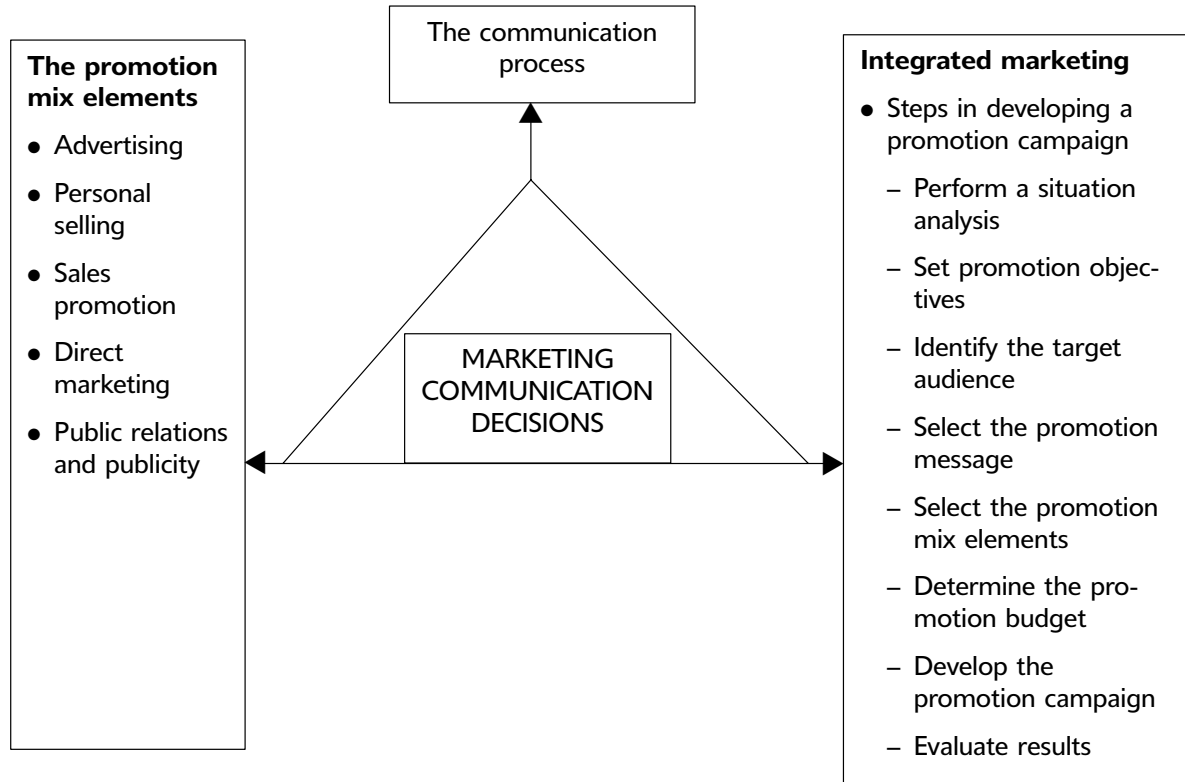


FIGURE 7.1: Marketing communication decisions

7.1 The communication process



(Study this section in the prescribed book.)

We all sometimes complain that we talk to one another, but no one seems to be listening. This is probably because we do not understand the communication process and therefore do not send the right message. It works the same way in marketing. The marketer is the sender of a specific message that he or she wishes to communicate to the customer. Consider, for instance, a cellular telephone company. Virgin Mobile wishes to communicate that its prices are lower than those of its competitors. It is a clear and simple message that needs to be transmitted via the media so that the company's target market can receive the message. However, often the receiver does not necessarily interpret the message in the manner that the sender would want him or her to. Perhaps the receiver "hears" that Virgin Mobile is offering a cheap and

inferior product and responds unfavourably because he or she does not want an inferior product. The feedback the sender receives is that its target market does not like its product although the product may be perfect for the market.

Think of a time in your life when you sent a message to someone only to find out later that he or she had misinterpreted it. A small misunderstanding can do a lot of damage. How many times have you been frustrated by people not listening to what you are saying? This is because of all the "noise" surrounding us. There is so much happening around us that we tend not to focus on the main source and its message.



Activity 7.1

You switch on your TV and see that Coca-Cola is advertising Coke Zero. Explain the communication process and give an example of what could interfere with this message.



Feedback

Coca-Cola is the sender of the message. The company needs to communicate a clear message to the market. It chose the message that the taste of the drink remains the same, but with zero sugar added. The message is sent via a television advertisement. From there, the message is received by the intended audience, that is, health-conscious individuals who enjoy the taste of Coca-Cola. The audience will interpret the message and respond by either buying or not buying the new product. During this process there will be a lot of noise competing with the message. People could misinterpret the advertisement because it is playful and colourful. They may see a different message coming through. In addition, television is cluttered with advertisements. Often the audience chooses to ignore the advertisement and leave the room to make a cup of tea. Advertisements compete for the audience's attention all the time, and some of them appeal more to some people than others.

7.2 Integrated marketing communication



(Study this section in the prescribed book.)

With all the different types of media available today, it is of the utmost importance for marketers to ensure that everything they communicate to potential customers is coordinated. The message used in print media needs to be the same message communicated via television. This will ensure that the message is enforced and that the consumer does not receive conflicting messages. The different marketing activities should be seen as a total package and should complement one another. You have probably observed on TV and in the press that Vodacom uses a theme reflected in all the advertising in their Yebo campaign. All sponsorship and packaging have the same images.

An overall strategy ensures that all the different marketing departments, all the sales teams, the product developers and the staff who deal with customers understand the message and actively speak the same language. This helps to eliminate the "noise" customers hear and enhances the effectiveness of the campaign.



Activity 7.2

When Virgin Mobile entered the cellphone market in South Africa, the company was unknown in this market. People associated the Virgin brand with airlines and music. What promotion tool did Virgin Mobile use to gain market recognition? Visit the company's website and consult additional printed media for further information.



Feedback

When Virgin Mobile started in South Africa, it had an uphill battle to enter a market already dominated by three major players. The company needed to establish its brand in the cellphone industry. It launched an intensive advertising campaign in the press and television media. You may remember some of these advertisements.

7.3 Promotional mix elements



(Study this section in the prescribed book.)

Promotion is a set of activities initiated by the seller to feed information to the customer and to persuade him or her to buy the product or promote an idea. Note the promotional mix elements depicted in the figure below.

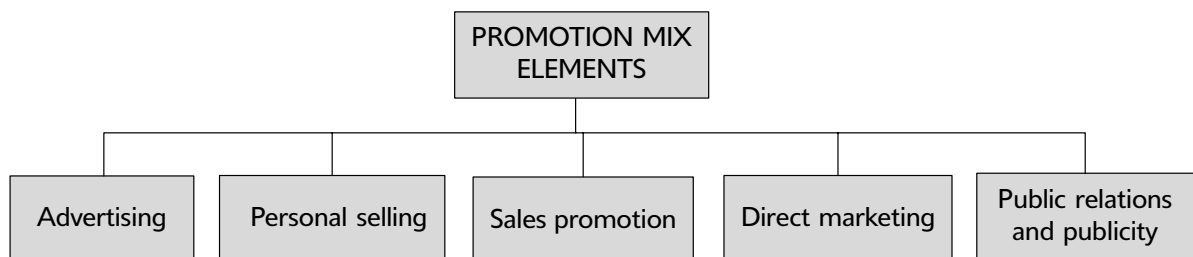


FIGURE 7.2: Promotional mix elements

7.3.1 Advertising

Do you recognise the brand that is being advertised here? How relevant and effective do you think it is today?

Advertising is probably the most recognisable way of communication between seller

and buyer. This is a nonpersonal, paid-for method of communicating an organisation, product, service or idea to the target audience. Companies spend huge sums of money



communicating to the masses via the press, media and radio, television and billboard advertising. When watching their favourite television programmes, viewers are regularly bombarded with advertisements. Viewers often watch these advertisements because they are relevant or interesting, even though many of the products are things they would never use or are not in the least interested in.

7.3.1.1 *The characteristics of advertising*

The above shows that advertising is one-way communication. The seller gives out information to which one cannot respond immediately. The seller is communicating to the masses even though some of the products/services are not relevant to the audience watching at the time. Although advertising costs are exorbitant, one should divide the costs by the number of people reached – the result is extremely favourable from a cost perspective. Advertisers choose their message carefully and can only communicate a small amount of information in the time or space allotted. By advertising their products, sellers try to convince the audience to buy their product/service, which in turn yields greater profits for the company.



Activity 7.3

What is your favourite advertisement on TV at the moment? Would you buy this product? Why?



Feedback

Next time you watch television, note the type and frequency of advertisements. You will see that they mainly focus on the end consumer. For example, children's cereal advertisements appeal to children, who will then ask their parents to buy the cereal.

The parents are impressed by the advertisements because they imply that this particular cereal is healthy on account of the added vitamins. Even though you may not eat cereal, you are still exposed to the advertisement.

A great deal of thought needs to go into an advertising campaign before the advertisement is actually made. Keep in mind that the purpose of advertisements is to inform the consumers, persuade them to buy and reinforce a favourable opinion of the product. With this in mind, the seller looks at past campaigns and learns and builds on them. Castrol Oil had a successful campaign with their "Ja, Broer" advertisements. However, the characters in the advertisement became so well known that they tended to overshadow the actual product. Castrol therefore scrapped the campaign and designed a whole new advertisement.

7.3.1.2 The strengths and weaknesses of different advertising media

There are several choices of advertising media that can be used, all with their own pros and cons. Since youngsters seldom read newspapers, it would be more effective to advertise teenage clothing in a teenage magazine rather than a newspaper. Today we find direct marketing leaflets at almost every street corner, but how many people actually read them? The repetition of television advertisements tends to be a constant source of irritation. Because the same advertisement is often shown twice in one advertisement break, one tends to ignore it completely.

The choice of advertising media will depend on the type of product, the budget available and the audience the marketer intends reaching. Each type of media needs to be analysed to find the best fit, and sometimes a combination of media may be used.



Activity 7.4

What type of advertising medium would you use to show how a new food processor works? Explain the reasons why you would choose this medium.



Feedback

The print media would not necessarily show all the steps necessary to explain the workings of the food processor. A TV advertisement would be able to use both visual and audio to explain the workings of equipment. A radio advertisement would be ineffective because one would be unable to demonstrate how the equipment works.

7.4 Personal selling



(Study this section in the prescribed book.)



Personal selling takes place when a representative of the organisation presents the product on a face-to-face basis to potential customers. The representative has the opportunity to demonstrate the product and answer all the customer's questions immediately. The representative is able to capture the audience's attention for a short period and should therefore make this time as productive as possible.

7.4.1 Categories of sales representatives

The product itself will determine what type of salesperson is required. Delivery people visit the customer on a regular basis, but seldom use their persuasive powers to increase sales. The most obvious type of salesperson is the sales assistant who helps the customer through the decision process. The various kinds of salespeople have direct contact with the customer, but each has his or her own role to play in the sales process.

7.4.2 Steps in the selling process

Successful salespeople follow a series of actions to improve their chances of closing the deal. These steps may be subconscious. The steps follow a logical pattern from finding a potential customer, to preparing him or her for the sale, presenting the product or service by using a demonstration or explaining the attributes, handling any objections and questions, convincing the person that he or she needs the product and providing after-sales feedback to establish a relationship with the customer. Building a long-term relationship with the customer gives the sales representative access to the customer and shortens the time needed to implement the selling process.

Next time a salesperson tries to sell you something, make an effort to understand the process he or she follows to close the deal. Some of the steps are so subtle that it is difficult to pinpoint them.



Activity 7.5

Using examples, describe the steps in the personal selling process.



Feedback

Depending on the product being sold, some steps will be more obvious than others.

The process may differ from one product to the next, but the basic steps include prospecting, preparation, presentation, handling objectives, closing and follow-up. For example, when selling television sets, the salesperson would intercept people entering the store who appear to be interested in the product (prospecting). The salesperson will have prior knowledge of the equipment for sale (preparation) and will use this information to demonstrate the equipment to the potential buyer (presentation). The salesperson will listen to and answer any questions the buyer asks. The seller will try to secure the sale by "closing" the deal. Follow-up may be done by contacting the buyer to ensure that he or she is satisfied, and perhaps enquiring whether the buyer needs additional products.

7.5 Sales promotion



(Study this section in the prescribed book.)

Sales promotion is a tool that salespeople can use to intensify their activities. Coupons can be given to induce customers to purchase the product on a trial basis. Once they have used the product, they may be convinced to continue buying the product. Several stores now use loyalty programmes to entice customers to buy. The more products customers buy, the more points they can earn to redeem against a new purchase. Clicks, Dis-Chem and some of the airlines offer their customer discounts on additional purchases. Can you think of any other loyalty programmes? Name them.

Sales promotion can be used to convince stores to stock the organisation's products.

Overseas trips offered to the sales force when they achieve their sales targets help to motivate them to increase their sales.

Sales promotions are useful tools to use to gain customers, ensure that stores carry certain products and motivate their sales teams.

7.6 Direct marketing



(Study this section in the prescribed book.)

According to the advertisement identified, clients can contact this company either telephonically or via e-mail, should they wish to know more about the products.

Face-to-face marketing is taken a step further with direct marketing. The USA is well known for catalogues that allow potential customers to page through the catalogue and order their products at their leisure. They can place their orders via the internet, telephone or mail.

Direct mail can be sent via the internet, SMS or mail. Advertisements are sent directly to the target audience. Amazon.com, for instance, follows the customers' buying patterns and sends them news on books that are relevant to their areas of interest.



Carpet and gutter installers, for example, sometimes use call centres to telephone households that may need their product. This method is effective when the customer needs the product but does not wish to expend time and energy sourcing it.

Direct marketing is prevalent on television today. Companies such as Verimark and Glomail advertise their products on television and offer special deals for customers who phone in their orders. New technology allows customers to order a product purely by pressing a button on their remote control.

7.7 Public relations and publicity



(Study this section in the prescribed book.)

Publicity entails exposure that is not paid for in the media about the organisation and/or its products. This is the most powerful public relations tool available to organisations. Public relations attempts to create a positive image among all the organisation's stakeholders, both internal and external.

Positive public relations enhance the other marketing activities. The hottest topic in the

press at the moment is the issue around the environment and how organisations are contributing to the depletion of the world's natural resources. FNB have recently built an environmentally friendly office block and have received publicity in the print and television media. This creates a caring image which appeals to the bank's target audience. The implication here is that if FNB care so much about the environment, then surely they care about their clients.



Activity 7.6

Browse through any business magazine or newspaper and find articles that give a positive view of an organisation. How does this organisation utilise this type of publicity?



Feedback

Most articles in newspapers these days appear to be negative, and ironically this seems to sell newspapers. Companies need to be aware of what the media are saying about them and deal with it. Often, after bad publicity, a company may spend thousands or even millions of rand on advertising in an effort to and regain some of its goodwill. Obviously positive publicity is of huge value to companies and they try and leverage this to their long-term advantage.



Assessment

- 1 What are the strengths and weaknesses of television advertising?
 - 2 What is a promotion strategy and what is it used for?
 - 3 When would you use personal selling? What types of personal selling are available to marketers?
-



Summary

Organisations use promotion to inform, remind and persuade customers to buy their products. The marketing communication decision needs to be carefully planned because it is a costly exercise and a mistake could have negative repercussions. There is a marketing communication decision for every organisation, but some are more suitable for specific organisations than others. This study unit explained the role of communication in the marketing mix.

Study unit 8 looks at distribution decisions, the next element in the marketing mix.



Study unit 8

Distribution decisions

Contents

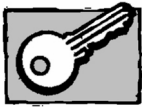
Key concepts

Overview

- 8.1 Distribution and its interaction with the marketing instruments
- 8.2 The four basic distribution channels
- 8.3 Franchising
- 8.4 Factors determining the selection of a distribution channel
- 8.5 Distribution management

Assessment

Summary



Key concepts

You will need to master the following key concepts in order to meet the learning outcomes for this topic:

- Channel management
 - Physical distribution management
 - Sales intermediaries
 - Resellers
 - Hybrid channel
 - Franchising
 - Distribution management
-

Overview

In this study unit we will explore the distribution decisions companies face. Bear in mind that distribution channel decisions have to take the other marketing decisions into consideration. Read the article below. It will give you an idea of the different distribution decisions that companies need to make.

www.fastmoving.co.za (17 April 2008)

Pick n Pay Stores will start a phased centralisation of supply distribution in a move to boost profit, making it the last supermarket group to commit to a streamlined store delivery system.

The decision, announced yesterday, follows a fundamental review of the business. Pick n Pay hopes it will help stem losses of market share to Spar, Shoprite and Woolworths.

Pick n Pay founder and chairman Raymond Ackerman has for decades been a fan of the efficiencies of centralisation distribution, but has until now been reluctant to commit to spending the capital without negotiating discounts from suppliers.

Under the system, suppliers will no longer deliver to each supermarket but to centralized warehouses. A single Pick n Pay truck will then load a variety of goods for delivery to a particular store.

In the above article we can see that distribution decisions are a vital factor in any organisation, and that Raymond Ackerman, the founder and chairman of Pick n Pay stores, is a part of the decision-making team.

This study unit covers chapter 7 in the prescribed book and builds on the preceding chapters that form part of the marketing mix. Here we will discuss the interaction of distribution with other marketing instruments.

The figure below provides an overview of the important distribution decisions that should be taken into account in order to deliver a product to the final customer.

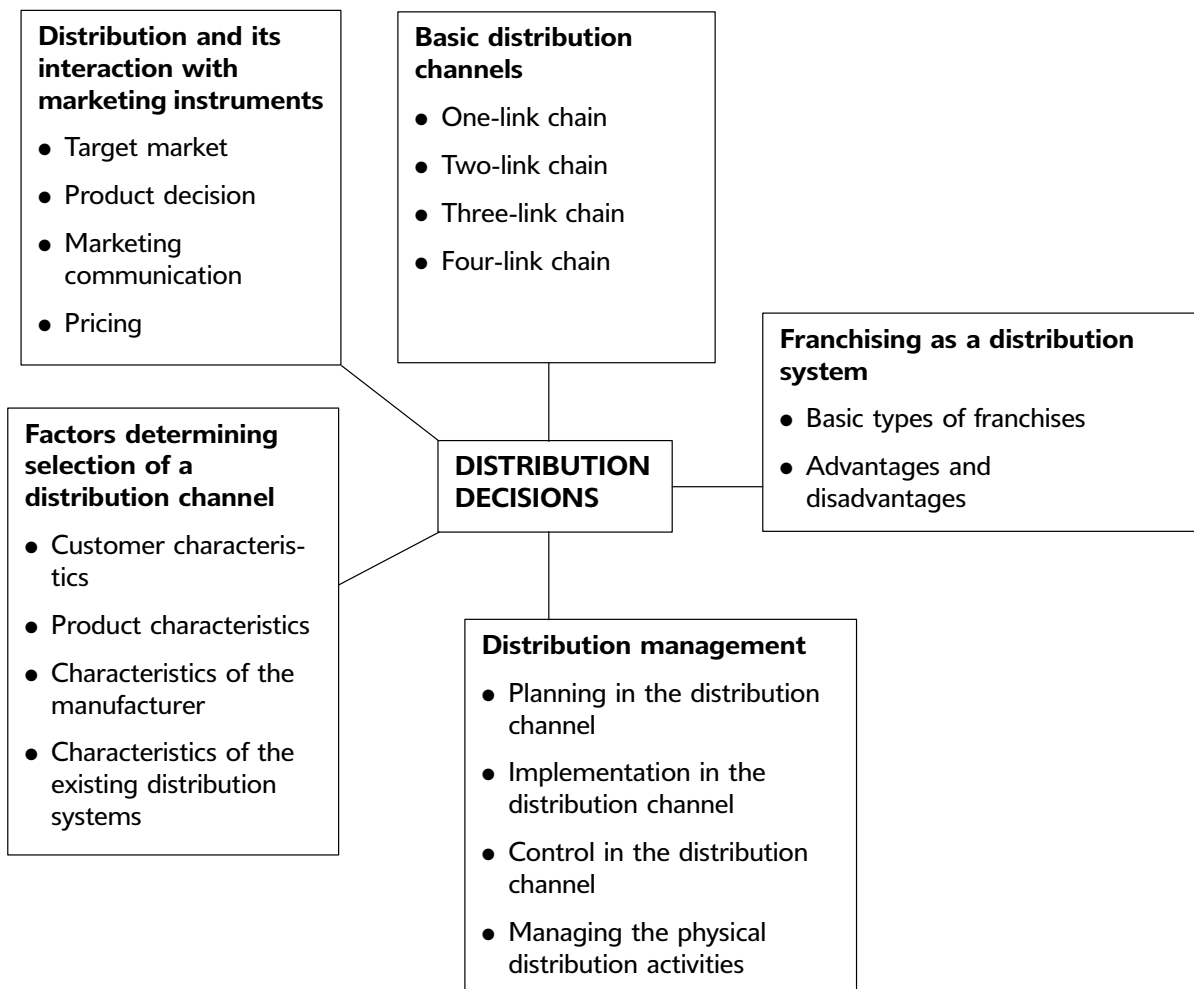


FIGURE 8.1: Important distribution decisions

8.1 Distribution and its interaction with the marketing instruments



(Study this section in the prescribed book.)

This section looks at the different marketing instruments that impact on a distribution channel. Study figures 7.1 and 7.2 in the prescribed book. Figure 7.1 shows that the target market must always be considered when deciding on the distribution channel, whereas figure 7.2 explains how marketing communication can be used to push or pull a product through the distribution channel.



Activity 8.1

Woolworths has decided to cater for health-conscious customers. The company decides to offer a huge selection of ready-made salads with health bread on the side. The salads will be relatively expensive, because the best fruit and vegetables in South Africa will be used. Since salads have a short life span, the company plans to deliver daily in refrigerated trucks. Woolworths also plans to advertise the new combo at Virgin Active gyms across South Africa.

In the above example, what marketing instrument would you say has an influence on the distribution channel?



Feedback

In this example, all four marketing instruments influence the distribution channel. The target market has an influence, because the consumers are health conscious and would like fresh salad. The product (salad) is influenced, because it has a short life span. The price will influence the distribution decision, because the product is expensive and the customers will expect top quality. Lastly, the marketing communication has an influence, because the salads will be available at Woolworths stores near Virgin Active gyms, for the simple reason that the target market comprises health-conscious people.

8.2 The four basic distribution channels



(Study this section in the prescribed book.)

This section deals with the distribution channels used to sell consumer products. Study it carefully.

- *First channel.* This is referred to as the direct channel because the manufacturer sells directly to the final consumer. For example, when one buys fruit from a farmer (the producer), this is referred to as a one-link chain.
- *Second channel.* This is known as a two-link chain because both the manufacturer and retailer are involved in distributing the product. The manufacturer produces the product and sells it to a retailer, who in turn sells it to the final user of the product. Checkers, for instance, buys vegetables from the farmer and sells them to consumers.
- *Third channel.* The third channel includes a wholesaler and retailer, and is also an indirect channel. Spaza shops, for example, buy products from wholesalers such as Makro to resell to township residents. This is referred to as a three-link chain because a manufacturer, a wholesaler and a retailer are involved in selling to the consumer.
- *Fourth channel.* The fourth channel occurs when an agent is added to the channel of distribution. This is known as a four-link chain because manufacturers, agents, wholesalers and retailers are involved in distributing the product. An example of a fourth channel is a perfume shop that sells French perfume to the South African market.

Study figure 7.3 in the prescribed book carefully so that you understand the differences between a one-link, two-link, three-link and four-link chain.

Also note the different types of wholesalers and retailers. Make sure you know the definitions of channel conflict and hybrid/multiple channels. The two definitions go hand in hand.



Activity 8.2

Under what distribution channels would the following fall?

- Pick n Pay
- Diesel (clothing)
- Spar
- Spier wines (from the farm in Stellenbosch)



Feedback

- *Pick 'n Pay would be a second distribution channel because a manufacturer and retailer are involved.*
 - *Diesel (clothing) would be a fourth distribution channel because it imports specialised products from overseas.*
 - *Spar would be a third channel because it involves a manufacturer, wholesaler, retailer and consumer.*
 - *Spier wines is a first channel. If one visits Spier's vineyard and buys a bottle of wine direct from the vineyard, this is regarded as a one-link distribution channel because only a manufacturer and a consumer are involved.*
-

8.3 Franchising



(Study this section in the prescribed book.)

This section deals with the different types of franchising and the advantages and disadvantages involved.

Note the following examples of franchisers in South Africa:

- Nando's
- Mugg and Bean
- Ocean Basket
- Steers
- Placecol

The South African Industrial Development Corporation (IDC) believes that the franchising route is one of the best ways to create jobs and transfer skills in South Africa. Consult the following websites on franchising in South Africa for interesting facts about the different types of franchises in South Africa.

- www.fasa.co.za: franchising South Africa
- www.whichfranchise.co.za

8.4 Factors determining the selection of a distribution channel



(Study this section in the prescribed book.)

When selecting a particular channel, the characteristics that determine the selection of a distribution are of paramount importance. Make sure you understand the aspects of products that need to be considered in product characteristics.

For example, a Rolls Royce customised for Oprah Winfrey would have a short channel of distribution because it is a customised product for one client only. However, a Disney car for children would probably be available at several retailers in South Africa, and would therefore have a long distribution channel.



Activity 8.3

Mary goes shopping with her husband and they purchase the following items: candles, sugar, bread, meat, clothes for their daughter, a laptop for their son, cake and milk.

- What perishable items did they buy?
- What type of distribution channel would be needed for perishable items they purchased?

- What type of distribution channel would be needed for the other items they purchased?

Give reasons for your answer in each instance.



Feedback

Bread, meat, cake and milk are perishable items because they do not have a long life expectancy. They therefore need a short distribution channel. Items such as clothes, candles and laptops have a long life expectancy and a longer distribution channel.

8.5 Distribution management



(Study this section in the prescribed book.)

Distribution management concentrates on two major activities, namely managing the distribution channel and the physical activities involved. Regarding this section in the chapter in the prescribed book, you should bear in mind that managing the distribution channel involves planning, implementation and control. Focus on the steps required to plan the distribution channel.

You should also be familiar with the functions in managing the physical distribution channel and the optimal level of inventory holding.



Assessment

- 1 *Discuss distribution and its interaction with the other marketing instruments.*
 - 2 *Using examples, explain the three basic types of franchises.*
 - 3 *Explain the advantages and disadvantages of franchising.*
 - 4 *Discuss the factors that determine the selection of a distribution channel.*
 - 5 *Discuss the two major activities in distribution management.*
 - 6 *Discuss the steps involved in managing the distribution channel.*
-

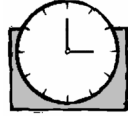


Summary

This study unit dealt with distribution decisions and the management of distribution channels. We also discussed the interaction between distribution and other marketing instruments, and examined the basic distribution channels, different types of wholesalers and franchising and South African

retailers. In conclusion, we explained the two main activities in distribution management, namely managing the distribution channel and the physical distribution activities.

The final study unit looks at the pricing decision. Bear in mind that the four elements of the marketing mix are linked and should all support each other.



Study unit 9

Price decisions

Contents

Key concepts

Overview

- 9.1 The nature of pricing
- 9.2 Identifying pricing constraints
- 9.3 Identifying pricing objectives
- 9.4 Estimating demand, supply and revenue
- 9.5 Determining the cost, value and profit relationship
- 9.6 Selecting an approximate price level
- 9.7 Setting the listed or quoted price
- 9.8 Making special adjustments

Assessment

Summary



Key concepts

You will need to master the following key concepts in order to meet the learning outcomes for this topic:

- Price constraint
 - Price objective
 - Price level
 - Demand and supply
 - Cost, volume and profit
 - Fixed cost
 - Variable cost
 - Total cost
 - Total revenue
 - Profit
 - Listed or quoted price
 - Price adjustments
-

Overview

In this study unit we will explore the price charged for a product or service. Before continuing, read the newspaper article below. You will notice the effect price has on the other marketing instruments. The petrol price is an apt example of the problems businesses face nowadays.

Petrol price set to rise to R8 per litre

Motorists should brace themselves for more petrol price hikes in 2008 as fuel prices are expected to climb to an all-time high.

This is according to the Fuel Retailer Association (FRA), which predicts that motorists should prepare to fork out as much as R8 per litre as the crude oil price increases.

Earlier this week, oil prices reached an all-time high, with a barrel of oil costing \$100 (R680) after a 57 percent price increase in 2007. This is set to have a major impact on the petrol price, causing huge concern to cash strapped motorists. The price increases will also push up food and meat prices.

By Sharlene Packree The Daily News, 4 January 2008

The above article shows that, from a business point of view, price must take into account the costs incurred to supply the product. Price in economics and business is the result of an exchange, and flowing from that trade, a numerical monetary value is assigned to a good, service or asset. If I trade four apples for one orange, the price of an orange is four apples. Inversely, the price of one apple is $1/4$ oranges.

Price is only part of the information we obtain from observing an exchange. The other part is the volume of the goods traded per unit, which is referred to as the rate of purchase or sale. This additional information explains the extent of the market and the elasticity of demand and supply.

Price is central to marketing where it is one of the four variables in the marketing mix that businesspeople use to develop a marketing plan. In this study unit we will focus on price decisions.

This study unit introduces you to the pricing concept and the steps to be followed in determining an approximate price for a product or service. Price is the only marketing instrument that generates income for a business. The price paid by the consumer represents the income generated for the business. This study unit deals with the last unit in the marketing mix. You therefore need to be very familiar with the material in the previous three study units before you can understand price decisions. Figure 9.1 provides an overview of the function of determining a price for a product or service.

9.1 The nature of pricing



(Study this section in the prescribed book.)

Study the examples of pricing in the prescribed book. Think of other pricing examples, say, at your local shopping mall.

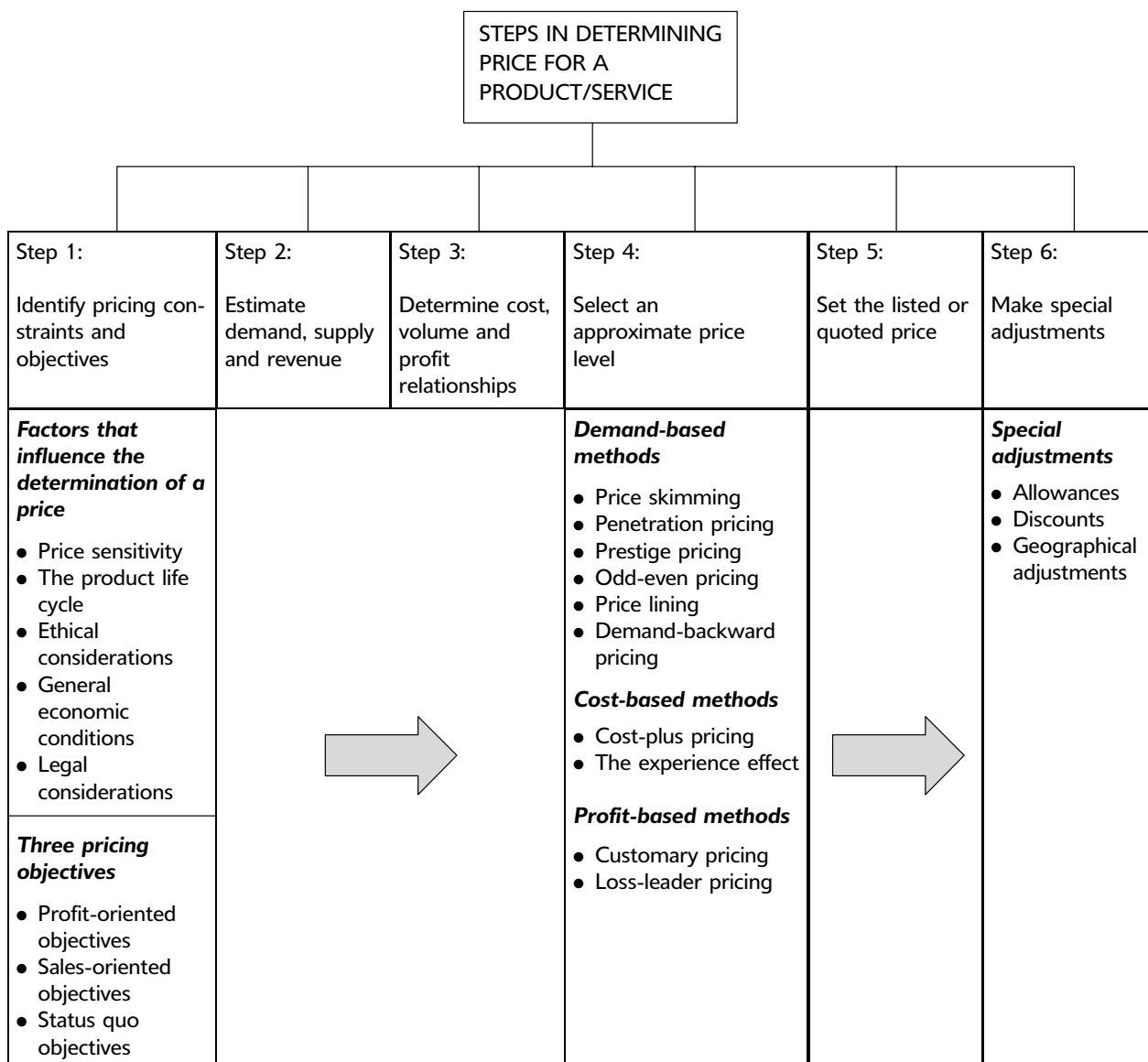


FIGURE 9.1: Steps in determining a price for a product or service

Make sure you understand the steps to determine the price of a product or service. These steps form the basis of our discussion in this study unit.

9.2 Identifying pricing constraints



(Study this section in the prescribed book.)

The identification of pricing constraints is the first step in determining the price of a product or service. Various factors or constraints influence the determination of the price of a product or service. Make sure you understand all the pricing constraints. Students sometimes confuse general economic conditions and legal considerations

with one another. Economic considerations are the realised social system of the production, exchange, distribution and consumption of goods and services in a country or area, whereas legal considerations deal with the government, taxes and laws of a country. You need to understand the difference between the two.



Activity 9.1

Read the scenario below and identify the pricing constraint that is evident.

Further slowdown in SA house price growth SABC News, 2 June 2008

Nominal and real house price growth slowed down further in the first quarter of 2008, according to the latest Absa housing review. The slowdown in growth was largely as a result of the tightening of monetary policy, stricter requirements for credit extension, and housing having become less affordable.

The average nominal price of affordable housing increased by 13.8 year-on-year to R277 000 in the first quarter of 2008. Real price growth came to 3.5% down from 9% in the fourth quarter of 2007. Nominal price growth of 9.5% year-on-year was recorded in middle-segment housing in the first quarter of 2008, causing the average price of a house in this market segment to come to about R976 000. In real terms, prices dropped by 0.3%.



Feedback

The pricing constraint in this case study is general economic conditions, because price is affected by the monetary policy and credit extension. House prices decline because of the high interest rate. Because people are reluctant to take out mortgage on a house, there is a surplus of houses on the market and fewer buyers.

9.3 Identifying pricing objectives



(Study this section in the prescribed book.)

“A pricing objective is a general goal that describes what an organisation hopes to achieve through its pricing activities. Pricing objectives should be measured so that they can be evaluated.”

The prescribed book describes three possible types of pricing objectives. Make sure you understand the theory behind each objective.

Rate of return on total assets

The return on assets (ROA) percentage shows how profitable a company's assets are in generating revenue.

ROA can be computed as:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

This number tells you "what the company can do with what it has", that is, how many rand of earnings it derives from each rand of assets it controls. This is a useful number for comparing competing companies in the same industry. The number will vary widely across different industries. ROA indicates the capital intensity of the company, which will depend on the industry. Companies that require large initial investments will generally have a lower return on assets.

Read the Cell C and Toyota examples in the prescribed book. Try to find similar examples in the business section of your daily newspaper.



Activity 9.2

Do the calculation of the profit-oriented objectives below.

Truworths (Ltd) aims to achieve a ROA of 20%, based on total assets of R1 000 000. Calculate the required net profit after tax.



Feedback

Net profit after tax = 1 000 000 (total assets) × 20% (ROA) = R200 000

9.4 Estimating demand, supply and revenue



(Study this section in the prescribed book.)

Earlier in this study unit, we discussed the steps to determine the price of a product or service. The second step involves estimating the demand, supply and revenue (see fig 9.1 above). Supply and demand entail an economic model that describes the effects on price and quantity in a market. The model predicts that in a competitive market, price will function to equalise the quantity demanded by consumers and the quantity supplied by producers, resulting in an economic equilibrium of price and quantity. You need to understand this step before moving on to the next one.

9.5 Determining the cost, volume and profit relationship



(Study this section in the prescribed book.)

Costs to company can broadly be classified into two categories: fixed costs (FC) and variable costs (VC). Fixed costs are stable and do not change according to the quantity of a product or service manufactured. Variable costs vary directly according to the number of units manufactured and sold. The prescribed book explains the four calculations used to estimate the unit variable costs, total costs, total revenue and profit.



Activity 9.3

During the month of January, ABC (Pty) Ltd sells 100 pairs of shoes at R200 a pair. If ABC's fixed cost is R3 000 per month and the unit variable cost is R35 per shoe, calculate the following:

- 1 ABC's total cost for January
- 2 ABC's total revenue for January
- 3 ABC's profit for January



Feedback

Answer: (1) *Total cost = R6 500*
 $TC = FC + VC, TC = R3\ 000 + R3\ 500$

(2) *Total revenue = R20 000*
 $TR = n \times P, TR = 100 \times R200$

(3) *Profit = R13 500*
 $Profit = TR - TC, Profit = 20\ 000 - 6\ 500$

9.6 Selecting an approximate price level



(Study this section in the prescribed book.)

On the basis of the above discussion, the organisation should have a good idea of the actual costs of manufacturing and selling a product or service. At this stage, four basic methods of selecting an approximate level must be considered.

Make sure you understand what methods fall under what price level, because it is easy to confuse the different methods. It is a good idea to draw a mind map for each of the

methods on a double page to help you to distinguish between the different methods. The figure below is a mind map for cost-based methods, on which you can base your own mind map of the other methods.

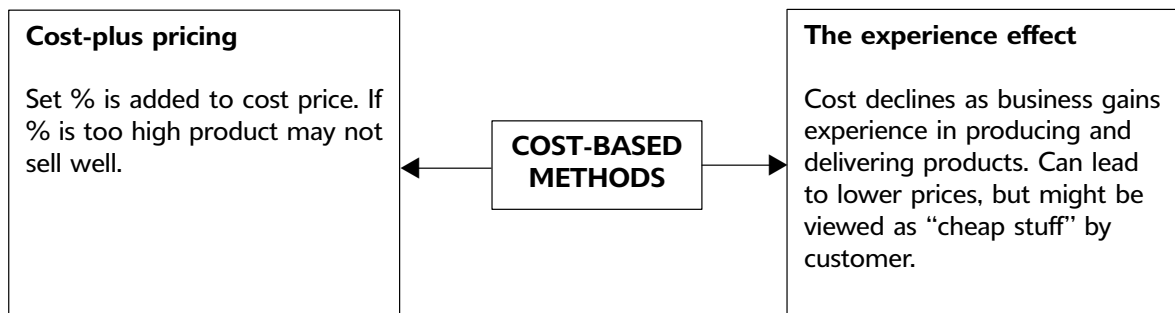


FIGURE 9.2: Mind map of cost-based methods



Activity 9.4

Explain the pricing methods employed in the following examples:

- 1 Nine West shoes sold at R799, 99
- 2 Nike running shoes sold at R300 above the cost price
- 3 Mr Price tracksuits sold at R20 below cost price



Feedback

- 1 *Odd-even pricing. R799,99 refers to the use of numbers that end in odd numbers.*
- 2 *Cost-plus pricing. The cost of the product is determined and a set percentage is added to the cost price as the profit margin. In this example, R300 was added to the cost price.*
- 3 *Loss-leader pricing. Mr Price used this method to attract customers to buy from the store. The tracksuits were therefore sold below cost price.*

9.7 Setting the listed or quoted price



(Study this section in the prescribed book.)

After studying this section in the prescribed book, you should be able to explain allowances, discounts and geographical adjustments.

9.8 Making special adjustments



(Study this section in the prescribed book.)

After the list price has been determined, the final fine-tuning or adjustments can be made. These adjustments are described in the prescribed book. Visit the following websites and see if you can find any special adjustments: www.edgars.co.za and www.truworths.co.za. Scout around at your local shopping centre for examples of any special adjustments.



Activity 9.5

Explain the type of price adjustment employed in each example:

- 1 six bars of Dove soap sold for R20 instead of R25
- 2 a half-price sale of jerseys at Woolworths during spring
- 3 the sale of a new shampoo at 25% below the normal selling price



Feedback

- 1 *This reflects a quantity discount, because one can receive a discount on the soap because of buying a large quantity.*
 - 2 *This is a seasonal discount, because people don't usually buy jerseys in spring and summer. Woolworths sells jerseys at half the price to encourage people to buy clothing for the next season.*
 - 3 *This is a promotional discount, because the company is trying to persuade customers to try the new shampoo and therefore puts it on the market at a lower price.*
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Assessment

- 1 *Define the concept of price.*
 - 2 *Explain some of the factors that influence the determination of the price of a product or service.*
 - 3 *Using practical examples, discuss the various pricing objectives.*
 - 4 *Define fixed costs and variable costs.*
 - 5 *Discuss the methods that can be used to select an approximate price level. Use practical examples to illustrate the theory.*
 - 6 *Explain the different adjustments that can be made to the set price of a product or service. Give practical examples of each.*
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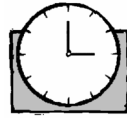


Summary

Price is the only marketing instrument that generates an income for the business. All the marketing instruments (product, promotion and distribution) represent costs for the business. In this study unit we defined the price concept and described the steps to follow in determining an approximate

price for a product or service, namely identifying price constraints; identifying pricing objectives; estimating demand, supply and revenue; determining cost, volume and profit relationships; selecting an appropriate price level; setting the listed or quoted price; and making special price adjustments.

By now you should be completely familiar with all four elements of the marketing mix. Make sure you know how they are interlinked. Can you see why they are such critical elements in marketing?



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