

LESSON 7

UNIT 7: MARKETING

Lesson Objectives:

Student should be able to:

- **Acquire knowledge on basic marketing**
- **Understand the principles of marketing mix**

Definition

What is marketing?

There are many different definitions of marketing. Consider some of the following alternative definitions:

“The all-embracing function that links the business with customer needs and wants in order to get the right product to the right place at the right time”

“The achievement of corporate goals through meeting and exceeding customer needs better than the competition”

“The management process that identifies, anticipates and supplies customer requirements efficiently and profitably”

“Marketing may be defined as a set of human activities directed at facilitating and consummating exchanges”

Market Segmentation

There are various ways to segment your market. These may include:

- **Demographically** - according to the age structure of the population
- **Geographically** - by country or region or area
- **Behaviouristically** - according to the nature of the purchase, the use the product is put to, the loyalty to the brand and so on
- **Benefit** - according to the use and satisfaction gained by the consumer
- **Socio-economically** - according to social class and income levels

The Marketing Mix

The marketing mix is the balance of marketing techniques required for selling the product. Its components are often known as the four Ps:

- **Price** - the price of the product - particularly the price compared to your competitors - is a vital part of marketing. There are two possible pricing techniques:

1. **Market skimming** - pricing high but selling fewer
 2. **Market penetration** - pricing lower to secure a higher volume of sales
- **Product** - targeting the market and making the product appropriate to the market segment you are trying to sell into.
 - **Promotion** - this may take the form of point of sale promotion, advertising, sponsorship or other promotions.
 - **Place** - this part of the marketing mix is all about how the product is distributed. Current trends are towards shortening the chain of distribution.

Product Life Cycle

To be able to market its product properly, a firm must be aware of the product life cycle of its product. The standard product life cycle tends to have FOUR phases:

Introduction Stage

At the Introduction (or development) Stage, market size and growth is slight. It is possible that substantial research and development costs have been incurred in getting the product to this stage. In addition, marketing costs may be high in order to test the market, undergo launch promotion and set up distribution channels. It is highly unlikely that companies will make profits on products at the Introduction Stage. Products at this stage have to be carefully monitored to ensure that they start to grow. Otherwise, the best option may be to withdraw or end the product.

Growth Stage

The Growth Stage is characterised by rapid growth in sales and profits. Profits arise due to an increase in output (economies of scale) and possibly better prices. At this stage, it is cheaper for businesses to invest in increasing their market share as well as enjoying the overall growth of the market. Accordingly, significant promotional resources are traditionally invested in products that are firmly in the Growth Stage.

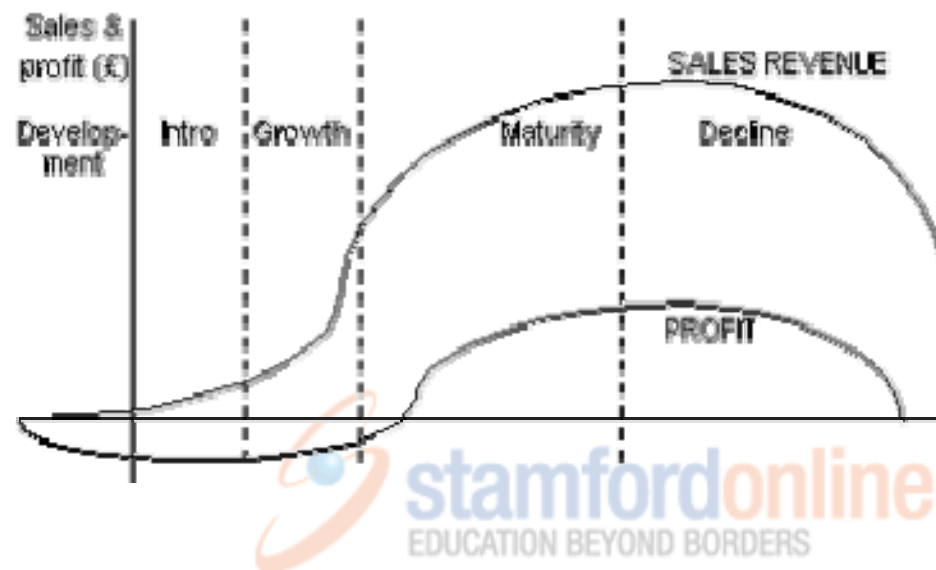
Maturity Stage

The Maturity Stage is, perhaps, the most common stage for all markets. It is in this stage that competition is most intense as companies fight to maintain their market share. Here, both marketing and finance become key activities. Marketing expenditure has to be monitored carefully, since any significant moves are likely to be copied by competitors. The Maturity Stage is the time when the market as a whole earns most profit. Any expenditure on research and development is likely to be restricted to product modification and improvement and perhaps to improve production efficiency and quality.

Decline Stage

In the Decline Stage, the market is shrinking, reducing the overall amount of profit that can be shared amongst the remaining competitors. At this stage, great care has to be taken to manage the product carefully. It may be possible to take out some production cost, to transfer production to a cheaper facility, sell the product into other cheaper markets. Care should be taken to control the amount of stocks of the product. Ultimately, depending on whether the product remains profitable, a company may decide to end the product.

It can also be shown graphically. The graph often has two lines - one to show the level of profit, and one to show the level of sales:



Promotion

It is not enough to have good products sold at attractive prices. To generate sales and profits, the benefits of products have to be communicated to customers.

Promotion is, therefore, about companies communicating with customers.

A business' total marketing communications programme is called the **promotional mix** and consists of a blend of:

- Advertising
- Direct marketing
- Personal selling
- Sales promotion
- Public relations tools

Promotion has several possible objectives and many pieces of marketing promotion aim to achieve several of the following objectives at the same time:

Inform

Management may need to make their audience aware that their product exists, and to explain exactly what it does. This is a particularly important objective for new products.

Persuade

An important stage in creating favourable attitudes towards the business and its brands. Through persuasive promotion, management will seek to persuade customers and the trade that their brand has benefits and is superior to competitors.

Image creation

Sometimes, promoting a brand image is the only way to create differentiation in the mind of the consumer (e.g. lager advertising).

Reassurance

Much promotion (particularly advertising) is about reassuring customers that they have made the right choice and encouraging them to stay loyal to a brand.

There are a large and growing number of promotional methods that businesses can use. The main instruments - advertising, direct response mailing, sales promotion, public relations and direct selling - are often mixed together as part of the promotional mix. Each has different strengths.

Pricing

Setting the right price is an important part of effective marketing. It is the only part of the marketing mix that generates revenue (product, promotion and place are all about marketing costs).

Price is also the marketing variable that can be changed most quickly, perhaps in response to a competitor's price change.

Put simply, price is the amount of money or goods for which a thing is bought or sold.

The price of a product may be seen as a financial expression of the value of that product.

For a consumer, price is the monetary expression of the value to be enjoyed/benefits of purchasing a product, as compared to other available items.

The concept of value can therefore be expressed as:

(perceived) VALUE = (perceived) BENEFITS – (perceived) COSTS

A customer's motivation to purchase a product comes firstly from a need and a want: e.g.

- Need: "I need to eat"
- Want: "I would like to go out for a meal tonight")

The second motivation comes from a perception of the value of a product in satisfying that need/want (e.g. "I really fancy a McDonalds").

The perception of the value of a product varies from customer to customer, because perceptions of benefits and costs vary.

Perceived benefits are often largely dependent on personal taste (e.g. spicy versus sweet, or green versus blue). In order to obtain the maximum possible value from the available market, businesses try to 'segment' the market – that is to divide up the market into groups of consumers whose preferences are broadly similar – and to adapt their products to attract these customers.

In general, a product's perceived value may be increased in one of two ways – either by:

- (1) Increasing the benefits that the product will deliver, or,
- (2) Reducing the cost.

For consumers, the PRICE of a product is the most obvious indicator of cost - hence the need to get product pricing right.

Factors affecting demand

Consider the factors affecting the demand for a product that are

- (1) within the control of a business and
- (2) outside the control of a business:

Factors within a business' control include:

- Price (assuming an imperfect market – i.e. not perfect competition)
- Product research and development
- Advertising & sales promotion
- Training and organisation of the sales force
- Effectiveness of distribution (e.g. access to retail outlets; trained distributor agents)
- Quality of after-sales service (e.g. which affects demand from repeat-business)

Factors outside the control of business include:

- The price of substitute goods and services
- The price of complementary goods and services
- Consumers' disposable income
- Consumer tastes and fashions

Price is, therefore, a critically important element of the choices available to businesses in trying to attract demand for their products.

Place/ Distribution

Distribution (or "Place") is the fourth traditional element of the marketing mix. The other three are Product, Price and Promotion.

The Nature of Distribution Channels

Most businesses use third parties or **intermediaries** to bring their products to market. They try to forge a "distribution channel" which can be defined as

"all the organisations through which a product must pass between its point of production and consumption"

Why does a business give the job of selling its products to intermediaries? After all, using intermediaries means giving up some control over how products are sold and who they are sold to.

The answer lies in efficiency of distribution costs. Intermediaries are specialists in selling. They have the contacts, experience and scale of operation which means that greater sales can be achieved than if the producing business tried run a sales operation itself.

Functions of a Distribution Channel

The main function of a distribution channel is to provide a link between production and consumption. Organisations that form any particular distribution channel perform many key functions:

Information	Gathering and distributing market research and intelligence - important for marketing planning
Promotion	Developing and spreading communications about offers
Contact	Finding and communicating with prospective buyers
Matching	Adjusting the offer to fit a buyer's needs, including grading, assembling and packaging
Negotiation	Reaching agreement on price and other terms of the offer
Physical distribution	Transporting and storing goods
Financing	Acquiring and using funds to cover the costs of the distribution channel
Risk taking	Assuming some commercial risks by operating the channel (e.g. holding stock)

All of the above functions need to be undertaken in any market. The question is - who performs them and how many levels there need to be in the distribution channel in order to make it cost effective.

Main references

Buckley, Martin W. (1994), *The Structure of Business*, 3rd Edition, Pitman Publishing.

Floyd, David (2001), *GCSE Revise Study Guide: Business Studies*, Letts Educational.

Additional reading

Website: www.bized.ac.uk and www.tutor2u.com