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MARKETING IN THEORY AND PRACTICE

For the full-time study form

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Subject: Marketing.

Annotation: Study text represents an innovated version of the textbook Marketing in Theory and Practice which was created by authors Ing. Kateřina Matušínská, Ph.D. and Ing. Michal Stoklasa and was published in 2014. This study text represents as an introduction to the basic terms and relations of this science discipline, and as the first step that leads to other, more complex marketing subjects following this basic course Marketing. After learning all the information from this book, the students will know how to practice basic marketing activities in a company, they will acquire basic knowledge from the marketing field in the way of basic terms, definitions and principles, they will know how to solve basic marketing issues, which are connected with the satisfying of customer needs and wishes. All the chapters include various examples for the readers to understand all the complex theory in a more simple way. The authors also structure this book in a way, that the readers can easily follow it in their decision making in a company.

Key words: Marketing, marketing mix, marketing concept, marketing research, marketing environment, marketing strategy, marketing plan, consumer market, consumer behaviour, business market, segmentation, targeting, positioning, product, price, distribution, marketing communication

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INTRODUCTION

Marketing is a constantly developing professional discipline. It has become pervasive in business and society throughout the world. The manifestations of marketing are ubiquitous in our everyday lives. All indications are that marketing will become an even more powerful force in our public and private lives in the 21st century. It is a subject that commands the attention of both the specialist and the non-specialist, the student, the business person, the consumer and the supplier, the young and the old in every country. (Doyle, 2016)

Marketing is very dynamic discipline, reacting to various socio-economic changes, thus it puts a lot more stress on students to learn the basic theoretical principles in order to understand the complexity of marketing in a company doing business on a real market. The authors of this book tried to keep this in mind and prepared an innovative study text titled Marketing in Theory and Practice (3rd edition). The publication is especially intended for students of bachelor's degree who have chosen the basic course Marketing in English language. People interested in the issue of marketing and English language can also benefit from this publication.

The aim of this study text is to offer readers the current and comprehensive overview of the fundamentals, techniques and applications of marketing along with new perspectives on current practice both in the consumer and business market, and provide actual examples in Czech and foreign environment. When reading the study material, it is important to realize that the context of marketing is very large and it was not possible to deal with all aspects of marketing issue.

The first two chapters deal with general issues – explaining the substance, concept and functions of marketing, how marketing evolved and what the management of the marketing activity is, how to design a marketing strategy and how to implement it. The third chapter is designated to the marketing environment, its analysis and how to respond to changes. The fourth chapter explains the necessity of marketing research in all types of business.

The three following chapters (5th, 6th and 7th) are focused on the issues connected with customers. These will help the readers understand the difference between consumer and business market. It is also necessary to know how to properly segment markets and satisfy the needs of our target markets, how to differentiate our supply and what marketing strategy we can use in order to do that.

The next part of this book (chapters 8th, 9th, 10th and 11th) is dedicated to a thorough analysis of the basic marketing tool – the traditional marketing mix – in the context of the four P´s, i.e. product, price, place (distribution) and promotion (marketing communication).

The last summarizing chapter (12th) titled Marketing applications aims to deepen knowledge of marketing processes and their application in corporate practice. The emphasis is placed on the combination of system-based process approach and application of creative techniques in marketing.

The chapters 1st, 2nd, 3rd, 7th, 11th were composed by Ing. Kateřina Matušínská, Ph.D. and the chapters 4th, 5th, 6th, 8th, 9th, 10th, 12th by Ing. Martin Klepek, Ph.D. Ing. Michal Stoklasa, Ph.D. is a co-author of chapters 2nd, 5th, 6th, 9th and 10th.

We wish you a lot of success within reading and working with the study material. We hope that you will enjoy marketing in all points of view!

Authors

1 THE SUBSTANCE, CONCEPT AND FUNCTIONS OF MARKETING

Everyone seems to know that marketing is an essential ingredient for business success, but when it comes time to say exactly what it is, certainty disappears from the scene. People are not sure if marketing, advertising, and sales are the same or different things. And they are even less sure about what marketing involves and how to do it well. (U.S. Chamber of Commerce, 2016, pp. 7-8).

It is the simple truth that without customers, a business is out of business. Marketing is the key to achieving customer interest, winning customer purchases, earning customer satisfaction and loyalty, and keeping any business in business.

1.1 THE SCOPE OF MARKETING

Marketing is concerned with the relationship between buyer and seller, and the transactions involved in bringing this to a satisfactory conclusion. It could be argued that, unlike economics which concentrates on the relationship between supply and demand, marketing relies on the idea that the customer forms the central focus for all people working in the organization. **The application of the marketing concept to an organization involves putting the customer at the centre of all decision-making process in the business.**

The marketing concept suggests that the overriding inclination of the organization will be to serve the final customer´s needs and wants as the main priority. **The organization will seek constantly to find out what the customer wants both today and in the future and work tirelessly to produce the products and services that are requested.** This may mean that the organization has to make major shifts in its product and service ranges, and may even involve the organization moving into new markets and changing fixed asset bases.

The traditional idea underlying marketing concept is, when **companies achieve their profit and other objectives by satisfying (even delighting) customers**. However, it neglects a fundamental aspect of commercial life: **competition**. The traditional marketing concept is a necessary but not a sufficient condition for corporate achievement. To achieve success, companies must go further than mere customer satisfaction – they must do better than the competition. The **modern marketing concept** can be expressed as: **The achievement of corporate goals through meeting and exceeding customer needs and expectations better than the competition.** (Jobber, 2010, p.3-4)

1.2 DEFINITIONS OF MARKETING

Marketing as a formal business discipline that originated in the USA. It was first taught as a separate business subject at the turn of the 20th century in several Midwestern universities. In the 21st century marketing is entering the interactive age, with high levels of networking, massive choice, and content sharing and acquisition. The fundamental change in the definition and purpose of marketing in the 21st century is that, as a business discipline, it has developed far beyond the simple facilitation of commercial exchanges and transactions between the producer and consumers. Initially, marketing was very much focused on the producer´s interest but it is no longer a valid assumption in the Information Age of 21st century. Today the markets have become more complex and more global and so has marketing as a professional discipline. (Doyle, 2016, pp. 285-286)

The definitions of marketing demonstrate the different approaches which academics have taken to the marketing philosophy. Marketing has been defined in many different ways, emphasizing different points:

- *"Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and values with others."* (Kotler et al., 2007, p. 39)
- *"Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives."* (American Marketing Association)
- *"Marketing is an organizational function and a collection of processes designed to plan for, create, communicate, and deliver value to customers and to build effective customer relationships in ways that benefit the organization and its stakeholders."* (Levens, 2012, p. 3)
- *"Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably."* (Dibb and Simkin, 2004, p. 3)
- *"Marketing is the process through which the company wins and keeps customers. Marketing is the matchmaker between what business is selling and what customers are buying. Marketing is a win-win partnership between business and its market – it is not about talking to customers but with them."* (U.S. Chamber of Commerce, 2016, pp. 7-8)

The practical application of marketing in business organizations involves and understanding of a number of theoretical disciplines:

- **Business and management disciplines.** An effective marketer must have an understanding of how organizations function and how they become successful. Marketing must be clearly defined within the whole business.
- **Social and behavioural disciplines.** The development and interpretation of a body of knowledge about customers and their behaviour, both now and in the future, is crucial in marketing.
- **Methodological disciplines.** The collection, analysis and interpretation of marketing data to help in determining marketing programmes is vital.

Adopting a marketing approach to business can generate many benefits, as products aim to provide solutions to specific customer needs. This approach: (Drummond and Ensor, 2005, p. 3-4)

- Generates products more likely to find a ready market.
- Encourages customer loyalty.
- Offers the opportunity to generate a price premium.
- Keeps organizations in-touch with ever changing customer needs.
- Promotes awareness of competitors´ actions and product offerings.
- Provides potential to create differentiation where none previously existed.
- Gives marketing a greater impact on strategic planning.

1.3 THE HISTORICAL DEVELOPMENT OF THE MARKETING CONCEPT

The marketing concept has been encouraged by the adoption in most parts of the world of capitalist ideas and free market principles. Marketing is not a new phenomenon. It can be argued that marketing is as old as civilization itself. Early traders were very skilled at marketing in their daily exchanges. Entrepreneurs travelled the world to trade commodities which people wanted to buy.

The rise of industrialization ushered in a new era of mass produced products being marketed to mass audiences, including clothes and cars. Many of the brand names which are now universally recognized are symbols of mass marketing, such as Coca Cola and Heinz, are already decades old.

The early 1950s saw a huge expansion in the supply of goods and services which often outstripped the demand. Most markets became buyers´ markets and companies were faced with growing competition.

There have also been changes occurring in the business world more recently, which have encouraged the development of more sophisticated marketing techniques. The rapid growth in technological innovation over the last century has made the business environment much more challenging and has opened up many new marketing opportunities. This has been accompanied by a general slowing down in population growth in many countries of the developed world. The population in the developed countries has become better educated and therefore more discerning in their purchases.

Competition in national markets has become much more intense and complicated. Coupled with this, there has been the growth of international players in many markets which have often challenged the national players in the markets which they historically considered very safe. These new European or international players have often used sophisticated marketing techniques to take a large section of the market share from the nationally based players. Whole national industries have been removed in very short periods of time by this new competitive situation.

This new competitive business situation has meant that it is difficult enough to survive, never mind become successful on a long-term basis. This has meant that a completely new philosophy of business has had to develop in which effective and efficient manufacturing process is not sufficient. The answer to this new situation, it has been suggested, is to be the application of the marketing concept.

The original idea of marketing had been developed by the fast moving consumer goods industries, typically in the USA from the 1930s onwards. Procter & Gamble, The American detergent and personal products company, was one of the first companies to develop the use of marketing techniques in a practical business organization.

Consumer durable manufacturers such as car makers were quick to adopt the marketing approach from the 1950s onwards. **Service sector organizations** became very interested in the application of marketing techniques during the 1970s and 1980s. Airlines and banks, for example have been attracted to the marketing concept. Marketing for professional groups is also becoming popular. Accountants, solicitors and lawyers are beginning to use marketing techniques.

Non-profit-making organizations such as educational institutions, charities and local authorities have been showing great interest in the use of the marketing concept for their types of organization during the 1980s and 1990s. The use of marketing has enhanced consumer awareness. The use of marketing has not only improved profits for business organizations, but has also been used to promote governmental initiatives and enhance the profile and increase the income of voluntary organizations.

Marketing is increasingly being adopted on an international scale in all sectors of the economy. **International marketing** is increasingly studied as a separate discipline.

1.3.1 Evolution of Marketing: Early Years Until 1950

Sales and marketing activities have existed in varying forms throughout time, from ancient civilizations through the modern era. Traditionally, the marketing emphasis was placed on the production of crafts, agricultural products, and other goods for sale through local markets. Over time, distinctive marks and designs such as cattle brands were associated with these products to distinguish one seller from another.

The early years of American marketing included advertisements that were placed in newly created media, such as newspapers and magazines, as well as the formation of the first advertising agency in the USA. Through the early part of the twentieth century, both marketing and sales activities were designed to support production. Products were often created, and then customers were sought. **The production orientation** reflects a business focus on efficient production and distribution with little emphasis on any marketing strategy. This period existed roughly from the mid-1800s until 1920s. With the advent of the Great Depression in the late 1920s and early 1930s, and the resulting increase in product inventory, the sales function became a primary activity and was considered synonymous with marketing. The production concept is one of the oldest concepts in business. It holds that consumers prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs. And mass distribution. Marketers also use the production concept when they want to expand the market. **A sales orientation** reflects a business focus on advertising and personal selling to create demand and move product inventory. This period lasted from the 1930s into the 1950s. (Kotler and Keller, p. 40; Levens, 2012, p. 6)

1.3.2 Evolution of Marketing: 1950-Present

From the 1950s into the 1980s, companies generally focused on the needs and wants of consumers more than they did in prior years. A **consumer orientation** reflects a business focus on satisfying unmet consumer needs and wants. Also in the 1980s, businesses began to consider not only consumers but also suppliers as sources of value-based relationships. A **relationship orientation** reflects a business focus on creating value-added relationships with both suppliers and consumers. A value-added relationships is much more than buying and selling. The idea of value-added relationships involves business practices that support long-term relationships. These relationships may incur short-term costs, such as additional customer support and enhanced after-sales service, but are intended to reinforce the value of the product or service, relative to the competition. (Levens, 2012, p. 6)

1.3.3 Evolution of Marketing: Social Responsibility

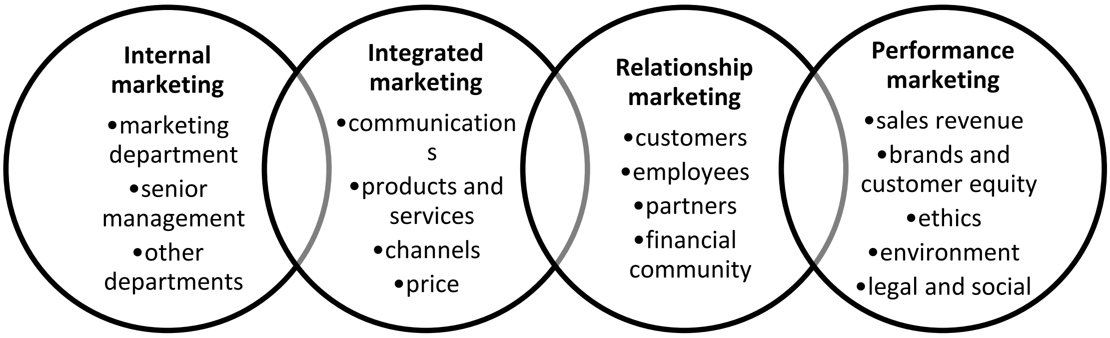
During the last decade, there has been an increased focus on social responsibility, ethics, and accountability in business. The overriding idea is that a person (or business) can make money by focusing on socially responsible marketing activities and abiding by high ethical standards. Social responsibility is the idea that businesses consider society as a whole as one of their stakeholders and that businesses make decisions that take into account the well-being of society.

A major issue that organizations must consider when practicing socially responsible marketing involves how products affect the global environment. Everything from the pollution generated by producing the products, forms of packaging used and their potential for recycling, and the amount of energy used to consume products must be considered. Some organizations adopt operating standards that govern their socially responsible marketing practices, while others choose to financially support causes that benefit society. Many accomplish both by developing green marketing products and supporting cause-marketing activities. Socially responsible marketing can be both altruistic and profitable. (Levens, 2012, p. 7)

1.3.4 DIFFERENT CONCEPTION OF MARKETING PHILOSOPHIES

Kotler and Keller (2016, p. 42) presents five stages of marketing evolution as the production concept, the product concept, the selling concept, the marketing concept and the holistic marketing concept. **The production concept** is one of the oldest concepts in business. It holds that consumers prefer products that are widely available and inexpensive. **The product concept** proposes that consumers favour products offering the most quality, performance, or innovative features. **The selling concept** holds that consumers and businesses, if left alone, won´t buy enough of the organization´s products. **The marketing concept** emerged in the mid-1950s as a customer-centered, sense-and-respond philosophy. The job is to find not the right customers for the products, but the right products for customers. **The holistic marketing** concept is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. Holistic marketing acknowledges that everything matters in marketing – and that a broad, integrated perspective is often necessary. Holistic marketing thus recognizes and reconciles the scope and complexities of marketing activities (see figure below).

Figure 1-1: The holistic marketing concept



Source: own formation according to Kotler and Keller (2016, pp. 44)

1.4 SELECTED BASIC MARKETING TERMINOLOGY

What is Market? **Market** is an identifiable grouping of like-minded, potential customers, with similar needs and wants, with a defined location, lifestyle, or income type, or industry category, who are likely to buy products and services to satisfy those needs and wants and who have the means and inclination to do so. (Doyle, 2016, p. 282) Traditionally, a market was a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a market as a collection of buyers and sellers who transact over a particular product or product class (such as the housing market or the grain market). There are four key customer markets: consumer, business, global, and non-profit. (Kotler and Keller, 2012, p. 30–31)

Consumer markets (B2C): Companies selling mass consumer goods and services such as juices, cosmetics, shoes and so on. There is a big effort to establish a strong brand image by developing a superior product and packaging, ensuring its availability, and backing it with engaging communications and reliable service.

Business markets (B2B): companies selling business goods and services often face well-informed professional buyers skilled at evaluating competitive offerings. Business buyers buy goods to make or resell a product to others at a profit. Business marketers must demonstrate how their products will help achieve higher revenue or lower costs. Advertising can play a role, but the sales force, the price, and the company´s reputation may play a greater one.

Global markets: companies must decide which countries to enter, how to enter each, how to adapt product and service features to each country, how to price products in different countries, and how to design communications for different cultures. They face different requirements for buying and disposing of property, cultural, language, legal and political differences and currency fluctuations.

Non-profit and Governmental markets: companies selling to non-profit organizations with limited purchasing power such as churches, universities, charitable organizations, and government agencies need to price carefully. Lower selling prices affect the features and quality the seller can build into the offering. Much government purchasing calls for bids, and buyers often focus on practical solutions and favour the lowest bid in the absence of extenuating factors.

Needs, Wants, and Demands? **Needs** are the basic human requirements such as for air, food, water, clothing and shelter. Humans also have strong needs for recreation, education, and entertainment. We can distinguish five types of needs: (Kotler and Keller, 2012, p. 31-32)

- Stated needs (The customer wants an inexpensive car.)
- Real needs (The customer wants a car whose operating cost, not initial price, is low.)
- Unstated needs (The customer expects good service from the dealer.)
- Delight needs (The customer would like the dealer to include an onboard GPS navigation system.)
- Secret needs (The customer wants friends to see him or her as a savvy consumer.)

The needs become **wants** when they are directed to specific objects that might satisfy the need. **Demands** are wants for specific products backed by an ability to pay. Companies must measure not only how many people want their product, but also how many are willing and able to buy it. (Kotler and Keller, 2012, p. 31-32)

What Is Marketed? Marketers market 10 main types of entities: **goods** (physical goods constitute the bulk of most countries´ production and marketing efforts), **services** (services include the work of airlines, hotels, car rental firms, bankers, lawyers, software programmers, repair people and so on), **events** (major trade shows, artistic performance, and company anniversaries and so on), **experiences** (Walt Disney World´s magic kingdom), **persons** (artists, musicians, physicians, high-profile lawyers and so on), **places** (cities, states, regions, and whole nations and so on), **properties** (properties are intangible rights of ownership to either real property or financial property), **organizations** (organizations work to build a strong, favourable, and unique image in the minds of their target publics), **information** (the production, packaging, and distribution of information are major industries), **ideas.** (Kotler and Keller, 2012, p. 27-29)

Who Markets? A **marketer** is someone who seeks a response – attention, a purchase, a vote, a donation – form another party, called the **prospect.** If two parties are seeking to sell something to each other, we call them both **marketers.** Marketers are skilled at stimulating demand for their products but that is a limited view of what they do. Just as production and logistics professionals are responsible for supply management, marketers are responsible for demand management. They seek to influence the level, timing, and composition of demand to meet the organization´s objectives. Eight demand states are possible (see the table below). (Kotler and Keller, 2012, p. 29-30)

Table 1-1: The types of demand

Negative demand	Consumers dislike the product and may even pay to avoid it.
Nonexistent demand	Consumers may be unaware of or uninterested in the product.
Latent demand	Consumers may share a strong need that cannot be satisfied by an existing product.
Declining demand	Consumers begin to buy the product less frequently or not at all.
Irregular demand	Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.
Full demand	Consumers are adequately buying all products put into the marketplace.
Overfull demand	More consumers would like to buy the product than can be satisfied.
Unwholesome demand	Consumers may be attracted to products that have undesirable social consequences.

Source: own formation according to Kotler and Keller (2012, p. 30)

What is demarketing? It is an attempt to temporarily or permanently reduce demand and limit future growth. It is mainly an inverse marketing technique to dissuade the public from doing something, for example government warnings concerning smoking, drugs, drinking and driving or overuse of water during a drought. Special interest groups can also launch campaigns to dissuade the public from buying certain types of good or service. It may also be used if a product is found to be faulty and the producers of the good do not wish to risk their reputation by continuing to sell it - for example in the recall of benzene-infected Perrier Water. (Doyle, 2016, p. 162)

1.5 OPPORTUNITIES AND THREATS OF CONTEMPORARY MARKETING

The marketplace is dramatically different from even 10 years ago, with new marketing behaviours, opportunities, and challenges emerging. According to Kotler and Keller (2016, pp. 35-37) today there is a big discussion regarding the three transformative forces: technology, globalization and social responsibility. These there forces have dramatically changed the marketplace, bringing consumers and companies new capabilities. The marketplace is also being transformed by changes in channel structure and heightened competition (see the Table 1-2).

The pace of change and the scale of **technological achievement** can be staggering. Massive amounts of information and data about almost everything are now available to consumers and marketers. The old credo "information is power" is giving way to the new idea that "sharing information is power."

The world has become a smaller place. New transportation, shipping, and communication technologies have made it easier for us to know the rest of the world, to travel, to buy and sell anywhere. **Globalization** has made countries increasingly multicultural. Globalization changes innovation and product development as companies take ideas and lessons from one country and apply them to another. After years of little success with its premium ultrasound scanners in the Chinese market, GE successfully developed a portable, ultra-low-cost version that addressed the country´s unique market needs. Later, it began to successfully sell the product throughout the developed world for use in ambulances and operating rooms where existing models were too big.

Poverty, pollution, water shortages, climate change, wars, and wealth concentration demand our attention. The private sector is taking some responsibility for improving living conditions, and firms all over the world have elevated the role of corporate **social responsibilities.** Because marketing´s effect extend to society as a whole, marketers must consider the ethical, environmental, legal, and social context of their activities. The organization´s task is thus to determine the needs, wants, and interests of target markets and satisfy them more effectively and efficiently than competitors while preserving or enhancing consumers´ and society´s long-term well-being.

Table 1-2: The new marketing realities and their consequences

New consumers capabilities: Can use the Internet as a powerful information and purchasing aid. Can search, communicate, and purchase on the move. Can tap into social media to share opinions and express loyalty. Can actively interact with companies. Can reject marketing they find inappropriate.
New company capabilities: Can use the Internet as a powerful information and sales channel, including for individually differentiated goods. Can collect fuller and richer information about markets, customers, prospects, and competitors. Can reach customers quickly and efficiently via social media and mobile marketing, sending targeted ads, coupons, and information. Can improve purchasing, recruiting, training, and internal and external communications. Can improve cost efficiency.
Changing channels: Retail transformation – store-based retailers face competition from catalog houses, direct mail firms, home shopping TV and so on. In response, entrepreneurial retailers are building entertainment into their stores with coffee bars, demonstrations, and performances, marketing an experience rather than a product assortment. Disintermediation – early dot-coms such as Amazon.com and others successfully created disintermediation in the delivery of products and services by intervening in the traditional flow of goods. In response, traditional companies engaged in reintermediation and became “brick-and-click” retailers, adding online services to their offerings.
Heightened competition:
Private labels. Mega-brands. Deregulation. Privatization.

Source: own formation according to Kotler and Keller (2016, pp. 38-41)

THE USE OF MARKTING TOOLS IN PRACTICE

OPSM: Penny the Pirate

Powerful campaign consistently noted for its originality, Penny the Pirate has won 35 major international and national awards and was named the world’s best marketing campaign of 2016 in the annual Warc rankings.

Based on the discovery that “one in six kids have a vision problem and for many it’s undetected”, research uncovered by Saatchi & Saatchi revealed the reasons behind this statistic amounted to children’s’ fear of optometrists or the fact that many live in remote areas, far from reach.

To tackle this issue, the idea for Penny the Pirate was born, leading to the world’s first medical tool that tests children’s eye health as you read to them. Made available for free as a book and interactive app, this innovative campaign not only helped to address the growing issue at its core, but successfully positioned OPSM as a global brand committed to eye health.

On track to providing 300,000 children with an eye test, Penny has reportedly led to a huge increase in children's' eyewear sales.

Melinda Spencer, VP of Marketing for OPSM says: "We passionately wanted to create a useful tool that helps time poor parents to screen their children's vision from the comfort of their own home, either through the book or through the app in a fun way and are overjoyed that it has been recognised internationally."

Channel 4: We're the Superhumans

This inspiring campaign, launched by Channel 4's in-house creative agency, 4Creative, to advertise the 2016 Rio Paralympics, is an ideal example of marketing that works, developed from a deep understanding of their audience.

In the lead up to the event, having conducted extensive research into athlete perceptions and audience attitudes, the marketing team launched a campaign called 'Freaks of Nature', challenging the perceptions of disability in sport, soon to evolve into the follow-up campaign entitled 'Meet the Superhumans'.

Veering away from convention, the campaign portrayed Paralympians in a new light, as fearless 'superhumans' as opposed to people to pity.

Dramatically changing the way their audience viewed disabled athletes, 64% of viewers stated that the Channel 4 coverage had had a favourable impact on their perceptions of people with disabilities, with 82% agreeing that disabled athletes were as talented as their able-bodied counterparts.

Winning a number of national and international awards, the campaign quickly became the second most shared Olympics-related ad of all time on social media.

"One of the main challenges we faced was overcoming the indifference people felt towards the Paralympics", says 4Creative Business Director, Olivia Browne. "One of the key ingredients to the idea's success was the single-minded belief that the Paralympics did not have to be second best to the Olympics and could have its own voice, swagger and attitude."

L'Oréal: The Beauty Squad

With the majority of the world's leading brands investing more heavily in influencer marketing, the risk of these celebrities losing their authenticity and in turn their 'influence' is growing.

Taking this into account, L'Oréal veered in a different direction to its competitors. Having uncovered that sponsored blog posts were producing more of a return than most other mediums and channels, the L'Oréal team turned to micro-influencers, signing up five British beauty bloggers to create content on an ongoing basis as it looks to "craft a different type of relationship" with influencers.

The Beauty Squad campaign is steeped in consumer perceptions insights that prove the appreciation their consumers have for more authentic brand experiences.

"Consumers will walk away from influencers that have been bought by brands, where there is no story behind it or are doing just one-offs", L'Oréal's UK General Manager Adrien Koskas told Marketing Week. "It depends on us being the biggest beauty brand in the UK to craft a different kind of relationship."

"When it comes to influencers, we want to shift the industry towards something that is more genuine."

Spotify: Thanks 2016, It's been weird

Spotify's largest ever campaign push which launched in November 2016 and spread across 14 markets worldwide is a perfect example of how data can drive creativity in marketing.

Led by its in-house creative team, this innovative, global campaign was 100% fueled by insights.Relying on data based on their users' behaviors, the Spotify team used the information they collected to speak directly to their consumers in the most personalized way possible, creatively using listener habits to reflect popular culture.Successfully placing a humorous spin on the 'weird' highlights of the previous year, the campaign proved the power that lies in creative marketing based on audience insights alone.

"There has been some debate about whether big data is muting creativity in marketing, but we have turned that on its head," says Spotify's chief marketing officer, Seth Farbman. "For us, data inspires and gives and insight into the emotion that people are expressing."

Source: Source: Web portal Global Webindex – 10 powerful examples of marketing that works [online] [cit. 2019-01-18]. Available at: https://blog.globalwebindex.com/marketing/10-powerful-examples-of-marketing-that-works/

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 1. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. The abbreviation B2C can be understood as:

a) Business market.
b) Consumer market.
c) Global market.

2. The example of unwholesome demand is:

a) Demand for cigarettes.
b) Demand for vegetable.
c) Demand for English courses.

3. The purpose of demarketing is:

a) To support demand.
b) To limit demand.
c) To sell the products only on domestic market.

4. The situation, when consumers prefer products that are widely available and inexpensive, is called:

a) The selling concept.
b) The production concept.
c) The product concept.

5. The holistic marketing presents the scope and complexities of marketing activities and its dimensions are:

a) Internal marketing, Integrated marketing, Performance marketing and Relationship marketing.
b) External marketing, Integrated marketing, Performance marketing and Relationship marketing.
c) Internal marketing, Integrated marketing, Performance marketing and Human relations marketing.

CORRRECT ANSWERS

1b, 2a, 3b, 4b, 5a

2 MANAGEMENT OF THE MARKETING ACTIVITY

Every company functions in an environment that influences it and it can influence. Therefore, we must stop thinking about the company in a vacuum, but have to take into account all the inputs from the outside. Only then we can start planning our strategy.

DESIGNING A MARKETING STRATEGY

According to Mallya (2007, p. 17), a strategy can be considered as a trajectory or a path towards predetermined goals, consisting of entrepreneurial, competitive and functional areas of approach that management seeks to apply in defining a company´s position and managing the overall composition of its activities. Furthermore, Mallya (2007, p. 17) states that the strategy can be understood in a variety of ways, such as:

- it is an expression of what the strategic plan of a company is,
- identifies and shows the reason for long-term business goals, action programs and company resource allocation priorities,
- chooses in which business sector a firm may or wish to enter,
- is focused on creating and maintaining the core competency of the company,
- defines the nature of the economic and non-economic benefits that the firm wants to achieve or create for stakeholders,
- strives to achieve long-term sustainability in every business activity by responding properly to the opportunities and threats in the environment as well as to its strengths and weaknesses,
- identifies clear managerial tasks of corporate, business, and functional levels,
- it is a coherent, unifying and integrative way or decision process,
- it is a way of investing selectively in tangible and intangible resources to create capabilities that provide a sustainable competitive advantage for the firm.

Zamazalová et al. (2010) further outlines the necessary assumptions that can support the successful implementation of a strategy, such as:

- support for top management,
- user-friendly strategy for users,
- flexibility,
- involvement and stimulation of employees,
- strategy leads to decisions about resources,
- strategy is dynamic, continuous, proactive and innovative,
- strategy is a part of quality management.

To design a winning marketing strategy, the marketing manager must answer two very important questions: What customer will we serve (what is our target market)? And how can we serve these customers best (what is our value proposition)?

The company must first decide who it will serve. It does this by dividing the market into segments of customers (market segmentation) and selecting which segments it will go after (target marketing). Some people think of marketing management as finding as many customers as possible and increasing demand. But marketing managers know that they cannot serve all customers in every way. By trying to serve all customers, they may not serve any customers well. Instead, the company wants to select only customers that it can serve well and profitably. (Armstrong et al., 2009, p. 10)

The company must also decide how it will serve target customers – how it will differentiate and position itself in the marketplace. A company's value proposition is the set of benefits or values it promises to deliver to consumers to satisfy their needs. Such value propositions differentiate one brand from another. They answer the customer's question "Why should I buy your brand rather than a competitor's?" Companies must design strong value propositions that give them the greatest advantage in their target markets. (Armstrong et al., 2009, p. 11)

STRATEGIC PLANNING

Each company must find the overall plan for long-term survival and growth that makes the most sense given its specific situation, opportunities, objectives and resources. This is the focus of strategic planning – the process of developing and maintaining a strategic fit between the organisation`s goals and capabilities and its changing marketing opportunities.

Strategic planning sets the stage for the rest of the planning in the firm. Companies usually prepare annual plans, long-range plans and strategic plans. The annual and long-range plans deal with the company's current businesses and how to keep them going. In contrast, the strategic plan involves adapting the firm to take advantage of opportunities in its constantly changing environment.

At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission. This mission is then turned into detailed supporting objectives that guide the whole company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give to each one. In turn, each business and product develops detailed marketing and other departmental plans that support the company-wide plan. Thus, marketing planning occurs at the business unit, product and market levels. It supports company strategic planning with more detailed plans for specific opportunities. (Armstrong et al., 2009, p. 40)

2.1 PREPARING OF A MARKETING PLAN AND PROGRAMME

The company's marketing strategy outlines which customers the company will serve and how it will create value for these customers. Next, the marketer develops a marketing programme that will actually deliver the intended value to target customers. The marketing programme builds customer relationships by transforming the marketing strategy into action. It consists of the firms marketing mix, the set of marketing tools the firm uses to implement its marketing strategy. (Armstrong et al., 2009, p. 15)

STRATEGIC MARKETING PLAN

Planning is the process of anticipating future events and determining strategies to achieve organizational objectives in the future. Marketing planning involves designing activities relating to marketing objectives and the changing marketing environment. Marketing planning is the basis for all marketing strategies and decisions. Issues such as product lines, distribution channels, marketing communications, and pricing are all delineated in the marketing plan. The marketing plan is a written document that acts as a guidebook of marketing activities for the marketing manager. (Lamb, Hair and McDaniel, 2009, p. 33)

Writing a marketing plan allows you to examine the marketing environment in conjunction with the inner workings of the business. Once the marketing plan is written, it serves as a reference point for the success of future activities. Finally, the marketing plan allows the marketing manager to enter the marketplace with an awareness of possibilities and problems. (Lamb, Hair and McDaniel, 2009, p. 33)

7The strategic plan defines the company's overall mission and objectives. Consumers stand in the centre. The goal is to build strong and profitable customer relationships. Next comes marketing strategy – the marketing logic by which the company hopes to achieve these profitable relationships. Through market segmentation, targeting and positioning, the company decides which customers it will serve and how. It identifies the total market, then divides it into smaller segments, selects the most promising segments, and focuses on serving and satisfying customers in these segments. (Armstrong et al., 2009, p. 53)

Guided by marketing strategy, the company designs a marketing mix made up of factors under its control. To find the best marketing strategy and mix, the company engages in marketing analysis, planning, implementation and control. Through these activities, the company watches and adapts to the actors and forces in the marketing environment. (Armstrong et al., 2009, p. 53)

The marketing plan criteria are illustrated in Figure 2-1.

Figure 2-1: Marketing plan criteria

Question No. 1	• Is plan simple and succinct? • Is it easy to understand and act on? • Does it communicate its content clearly and practically? • Is it not unnecessarily long?
Question No. 2	• Is the plan complete? • Does it include all the necessary elements? • Doe it have the right breadth and depth? • Achieving the right balance between completeness and lots of detail and simplicity and clear focus is often the key to a well-constructed marketing plan.
Question No. 3	• Is the plan specific? • Are its objectives concrete and measurable? • Does it provide a clear course of action? • Does it include specific activities, each with specific dates of completion, specific persons responsible, and specific budgets?
Question No. 4	• Is the plan realistic? • Are the sales goals, expense budgets, and milestone dates realistic? • Has a fank and honest self-critique been conducted to raise possible concerns and objections?

Source: Kotler a Keller (2016, s. 77)

Kotler and Keller (2016, p. 77) emphasize that there is a lack of realism, insufficient competitive analysis and short-term focus in the marketing plans. They add that marketing plans are created for a period of one year ranging from 5 to 50 pages.

MARKET DEVELOPMENT BY TESCO

Tesco is the most successful UK supermarket chain and accounts for 1/8 of all the money consumers spend in British shops. The traditional Tesco supermarket was the large superstore offering large food and non-food (e.g. clothing, consumer electronics goods, petrol, CDs) product ranges. These superstores tend to be on the edge of town, with free parking and facilities that include cafés and petrol stations. They target customers who want big, trolley-based family shopping. This one-stop-shopping experience, backed by a good-quality, value-for-money positioning strategy based on the "Every Little helps" strap-line ensured healthy sales and profit growth for many years.

In an effort to continue this growth, Tesco embarked on a market development strategy based on entering a new market segment. This was the convenience shopper who wishes to "top up" their shopping or replace home essentials such as milk or bread. Two new store formats were created, both small but differing in terms of location. Tesco Metro stores allow convenience shopping in town centres, while Tesco Express stores are usually found at petrol stations, providing drivers and local customers with a convenient place to shop for groceries. Both stores carry the same grocery products, albeit a smaller range, than their superstore counterparts.

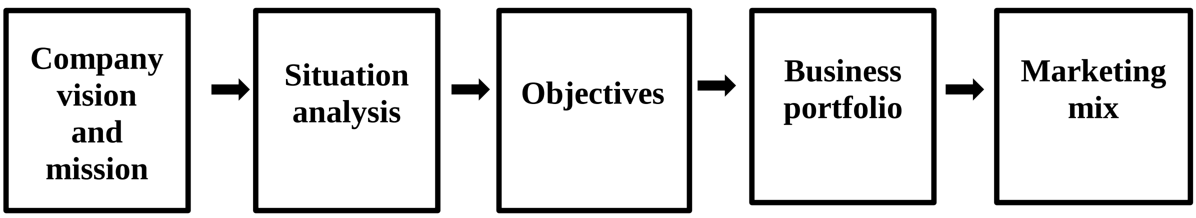
Tesco has also pursued market development through moving into new geographical markets with similar products. It has expanded into the USA, China, India, South Korea, Thailand, Hungary, Poland and Turkey as it seeks to compete globally with Wal-Mart. Although overseas expansion has sometimes been met with difficulties - most notably in the USA - Tesco's two-pronged market development strategy of seeking to serve new market segments at home and moving into new geographical markets abroad has been highly successful in maintaining sales and profit growth.

Source: Jobber (2010, p. 49)

MARKETING PLAN ELEMENTS

Marketing plans can be presented in many different ways. Most businesses need a written marketing plan because a marketing plan is large and can be complex. Details about tasks and activity assignments may be lost if communicated orally. Regardless of the way a marketing plan is presented, some elements are common to all marketing plans. These include defining the business mission, performing a situation analysis, defining objectives, delineating a target market, and establishing components of the marketing mix (See Figure 2-2). Other elements that may be included in a plan are budgets, implementation timetables, required marketing research efforts, or elements of advanced strategic planning. (Lamb, Hair and McDaniel, 2009, p. 33)

Figure 2-2: A marketing programme elements



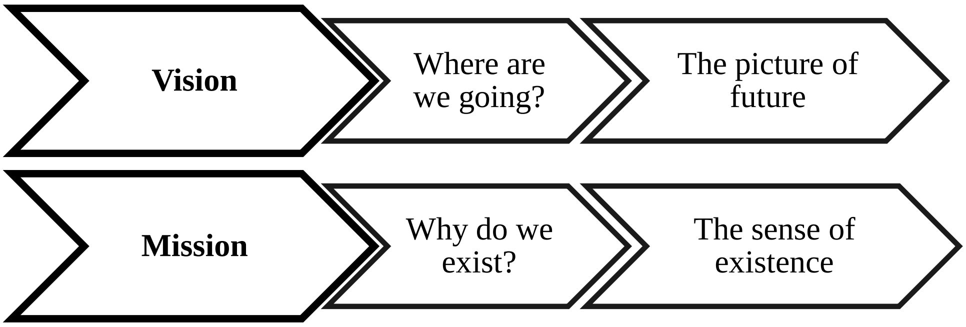
Source: own formation according to Lamb, Hair and McDaniel (2009, p. 33)

Through the process of strategic planning, a company establishes an organizational mission and formulates goals, a corporate strategy, marketing objectives, a marketing strategy and, finally, a marketing plan. (Pride and Ferell, 2012, p. 30)

2.1.1 COMPANY VISION AND MISSION

Successful companies have core values and core purpose fixed while their business strategy and practices adapt to ever changing environment. The superior long-term performance of well know companies is based on their dynamic reactions to changes while still preserving their core vision. A vision consists of two major parts: core ideology and envisioned future. The core ideology presents what the company stands for and why it exists, it should never change. The envisioned future represents what the company aspires to become in a distant future (20-30 years).[1]

Figure 2-3: Mutual relationship between vision and mission



Source: adjusted according to Jakubíková (2013, s. 25)

The relationship between vision and mission is illustrated in Figure 2-3.

VISION STATEMENT OF THE COCA-COLA COMPANY

Our vision serves as the framework for our Roadmap and guides every aspect of our business by describing what we need to accomplish in order to continue achieving sustainable, quality growth:

- **People:** Be a great place to work where people are inspired to be the best they can be.
- **Portfolio:** Bring to the world a portfolio of quality beverage brands that anticipate and satisfy people's desires and needs.
- **Partners:** Nurture a winning network of customers and suppliers, together we create mutual, enduring value.
- **Planet:** Be a responsible citizen that makes a difference by helping build and support sustainable communities.
- **Profit:** Maximize long-term return to shareowners while being mindful of our overall responsibilities.
- **Productivity:** Be a highly effective, lean and fast-moving organization.

[1] COLLINS, J. C. and J. I. PORRAS, 1996. Building your company's vision. [online] [cit. 2014-05-04]. Available at: http://hbr.org/1996/09/building-your-companys-vision/ar/1

Source: Web portal The Coca-Cola Company, 2014. Our mission, vision and values. [online] [cit. 2014-05-04]. Available at: http://www.coca-colacompany.com/our-company/mission-vision-values

VARIOUS VISION STATEMENT EXAMPLES

VISION STATEMENT DEFINITION: This is the DREAMING piece – if everything goes right, how will your organization change the world.

- **ALZHEIMER'S ASSOCIATION:** Our Vision is a world without Alzheimer's disease.
- **AMAZON:** Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.
- **AVON:** To be the company that best understands and satisfies the product, service and self-fulfillment needs of women – globally.
- **DISNEY:** To make people happy.
- **FACEBOOK:** To give people the power to share and make the world more open and connected.
- **FORD:** People working together as a lean, global enterprise to make people's lives better through automotive and mobility leadership
- **GOOGLE:** To provide access to the world's information in one click.
- **HARLEY-DAVIDSON:** To fulfill dreams through the experiences of motorcycling.
- **IKEA:** Our vision is to create a better everyday life for many people.
- **INSTAGRAM:** Capture and Share the World's Moments.
- **NIKE:** To bring inspiration and innovation to every athlete in the world. If you have a body, you are an athlete.
- **SONY:** To be a company that inspires and fulfills your curiosity.
- **TESLA:** To accelerate the world's transition to sustainable energy.

Source: Web portal Blender. Best Examples of Company Vision and Mission Statements. [online] [cit. 2019-01-23]. Available at: https://www.themarketingblender.com/vision-mission-statements/

An organisation exists to accomplish something. At first, it has a clear purpose or mission, but over time its mission may become unclear as the organisation grows, adds new products and markets, or faces new conditions in the environment. When management senses that the organisation is drifting, it must renew its search for purpose. It is time to ask: What is our business? Who is the customer? What do consumers value? What should our business be? These simple-sounding questions are among the most difficult the company will ever have to answer. Successful companies continuously raise these questions and answer them carefully and completely. Many organisations develop formal mission statements that answer these questions. (Armstrong et al., 2009, p. 40)

VARIOUS MISSION STATEMENT EXAMPLES

MISSION STATEMENT DEFINITION: This is the DOING piece – how you intend to act as a servant leader. Your mission statement proclaims who you serve, what you serve and how you do it every day.

- **DELL**: To be the most successful computer company in the world at delivering the best customer experience in markets we serve.
- **FACEBOOK**: To give people the power to share and make the world more open and connected.
- **GOOGLE**: To organize the world's information and make it universally accessible and useful.
- **IKEA:** To create a better everyday life for many people. Our business idea supports this vision by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.
- **MICROSOFT:** To help people around the world realize their full potential.
- STARBUCKS: To inspire and nurture the human spirit — one person, one cup and one neighborhood at a time.
- **UBER:** Make transportation as reliable as running water, everywhere, for everyone.
- **ZAPPOS:** To provide the best customer service possible. Deliver "WOW" through service.
- **ZENEFITS:** To make entrepreneurship easier and more accessible to everyone, and to make it as easy as humanly possible for businesses to manage and care for their employees.

Source: Web portal Blender. Best Examples of Company Vision and Mission Statements. [online] [cit. 2019-01-23]. Available at: https://www.themarketingblender.com/vision-mission-statements/

2.1.2 CONDUCTING A SITUATION ANALYSIS

Marketers must understand the current and potential environment that the product or service will be marketed in. Marketing activities do not take place in a vacuum. Situation analysis refers to a collection of methods that managers use to analyze an organization´s internal and external environment to understand the organization´s capabilities, customers, and business environment (more information can be found in the chapter No. 3).

The marketing environment, which includes competitive, economic, political, legal and regulatory, technological, and sociocultural forces, surrounds the customer and affects the marketing mix. The effect of these forces on buyers and sellers can be dramatic and difficult to predict. We all know that advances in technology are changing the way we live our day-to-day lives, but years ago, very few people would have predicted that consumers would have no need for their daily newspaper. However, that day has come, with 24-hour up-to-the-second news online, fewer people are buying newspapers. Consumers want today`s news now and are able to access it, usually for free, from computers and smartphones and other devices with Internet access. Environmental forces can create threats to marketers, but they can also generate opportunities for new products and new methods of reaching customers. (Pride and Ferell, 2012, p. 9-10)

The forces of the marketing environment affect a marketer`s ability to facilitate exchanges in three general ways. First, they influence customers by affecting their lifestyles, standards of living, and preferences and needs for products. Because a marketing manager tries to develop and adjust the marketing mix to satisfy customers, effects of environmental forces on customers also have an indirect impact on marketing mix components. Second, marketing environment forces help determine whether and how a marketing manager can perform certain marketing activities. Finally, environmental forces may affect a marketing manager's decisions and actions by influencing buyers' reactions to the firm`s marketing mix. Marketing environment forces can fluctuate quickly and dramatically, which is one reason that marketing is so interesting and challenging. Because these forces are closely interrelated, changes in one may cause changes in others. For instance, evidence linking children's consumption of soft drinks, fast foods, and other junk foods to health issues such as obesity, diabetes, and osteoporosis has exposed marketers of such products to negative publicity and generated calls for legislation regarding the sale of unhealthy foods in public schools. Some companies have responded to these concerns by reformulating products to make them healthier or even replacing unhealthy menu items with better alternatives. Denny's, for example, recently removed French toast sticks and hot dogs from its children's menus and added carrots, cucumbers, celery, and vanilla yogurt with strawberry topping. (Pride and Ferell, 2012, p. 10)

Changes in the marketing environment produce uncertainty for marketers and at times hurt marketing efforts, but they also create opportunities. Marketers who are alert to changes in environmental forces can adjust to and influence these changes and can capitalize on the opportunities such changes provide. Marketing mix elements – product, price, distribution and promotion – are factors over which an organization has control, the forces of environment, however, are more difficult to control. But even though marketers know they cannot predict changes in the marketing environment with certainty, they must nevertheless plan for them. (Pride and Ferell, 2012, p. 10)

2.1.3 OBJECTIVES

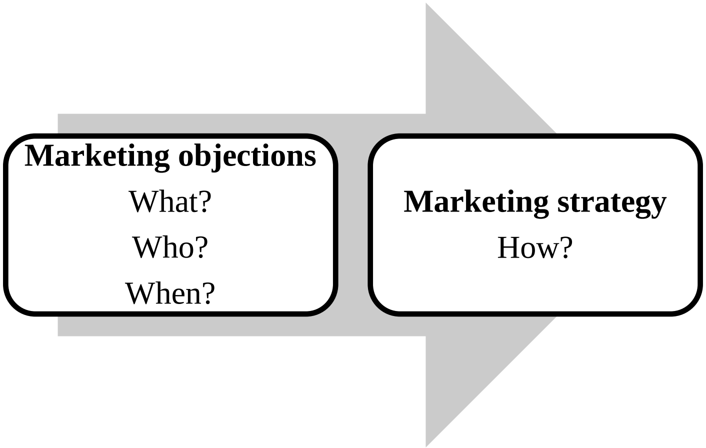
Marketing objectives should be designed so their achievement will contribute to the corporate strategy and so they can be accomplished through efficient use of the company's marketing and non-marketing resources. To achieve its marketing objectives, an organization must develop a marketing strategy, which includes identifying and analysing a target market and developing a marketing mix to meet the needs of individuals in that market or segment of particular interest. (Pride and Ferell, 2012, p. 31) The relationship between marketing objection and marketing strategy is illustrated in Figure 2-4.

A marketing objective states what is to be accomplished through marketing activities. These objectives can be stated in terms of product introduction, product improvement or innovation, sales volume, profitability, market share, pricing, distribution, advertising, or employee training activities. Marketing objectives should be based on a careful study of the SWOT analysis and should relate to matching strengths to opportunities and/or eliminating weaknesses or threats. (Pride and Ferell, 2012, p. 31)

Marketing objectives should possess certain characteristics. First, a marketing objective should be expressed in clear, simple terms so all marketing and non-marketing personnel in the company understand exactly what they are trying to achieve. Second, an objective should be written so it can be measured accurately. This allows the organization to determine if and when the objective has been achieved. Third, a marketing objective should specify a time frame for its accomplishment. Finally, a marketing objective should be consistent with both business-unit and corporate strategy. This ensures that the company's mission is carried out at all levels of the organization and by both marketing and non-marketing personnel. (Pride and Ferell, 2012, p. 35)

Strategic objectives are long-term, continuous strategic areas that help you connect your mission to your vision. Holistic objectives encompass four areas: financial, customer, operational, and people. What are the key activities that you need to perform in order to achieve your vision?

Figure 2-4: Marketing objections and marketing strategy



Source: authors

When setting objectives it is very important to ensure that your objectives are: specific, measurable, achievable, realistic and time specific, or SMART for short. The "SMART" approach allows you to effectively manage your marketing activities and importantly be able to determine how successful they have been and whether they have delivered the particular benefits sought:[2]

- **Specific** - are your objectives stated in a way that is precise about what you are hoping to achieve?
- **Measurable** - Can you quantify each objective, i.e. can you use a unit of measure such as market share in percentage or dollars or other to provide a way to check your level of success?
- **Achievable** - Are your objectives reasonable in terms of what you can actually achieve or are you setting your sights too high?
- **Realistic** - Do you have suffHaving some marketing objectives is a must for successicient employees and resources to achieve the objectives you have set, if you don't then they are likely to be unrealistic?
- **Time specific** - When are you hoping to achieve these objectives, you need to define a timing plan with target timing for each specific objective?

As an example, ABC stationary supplier sells its goods to newsagents across the country and they want to boost revenue for their product range. For the objective to gain 30% market share for stationary by 2011, we could define it using the "SMART" approach as follows:[3]

- **Specific** - need to understand the latest preferences of customers in the identified segments and appropriately target each stationary item such as pens, exercise books, rulers, and calculators to maximise sales volumes
- **Measurable -** current market share is 20 %, will set a target of 30% market share, meaning we need an extra 10 %, market share amounts can be established based by monitoring the overall value of sales in terms of dollars

[2] Web portal SmallBizConnect, 2014. What is marketing. [online] [cit. 2014-05-04]. Available at: http://toolkit.smallbiz.nsw.gov.au/part/1/1/3
[3] dtto

- **Achievable** - ensuring technical competency and commitment of all personnel involved in the development and implementation of strategy. This can range from having an experienced and knowledgeable marketing team to capable sales staff. Access to funding is also necessary for the acquisition of extra stock to fulfil increased demand.
- **Realistic** - the objective is realistic as the marketing resources are in place to conduct the segmenting and targeting exercise and access to the extra stock required
- **Time Specific** - the increase in market share is to be achieved within 12 months, a regular progress update will be taken every month to track level of success

2.1.4 DESIGNING THE BUSINESS PORTFOLIO

Guided by the company's mission statement and objectives, management now must plan its business portfolio – the collection of businesses and products that make up the company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment. Business portfolio planning involves two steps. First, the company must analyse its current business portfolio and decide which businesses should receive more, less, or no investment. Second, it must shape future portfolio by developing strategies for growth and downsizing. (Armstrong et al., 2009, p. 43)

ANALYSING THE CURRENT BUSINESS PORTFOLIO

Management's first step is to identify the key businesses making up the company. These can be called strategic business units. A strategic business unit (SBU) is a unit of the company that has a separate mission and objectives and that can be planes independently from other company businesses. An SBU can be a company division, a product line within a division, or sometimes a dingle product or brand. (Armstrong et al., 2009, p. 43)

The next step in business portfolio analysis calls for management to assess the attractiveness of its various SBUs and decide how much support each deserves. Most companies are well advised to "stick to their knitting" when designing their business portfolios. It is usually a good idea to focus on adding products and businesses that fit closely with the firm's core philosophy and competencies. (Armstrong et al., 2009, p. 43)

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment. So most standard portfolio analysis methods evaluate SBU`s on two important dimensions – the attractiveness of the SBUs market or industry and the strength of the SBU`s position in that market industry. The best-known portfolio planning method was developed by the Boston Consulting Group, a leading management consulting firm. (Armstrong et al., 2009, p. 46)

THE BOSTON CONSULTING GROUP APPROACH

Using the Boston Consulting Group (BCG) approach, a company classifies all its SBUs according to the growth-share matrix. On the vertical axis, market growth rate provides a measure of market attractiveness. On the horizontal axis, relative market share serves as a measure of company strength in the market. The growth-share matrix defines four types of SBUs (See chapter 8.5.1) (Armstrong et al., 2009, p. 47)

Once it has classified its SBUs, the company must determine what role each will play in the future. One of four strategies can be pursued for each SBU. The company can invest more in the business unit in order to build its share. Or it can invest just enough to hold the SBU`s share at the current level. It can harvest the SBU, milking its short-term cash flow regardless of the long-term effect. Finally, the company can divest the SBU by selling it or phasing it out and using the resources elsewhere. (Armstrong et al., 2009, p. 47)

As time passes, SBUs change their positions in the growth-share matrix. Each SBU has a life cycle. Many SBUs start out as question marks and move into the star category if they succeed. They later become cash cows as market growth falls, then finally die off or turn into dogs toward the end of their life cycle. The company needs to add new products and units continuously so that some of them will become stars and, eventually, cash cows that will help finance other SBUs. (Armstrong et al., 2009, p. 47)

As an example, image a part of portfolio of the Coca-Cola Company:[4]

- **Question Mark:** energy drink brand (Full Throttle)
- **Star:** bottled water (Dasani)
- **Cash Cow:** namesake soft drink (Coca-Cola)
- **Dog:** sweetened juice drink (Hi-C)

As Coca-Cola's CMO, you would use income from Coke to invest primarily in Dasani and Full Throttle, while looking to sell off Hi-C to some private equity fund with too much cash on its hands.[5]

2.1.5 MARKETING MIX

The selection of a target market serves as the basis for creating a marketing mix to satisfy the needs of that market. The decisions made in creating a marketing mix are only as good as the organisation`s understanding of its target market. Marketing mix decisions should have two additional characteristics: consistency and flexibility. All marketing mix decisions should be consistent with the business-unit and corporate strategies. Such consistency allows the organization to achieve its objectives on all three levels of planning. Flexibility, on the other hand, permits the organization to alter the marketing mix in response to changes in market conditions, competition, and customer needs. Marketing strategy flexibility has a positive influence on organizational performance. Market orientation and strategic flexibility complement each other to help the organization manage varying environmental conditions. (Pride and Ferell, 2012, p. 42)

"The marketing mix can be defined as the combination of detailed strategies, tactics, operational policies, programmes, techniques and activities, to which resources may be allocated such that the company´s marketing objectives are achieved. The marketing mix should be managed such that it ensures that the right product is appropriately promoted at the right price in the right place at the appropriate time so as to satisfy the needs of target customers in the chosen market segments." (Morden, 1991, p. 235)

A marketing mix is a group of marketing variables that a business controls with the intent of implementing a marketing strategy directed at a specific target market. (Levens, 2012, p. 273)

McCarthy classified various marketing activities into marketing–mix tools of four broad kinds, which he called the four Ps of marketing: product, price, place, and promotion. The marketing variables under each P are shown in Figure 2-5. (Kotler and Keller, 2012, p. 47)

The four Ps represent four elementary tools of marketing as they also are the main means of any marketing strategy. They are instrumental in achieving both short-term objectives and long-term company goals. They are easy to measure and evaluate and their combination can be changed according to the type of market (B2B x B2C). (Kaftan, 2001, p. 156)

[4] NAGER, F. J., 2008. Cows and Dogs in a Bear Market: Applying the BCG Matrix to Marketing [online] [cit. 2014-05-4]. Available at: http://coolrulespronto.wordpress.com/2008/07/06/bcgmatrix/

[5] dtto

Figure: 2-5: Key decisions relating to the traditional marketing mix

TRADITIONAL MARKETING MIX

PRODUCT	**PRICE**	**PLACE (DISTRIBUTION)**	**PROMOTION (MARKETING COMMUNICATION)**
Product range, product performance, branding, packaging, deisgn, service support	Pricing model, discount policy, credit terms, non-financial cost	Channel selection, support supplied by channel members, market/customer coverage	Advertising, sales promotion, personal selling, public relations, direct marketing, sponsorship, on/line marketing

Source: own formation according to Drummond and Ensor (2005, p. 11)

The **product** decision involves deciding what goods or services should be offered to a group of customers. An important element is new product development. As technology and tastes change, products become out of date and inferior to those of the competition, so companies must replace them with features that customers value. As new products are developed that give greater benefits than old ones market leadership can change. Product decisions also involve choices regarding brand names, guarantees, packaging and the services that should accompany the product offering. Guarantees can be an important component of the product offering.

Price is a key element of the marketing mix because it represents on a unit basis what the company receives for the product or service that is being marketed. All of the other elements represent costs – for example, expenditure on product design (product), advertising and salespeople (promotion), and transportation and distribution (place). Marketers, therefore need to be very clear about pricing objectives, methods and the factors that influence price setting. Because price affects the value that customers perceive they get from buying a product, it can be an important element in the purchase decision. Some companies attempt to position themselves as offering lower prices than their rivals.

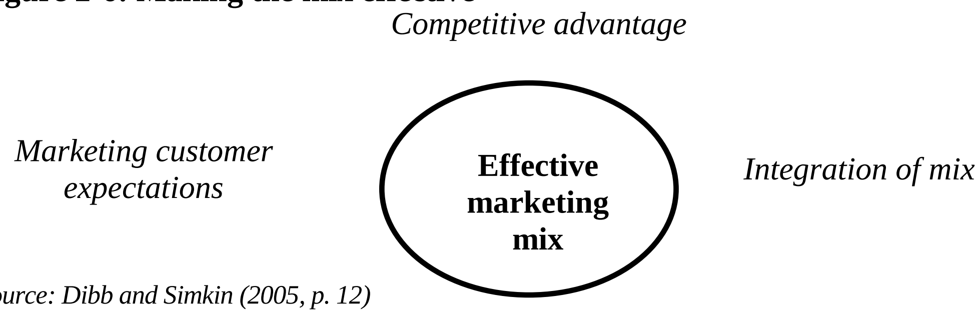
Place (distribution) involves decision concerning the distribution channels to be used and their management, the locations of outlets, methods of transportation and inventory levels to be held. The objective is to ensure that products and services are available in the proper quantities, at the right time and place. Distribution channels consist of organizations such as retailers or wholesalers through which goods pass on their way to customers.

Decisions have to be made with respect to the **promotion - promotional mix (marketing communication)** because the target audience is made aware of the existence of a product or service, and the benefits (both economic and psychological) it confers to customers. Each element of the promotional mix has its own set of strengths and weakness. (Jobber, 2010, p. 17-19)

THE EFFECTIVE MARKETING MIX

The above criticisms are more likely due to poor application of the concept, as opposed to any intrinsic flaw in the idea. Therefore, we need to ensure optimum use is made of the 4Ps, and its extended version. Figure 2-6 summarizes the factors that are normally deemed to create an effective marketing mix.

Figure 2-6: Making the mix effective



Source: Dibb and Simkin (2005, p. 12)

We can use the example of Ryanair company to explain an effective marketing mix. Ryanair has become the third largest airline in the world, by market capitalization. Chief executive transformed the company by understanding customer need and applying fundamental business principles to a once-failing airline. Taking on board lessons learned at Southwest Airlines, Ryanair was developer into a cheap, no-frills operation, giving customers what they wanted – affordable air fares. Ryanair cut its costs at every opportunity and developer a low cost business model that provides costumer value.

Consider Ryanair in terms of the above principles of making the marketing mix effective (Figure 1-5): (Dibb and Simkin, 2005)

- **Competitive advantage:** The company has a clear low cost competitive advantage. Costs are minimized at all stages of the operation. While flying to popular destinations, Ryanair picks secondary airports. Such airports are far cheaper to operate from, and in some cases even pay Ryanair to fly there. Flying from Stansted as opposed to Heathrow saves an estimated £3 per passenger. Having aircraft on the ground is expensive, therefore Ryanair has perfected fast-turnarounds. Turnaround times are estimated to be half those of British Airways. Like most airlines, aircraft purchase represents a major cost outlay. Chief executive is credited with obtaining substantial discounts from Boeing. He states. “I wouldn´t even tell my priest what discount I got off Boeing!”
- **Meeting customer expectations:** Ryanair is a “no-frills” operation. As such, it provides a basic service at a highly competitive price. For example, unlike traditional airlines, passengers must pay for food and drink. The effect is to keep operating costs down, and turn a potential cost into a source of revenue. At check-in, Ryanair does not allocate seats. This speeds up boarding. Most customers feel the basic service is more than compensated for by the price paid.
- **Integration of the mix:** The company displays a well-integrated marketing mix, with low cost operations a key focal point. Consider promotional activity. Ryanair does not use an advertising agency. It does the work in-house, with simple newspaper and poster adverts emphasizing low fares. In terms of distribution, the company does not use travel agents. Tickets are booked directly, via the Internet. This saves Ryanair 15% of the ticket price. Additional revenue is generated by commission on car hire, hotel bookings, etc., made through the Ryanair website.

In practice, business make decisions about marketing-mix variables either by reacting to changes in the market, strategically changing position to achieve desired business results, or by default when not responding to market changes. Consumer responses to marketing-mix decisions differ for many reasons including macroenvironmental factors of greater technological sophistication and an increasing number of competitors.

TRADIDIONAL MARKETING MIX STRATEGY - CADILLAC

Cadillac, founded in 1902 and historically one of General Motors´ most prestigious brands, has experienced a sales renaissance over the past decade with edgy high-performance products. The Cadillac product portfolio consists of sedans (CTS, DTS, STS), a crossover (SRX), and a sport utility (Escalade). There are some variations within the portfolio, such as the CTS also being available as a coupe and sport wagon, different engine sizes, and a V-series premium performance version of most of the vehicles including the CTS coupe, CTS sedan, and CTS sport wagon. Although the CTS and CTS.V are both manufactured at the same facility, there are many differences, including the marketing-mix strategies for each vehicle.

- **Product** – The CTS-V is the fastest production sedan in the world with a 556-horsepower supercharged engine, whereas the CTS is a midsize sport sedan that shares a platform with the Chevrolet Malibu.
- **Price** – The CTS and CTS-V represent both ends of the price range of the product portfolio. The CTS starts at around $35,000, and the CTS-V starts above $62,000.
- **Place** (Distribution) – Both the CTS and the CTS-V are sold through the Cadillac dealer network. The CTS-V is sold in limited volumes and not all dealers have them in stock. The CTS-V is often used as a "halo" vehicle, one that is used to create interest in other vehicles and increase showroom traffic.
- **Promotion** (Marketing Communication) – Both vehicles are shown in national television advertising as part of the entire Cadillac portfolio and in individual campaigns. The CTS advertising emphasizes being named a Car and Driver 10 Best whereas CTS-V advertising emphasizes being the world´s fastest production sedan. Both the CTS and the CTS-V have their own microsites within the Cadillac Web site. The CTS-V, as a niche vehicle, has also utilized some specialized advertising, including the promotion of its CTS-V coupe by sponsoring Automobile magazine´s iPhone application. Both models reflect Cadillac´s performance luxury positioning, but in the context of their respective market segments.

Source: Levens (2012, p. 276)

CRITICISM OF THE TRADITIONAL MARKETING MIX

While the mix provides a "backbone" to marketing theory, which is both memorable and practical, it is not without its critics. Like any academic theory, the marketing mix does need to evolve in line with the business environment, and while criticism is both valid and healthy, it does not negate the importance of the concept. Common criticisms are: (Drummond and Ensor, 2005)

- The 4Ps make no direct reference to forming, and sustaining, long-term relationships. If such relationships are critical to business success, why are they not directly addressed?
- The mix can promote a view of product, price, place and promotion as being separate entities, as opposed to the integrated product offering most customers evaluate.
- Internal resource constraints need to be considered, and without active acknowledgement of such factors, the inappropriate combinations of marketing mix variable may increase customer expectation beyond the organization´s ability to deliver.
- Application of the 4Ps can promote standardization, or mass production, at a time when society increasingly values individuality.

- The mix can be viewed as manipulative. The right combination, and intensity, of factors could pressure the buyer into purchase.

UPDATING THE TRADITIONAL MARKETING MIX

The 4Ps model is now regarded as too simplistic for current marketing conditions, as well as being too focused on traditional consumer product marketing. For generations of new marketers, however, it has served as a useful mnemonic of basic marketing planning and programming and has encouraged the idea of mixed programmes rather than discrete functional silos.

There are alternatives that talk of **6 Ps** (to include politics and public relations). Various academics have proffered and alternative: the **4 Cs**, which takes a buyer´s view of the market – in contrast to the 4 Ps that takes a seller´s view of the market. **The 4 Cs are: customer value, cost to customer, convenience to consumer and communication with customers**. (Doyle, 2016, p. 292)

According to Kotler and Keller (2016, pp. 48-49) given the breadth, complexity, and richness of marketing, however – as exemplified by holistic marketing – clearly these four Ps are not the whole story anymore. If we update them to reflect the holistic marketing concept, we arrive at a more representative set that encompasses modern marketing realities: **people, processes, program, and performance.** People reflects, in part, internal marketing and the fact that employees are critical to marketing success. Processes reflects all the creativity, discipline and structure brought to marketing management Programs reflects all the firm´s consumer-directed activities. We define performance as in holistic marketing, to capture the range of possible outcome measures that have financial and nonfinancial implications (profitability as well as brand and customer equity) and implications beyond the company itself (social responsibility, legal, ethical, and the environment).

Whatever marketing mix is chosen, the important part of the process is to allocate the right level of resources and to find the balance appropriate to the target market.

2.2 MARKETING IMPLEMENTATION

Planning good strategies is only a start towards successful marketing. A brilliant marketing strategy counts for little if the company fails to implement it properly. Marketing implementation is the process that turns marketing plans into marketing actions in order to accomplish strategic marketing objectives. Whereas marketing planning addresses the “what” and “why” of marketing activities, implementation addresses the “who”, “where”, “when” and “how”.

Many managers think that “doing things right” (implementation) is as important as, or even more important than, “doing the right things” (strategy). The fact is that both are critical to success, and companies can gain competitive advantages through effective implementation. One firm can have essentially the same strategy as another, yet win in the marketplace through faster or better execution. Still, implementation is difficult – it is often easies to think up good marketing strategies than it is to carry them out. (Armstrong et al., 2009, p. 59)

2.3 CONTROLLING OF MARKETING ACTIVITIES

To achieve both marketing and general organizational objectives, marketing managers must effectively control marketing efforts. The marketing control process consists of establishing performance standards, evaluating actual performance by comparing it with established standards, and reducing the differences between desired and actual performance by taking corrective actions. (Pride and Ferell, 2012, p. 49)

Our marketing objectives should be achieved based on our marketing strategy. Measuring and controlling considers both financial and nonfinancial factors that are influencing our results. Underperforming products and services need to be identified and dealt with – necessary actions taken. To acquire the information about issues, we can use various inputs, such as our marketing intelligence software, customer relationship management software, we can do a research or simply monitor the everyday tasks in our company. (Levens, 2012, p. 157)

INTERIOR VIEW LLC MEASUREMENT AND CONTROLS

We are controlling the following areas, if we fail in any, we need to re-evaluate the business model: gross-margins at or above 45 %, month-to-month annual comparisons indicate an increase of 20 % or greater, no dependency on the credit line to meet cash requirements, continue paying the credit line at a minimum of USD 24000, retain customers to generate repeat purchases and referrals, generate average sales in excess of USD 1000 per business day.

Implementation is done by having a weekly milestones meeting with the entire staff to make sure that we are on track with our milestones and readjust our goals as we gather new data. Once a quarter, we review the marketing plan to ensure that we stay focused on our marketing strategy and that we are not distracted by opportunities simply because they are different from what we are currently pursuing.

Measurement is done through staff asking customers how they heard about us. Based on the answers, the communication strategy is adjusted, different media channels chosen and the message tweaked. Another option is the suggestion box for customers where they can leave suggestions for future development of our products and the company as a whole. Last but not least is the mystery shopping in our competitors shops.

Source: Levens (2012, p. 157-158)

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 2. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. **The typical feature of marketing strategy is:**
   a) Short period of time.
   b) Its determination exclusively by the director of the company.
   c) To be a part of corporate strategy.

2. **Mission statement can be understood as:**
   a) A perception, foresight, or strategy for future events or direction.
   b) A brief description that explains company´s reasons for existence.
   c) The way in which a company and its capabilities are perceived relative to competitors in its marketplaces by existing and potential customers.

3. **The marketing goals should be SMART which it means in practice:**

a) Specific, measurable, achievable, realistic, time specific.
b) Special, measurable, achievable, realistic, time specific.
c) Specific, multiple, achievable, realistic, tangible.

4. The traditional marketing mix is not consist of:

a) Price.
b) Place (distribution).
c) Persons.

5. The parts of marketing mix according to concept 4Cs are:

a) Customer care, cost to the customer, convenience to the customer and communication with customers.
b) Customer value, cost to the customer, convenience to the customer and customization.
c) Customer value, cost to the customer, convenience to the customer and communication with customers.

CORRRECT ANSWERS

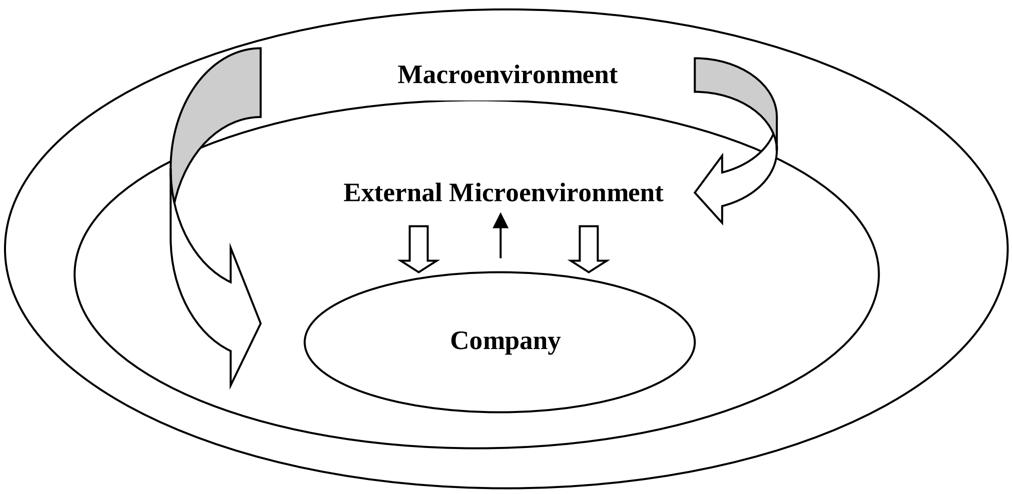
1c, 2b, 3a, 4c, 5c

3 THE MEANING OF MARKETING ENVIRONMENT AND ITS ANALYSIS

Businesses strive to create value that leads to productive customer relationships. Many factors influence value creation and the nature of customer relationships, including factors that are internal to the business and factors that are external to the business. *"The marketing environment is a set of forces, some controllable and some uncontrollable, that influence the ability of a business to create value and attract and serve customers."* (Levens, 2012, p. 15) Or we can also say that *"The marketing environment is defined as the external and internal forces that influence an organization´s capability to undertake its business."* (see Figure 3-1) The kinds of such environment are usually divided into the following three categories: (Kaftan, 2001, p. 43, 73)

- **Macroenvironment** consists of broad environmental issues that may affect not only the business performance but also the other actors in the microenvironment. Traditionally four forces - political/legal, economic, demographic, social/cultural and technological – have been the focus of attention, with the result that the term **PEST analysis** has been used to describe macroenvironmental analysis. However, the growing importance of ecological/physical environmental forces on companies has led to the acronym being expanded to **PEEST analysis**. (see Table 3-1).
- **External microenvironment (mesoenvironment)** consists of the actors in the firm´s immediate environment that affect its capabilities to operate effectively in its chosen markets. The key actors are customers, distributors, suppliers, competitors and publics (see Table 3-1). Mesoenvironmental analysis will consist of an analysis of issues relating to these actors and an overall analysis of market size, growth rates and trends.
- **Internal microenvironment (microenvironment)** comprises the internal business characteristics of the firm itself and its operations: sales, profitability, marketing organization etc.

Figure 3-1: The marketing environment



Source: own formation according to Jobber (2010, p. 73)

Table 3-1: External marketing audit checklist

MACROENVIRONMENT	
Political/Legal	EU and national laws, codes of practice
Economic	economic growth, unemployment, interest and exchange rates, global economic trends (e.g. the growth of the Chinese and Indian economies)
Ecological/Physical	global warming, pollution, energy and other scarce resources, environmentally friendly ingredients and components, recycling and non-wasteful packaging
Demographic	changes in world population (demographic forces), age distribution and household structure
Social/Cultural	attitude and lifestyle changes, subcultures within and across national boundaries, consumerism
Technological	new product and process technologies, new materials
EXTERNAL MICROENVIRONMENT	
Market	size, growth rates, trends
Customers	who they are, their choice criteria, how, when and where they buy, how they rate us in comparison with competition on product, promotion, price and distribution, how customers group (market segmentation), and what benefits each group seeks, trends
Competitors	who are the major competitors, their objectives and strategies, strengths and weaknesses, size, market share and profitability, entry barriers to new competitors, trends
Distributors	channel attractiveness, distributor decision-making unit, decision-making process and choice criteria, strengths and weaknesses, power changes, physical distribution methods, trends
Suppliers	who they are and location, strengths and weaknesses, power changes, trends
Publics	financial public, government publics, media publics, citizen-action publics, non-profit organizations, general publics

Source: Jobber (2010, p. 43)

An environmental analysis is usually accompanied by a marketing audit which essentially assesses the compatibility of the firm´s marketing situation and its objectives with the given environment in terms of organization, strategy, productivity, and marketing mix.

3.1 ANALYZING THE MACROENVIRONMENT

Successful companies recognize and respond profitably to unmet needs and trends. Enterprising individuals and companies create new solutions to similarly unmet needs. It is possible to distinguish among fads, trends and megatrends. A **fad** is unpredictable, short-lived, and without social, economic, and political significance. A **trend** is more predictable and durable than a fad. Trends reveal the shape of the future and can provide strategic direction. A **megatrend** is a large social, economic, political and technological change that is slow to form, and once in place, influences us for some time – between seven and ten years, or longer. (Kotler and Keller, 2016, p. 95)

The new century brought new challenges. The steep decline of the stock market, which affected savings, investment, and retirement funds, rising and long-lasting unemployment, corporate scandals, stronger indications of global warming and other signs of deterioration in the environment and continued terrorism. (Kotler and Keller, 2016, p. 95) The macroenvironment includes many important factors see the following text.

3.1.1 POLITICAL AND LEGAL ENVIRONMENT

The political environment includes factors that select national leadership, create laws, and provide a process for discourse on a wide range of issues. Changes in form of government and scope and type of social movements contribute to the political environment. A federal system of government, where a central government performs specific duties such as national defense and state and local governments have limited autonomy, is practiced in the USA. However, some countries, such as North Korea, are dictatorships. Everything in those countries, including commercial practices, is controlled by the government. The implications for businesses are significant, because investment may be restricted when high levels of risk exist. Social movements, either a new political party or cause, can also create trends such as interest in "green or "fair trade" products. Whether protesting in cities or funding advocacy advertisements, these causes can have tremendous influence on consumer attitudes and interest in products or services.

The legal environment includes factors that provide rules and penalties for violations, and is designed to protect society and consumers from unfair business practices and to protect businesses from unfair competitive practices. Changes in legislation and regulations contribute to the legal environment. There are many different categories of legislation, including trade practices, business competition, product safety, environmental protection, consumer privacy, fair pricing, packaging, and advertising disclosure and restrictions. Regulatory agencies include the Federal Communications Commission, an agency responsible for regulating interstate and international communications by television, satellite, cable, radio, and wire. The U.S. Consumer Product Safety Commission, an agency responsible for protecting consumers from unreasonable risks of serious injury from over 15,000 types of consumer products, and the Food and Drug Administration, an agency within the Department of Health and Human Services that has nine different centers, ranging from radiological health to food safety. The legal environment can become even more complicated as businesses increase global activities and must deal with foreign governments´ legal environments that are different from those within the USA. (Levens, 2012)

Political and legal forces can influence marketing decisions by determining the rules by which business can be conducted. For example, smoking bans in public places can have dramatic short- and long-term effects on the demand for cigarettes. In Europe, marketing decisions are affected by legislation at EU and national levels. EU laws seek to prevent collusion, prevent abuse of market dominance, control mergers and acquisitions, and restrict state aid to firms. In addition to EU laws, member states also have the right to make their own legislation governing business practice. This can mean inconsistencies across Europe. For example, national laws governing advertising across Europe mean that what is acceptable in one country is banned in another. For example, toys cannot be advertised in Greece, tobacco advertising is illegal in Scandinavia, The UK and Italy, alcohol advertising is banned on television in France and at sports grounds. This patchwork of national advertising regulations means that companies attempting to create a brand image across Europe often need to make substantial changes to advertising strategy on a national basis. (Jobber, 2010, p. 73-91)

3.1.2 ECONOMIC ENVIRONMENT

Economic forces can impact marketing decisions through their effect on supply and demand. Marketers need to have contingency plans in place to cope with economic downturns, and to be aware of the opportunities and threats arising from changes in the global marketing environment. (Jobber, 2010, p. 73-91) This environment includes factors that influence consumer purchase ability and buying behaviour. Inflation rates, income levels, and unemployment levels all contribute to the economic environment. Inflation is an increase in the price of a collection of goods that represents the overall economy. As inflation increases, prices of items such as gasoline, food, and health services generally rise, and, if average income does not keep pace, products and services can become too expensive for consumers. Income levels are average consumer earnings used to approximate national earnings. Changes in income inversely relate to changes in demand. Unemployment levels are the number of unemployed persons divided by the aggregate labor force. Increases in unemployment reduce the ability of individuals to purchase products and services. (Levens, 2012)

3.1.3 ECOLOGICAL/PHYSICAL ENVIRONMENTAL ENVIRONMENT

Ecological/physical environmental forces are concerned with the environmental costs of consumption. Five issues that impact marketing decisions are combating global warming, pollution control, conservation of energy and other scarce resources, use of environmentally friendly ingredients and components (biodegradable and natural ingredients, products not tested on animals), and the use of recyclable and non-wasteful packaging. Marketers need to be aware of the environmental consequences of their actions, and the opportunities and threats associated with ecological issues. They should also consider communicating their environmentally conscious credentials. (Jobber, 2010, p. 73-91)

Corporate environmentalism recognizes the need to integrate environmental issues into the firm´s strategic plans. Back in the 1960s, trying to lead an environmentally conscious lifestyle, and especially integrating green into one´s shopping, was a very fringe phenomenon. But it is now decidedly mainstream – and changing the rules of the marketing game in a very big way. In a broader sense, green marketing refers to a specific type of marketing based on the principles of traditional marketing but with a focus on organic products. This concept also includes a whole range of ideas, methods, and processes to meet the goals of the business in the form of "green consumption" that leads the company to a spontaneous tendency to protect the environment and to efficiently use natural resources. (Jurášková and Horňák, 2012, p. 82)

Beyond making an environmentally friendly product, business owners can do other things as part of their green marketing efforts. The following can all be part of a green marketing strategy: (Matušínská and Braciníková, 2018, pp. 167-170)

- Using eco-friendly paper and inks for print marketing materials.
- Skipping the printed materials altogether and option for electronic marketing.
- Having a recycling program and responsible waste disposal practices.
- Using eco-friendly product packaging.
- Using efficient packing and shipping methods.
- Using eco-friendly power sources.
- Taking steps to offset environmental impact.

Consumers who prefer to purchase green products even though they might be more expensive fall into the **"LOHAS" category.** LOHAS stands for Lifestyles of Health and Sustainability. LOHAS describes an integrated, rapidly growing market for goods and services that appeal to consumers whose sense of environmental and social responsibility influences their purchase decisions. These consumers are active supporters of environmental health and are the heaviest purchasers of green and socially responsible products. They also have the power to influence other consumers. (Matušínská and Braciníková, 2018, pp. 167-170)

TWENTY NEW RULES OF GREEN MARKETING

- **Green is mainstream.** Not too long ago, just a small group of deep green consumers existed. Today, 83 % of consumers - representing every generation from Baby boomers to Millennials and Generation Ys – are some shade of green. Moreover, there are now finely defined segments of green consumers.
- **Green is cool.** Once a faddish preoccupation of fringe, green is not only mainstream, it is chic. In fact, green consumers are early adopters and leaders who influence purchasing behaviour.
- **Green inspires innovative products and services that can result in better consumer value, enhanced brands, and stronger company.** Savvy managers no longer consider the environment to be a burden that represents added cost and overhead – but an investment that can pay back handsomely.
- **Values guide consumers purchasing. Historically, consumers bought solely on price, performance, and convenience.** But today, how products are sourced, manufactured, packaged, disposed of – and even such social aspects as how factory and farm workers are treated – all matter.
- **A life-cycle approach is necessary.** Single attributes such as recyclable, organic, or energy-efficient matter greatly, but do not mean a product is green overall. Recycled products still create waste, organic strawberries can travel thousand miles, and CFLs contain mercury. So a more thorough, life-cycle or carbon-based approach to greening is necessary.
- **Manufacturer and retailer reputation count now more than ever.** Consumers are now flipping over packages, saying, "Who makes this brand? Did they produce this products with high environmental and social standards?"
- **Save me!** Even the greenest consumers no longer buy products just to save the planet. Today´s consumers buy greener brands to help protect their health, save money or because they simply work better.
- **Businesses are their philosophies.** It used to be that companies were what they made. International Business Machines. General Foods. General Motors. Now, businesses and brands are what they stand for. Method. Starbucks. Timberland.
- **Sustainability represents an important consumer need, and is now and integral aspect of product quality.** Green is no longer simply a market position. Products need to be green. Brands need to be socially responsible. Period.
- **The greenest products represent new concepts with business models with significantly less impact.** If we simply greening up the same old products we have been using forever, we are never going to get to sustainability. We should adopt new ways of doing business.
- **Consumers do not necessarily need to own products, service can meet their needs, perhaps even better.** Consumers historically met their needs by owning products, but concepts like e-books are starting prove that utility and service are what really matters.
- **The brands consumers buy and trusty today educate and engage them in meaningful conversation through a variety of media, especially via websites and online social networks.**
- **Green consumers are strongly influenced by the recommendations of friends and family, and trusted third parties.** With rampant cynicism about traditional forms of advertising and backlash in place against perceived greenwashing, savvy marketers leverage purchase influencers and third parties like NGOs and especially eco-labelers.
- **Green consumers trust brands that tell all.** Today´s brands become trusted by practicing "radical transparency", disclosing the good – and the bad.
- **Green consumers do not expect perfection.** Consumers expect that the company will set high goals, keep improving, and report on progress.

- **Environmentalists are no longer enemy.** Recognizing the power of the marketplace to effect change, many environmental advocates willingly partner with industry, offering useful guidance and expertise.
- **Nearly everyone is a corporate stakeholder.** No longer confined to just customers, employees, and investors, publics of stripes are now corporate stakeholders: educators, environmentalists, and children – even the unborn.
- **Authenticity.** Brands viewed as the most genuine integrate relevant sustainability benefits into their products. That is why HBSC or Stonyfield Farm aim to reduce carbon impacts of their operations.
- **Keep it simple.** Today´s consumers are cutting out the needless purchase, and getting rid of the gadgets and gizmos that do not add value to their lives.

Source: Ottman (2011)

In the context of Green Marketing, the concept of **Greenwashing** appears in marketing practice. Green washing means forms of marketing communications in which "green public relations" or "green marketing campaign" is misleadingly used to create the impression that the company combines its activities with activities that have a positive impact on the environment. In reality, this company spends more money on "green" advertising than on realistic eco-friendly access to the environment. Greenwashing efforts can already be applied by changing the product´s name or package that evokes the natural environment, but contains harmful chemicals, to the preparation of campaigns that emphasize the socially responsible and ecological behaviour of companies that damage the environment enormously by their production. (Rajčák, 2013) If consumers want to be certain they are indeed buying a green product, they should look for official certifications listed on the product packaging. (Matušínská and Braciníková, 2018, p. 170)

3.1.4 DEMOGRAPHIC ENVIRONMENT

Demographic forces concern changes in populations in terms of their size and characteristics. Demography is important to marketers because it helps to predict the size and growth rates of markets, and the need for products such as schools, one-person housing and homes for the elderly. Three major demographic forces are world population growth, the changing age distribution and the changing structure of households in western countries. (Jobber, 2010, p. 73-91)

Marketers generally divide the population into six age groups: preschool children, school-age children, teens, young adults age 20 to 40, middle-aged adults 40 to 65, and older adults 65 and older. Some marketers focus on cohorts, groups of individuals born during the same time period who travel through life together. (Kotler and Keller, 2016. p. 97)

3.1.5 SOCIAL/CULTURAL ENVIRONMENT

Social/cultural forces can have an impact on marketing decisions by changing demand patterns (e.g. the growth of the over-50s market) and creating new opportunities and threats. Three major influences are changes in the demographic profile of the population, cultural differences within and between nations, and the impact of consumerism. Changes in social and cultural aspects of the marketing environment need to be monitored and understood so that marketing management is aware of the changing behaviour of consumers. Such changes can create demand shifts that can act as either opportunities or threats for European companies.

Culture is the combination of traditions, taboos, values and attitudes of the society in which an individual lives. For example a number of distinctive subcultures in the UK provide a rich tapestry of lifestyles and the creation of new markets. The Asian population, for example, has provided restaurants and stores supplying food from that part of the world. This influence is now seen in supermarkets, where Asian foods are readily available. Cultural differences also have implications for business-to-business marketing. Within Europe, cultural variations affect the way business should be conducted. Humour in business life is acceptable in the UK, Italy, Greece and Spain but less commonplace in France and Germany. These facts of business life need to be recognized when interacting with European business customers.

Each society contains **subcultures**, groups with shared values, beliefs, preferences, and behaviours emerging from their special life experience or circumstances. Marketers have always loved teenagers because they are trendsetters in fashion, music, entertainment, ideas, and attitudes. (Kotler and Keller, 2016, p. 101)

Consumerism takes the form of organized action against business practices that are not in the interests of consumers. The consumerism movement started in the 1960´s because the marketing concept was being overlooked by sellers. American consumers sought to obtain a greater say in the quality of products they buy and the information they receive from sellers. Pressure from the consumer movement, environmentalists, individuals who engage in ethical consumption and the media has resulted in many organizations adopting corporate social responsibility (CSR) as a guide to their business practices. (Jobber, 2010, p. 73-91)

3.1.6 TECHNOLOGICAL ENVIRONMENT

The technological environment includes factors that influence marketing based on scientific actions and innovation. Changes in consumer perspectives on scientific activities and new discoveries contribute to the technological environment. Policies on cloning, stem cell research, or other controversial topics influence marketing opportunities. Funding is either made available or is restricted based on consumer perspectives that are often translated into legal framework. New discoveries, such as fiber-optic cable and hybrid vehicle propulsion systems, create marketing opportunities where businesses can take advantage of creating value in a way that competitors cannot. Consumption patterns could change based on the significance of the product or service. (Levens, 2012)

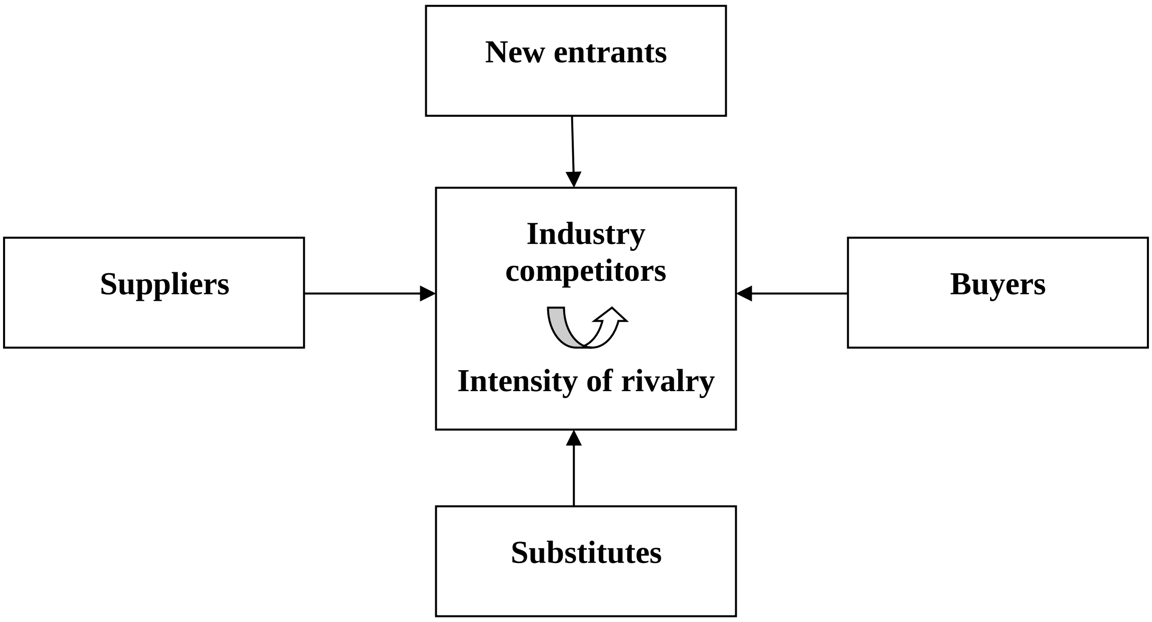
According to Kotler and Keller (2016, p. 104) the marketers should monitor the following technology trends: 1) the accelerating pace of change: more ideas than ever are in the works, and the time between idea and implantation is shrinking. In the first two-and-a-half years of the iPad´s existence, Apple sold a staggering 97 million units worldwide, 2) unlimited opportunities for innovation: for example medical researchers hope to use stem cells for organ generation and hybrid positron emission tomography and magnetic resonance imaging to dramatically improve diagnosis and 3) increased regulation of technological change: government has expanded its agencies´ powers to investigate and ban potentially unsafe products. Safety and health regulations have increased for food, automobiles, clothing, electrical appliances and construction.

3.2 ANALYZING THE EXTERNAL MICROENVIRONMENT

The external microenvironment includes forces close to a company, yet outside its internal environment, that influence the ability of a business to serve its customers. This environment comprises entities such as customers, suppliers, competitors, public and other businesses that assist or influence a business´s ability to sell, distribute, promote, and develop products and services.

A tool that helps determine where power exists in the microenvironment of a business is Porter´s Five Forces of Competitive Position Model. The central concept of the Five Forces of Competitive Position Model is that five forces determine the power in a business´s external microenvironent. The forces are shown in the Figure 3-2.

Figure 3-2: The Porter model of competitive industry structure



Source: Jobber (2010, p. 706)

Industry competitors occur between different firms producing a product of service that consumers consider to be similar. Having established who the key direct rivals are, it is appropriate to undertake a detailed analysis of their strengths and weaknesses, and identify and evaluate their marketing strategies. Many of the tools that are of use in diagnosing the strategic situation of one´s own firm can be equally well applied to the main competitive rivals. As long as they are substantial, publicly owned businesses, there will be sufficient information in the public domain to make such analyses meaningful.

As a rule, the fewer direct rivals there are within an industry, the less intense will be competitive rivalry. The extreme case is a monopoly (industry with just one firm) where there is no direct rivalry at all. The intensity of rivalry between competitors in an industry will also depend on exit barriers: when barriers to leaving an industry are high due to such factors as lack of opportunities elsewhere, high vertical integration, emotional barriers or the high cost of closing down plant, rivalry will be more intense than when exit barriers are low. (Brennan et al., 2003, p. 59-60)

New entrants (Jobber, 2010, p. 705) can raise the level of competition in an industry, thereby reducing its attractiveness. High entry barriers exist in some industries (e.g. pharmaceuticals), whereas other industries are much easier to enter (e.g. restaurants).

Barriers to exit work similarly to barriers to entry. Exit barriers limit the ability of a firm to leave the market and can exacerbate rivalry - unable to leave the industry, a firm must compete. Some of an industry's entry and exit barriers can be summarized in the Table 3-2.

Table 3-2: Barriers to entry and exit

Easy to enter if there is: • Common technology • Little brand franchise • Access to distribution channels • Low scale threshold	**Difficult to enter if there is:** • Patented or proprietary know-how • Difficulty in brand switching • Restricted distribution channels • High scale threshold
Easy to exit if there are: • Salable assets • Low exit costs • Independent businesses	**Difficult to exit if there are:** • Specialized assets • High exit costs • Interrelated businesses

Source: Strategic management [online]. [cit. 2014-05-12]. Available at: http://www.quickmba.com/strategy/porter.shtml

The cost of raw materials and components can have a major bearing on a firm´s profitability. The higher the **bargaining power of suppliers** (Jobber, 2010, p. 707) the higher these costs. A firm can reduce the bargaining power of suppliers by seeking new sources of supply, threatening to integrate backward into supply, and designing standardized components so that many suppliers are capable of producing them. The bargaining power of suppliers will be high when:

- There are many buyers and few dominant suppliers.
- There are differentiated highly valued products.
- Suppliers threaten to integrate forward into the industry.
- Buyers do not threaten to integrate backward into supply.
- The industry is not a key customer group to the suppliers.

The fortunes of companies are not only dependent on customers and competitors, they are also influenced by their suppliers. Increase in supply costs can push up prices, making other alternatives more attractive. For example, increases in the price of aluminium make plastic more attractive. Also, as with distributors, powerful suppliers can force up prices. The rise in the price of gas has been blamed on powerful European suppliers who, it is alleged, restricted supply in order to force prices higher.

Companies need to monitor supply availability, such as shortages due to labour strikes or political factors, as these can cause customer dissatisfaction and lost sales. They also need to be sensitive to alternative input materials that can be substituted for those of existing suppliers if the latter´s prices rice or availability diminishes significantly.

Distributors can be also included in the category of suppliers. Some companies, such as those providing services, dispense with the use of distributors, preferring to deal directly with end-user customers. The others use the services of distributors such as wholesalers and retailers to supply end users. As we shall see in Chapter 9 (Selection and management of the marketing distribution ways and the market logistics), these channel intermediaries perform many valuable services, including breaking bulk, making products available to customers where and when they want them, and providing specialist services such as maintenance and installation.

The importance of suppliers is reflected in discussion of their relationship with customers in Chapter 6 which focuses on Market analysis of business organizations. Many customers are increasingly forming partnerships with selected suppliers in order to enhance value delivery. (Jobber, 2010, p. 93)

The concentration of European retailing has lowered manufacturers´ bargaining power. Firms in the industry can attempt to lower buyer power by increasing the number of buyers they sell to, threatening to integrate forwards into the buyer´s industry and producing highly valued, differentiated products. The **bargaining power of buyers** (Jobber, 2010, p. 707; Berkowitz et al., p. 706) is greater when:

- There are few dominant buyers and many sellers.
- Products are standardized.
- Buyers threaten to integrate backwards into the industry.
- Suppliers do not threaten to integrate forwards into the buyer´s industry.
- The industry is not a key supplying group for buyers.

As we saw in Chapter 1, customers are at the centre of the marketing philosophy and effort, and it is the task of marketing management to satisfy their needs and expectations better than the competition. The starting point is an understanding of them and this is considered in Chapter 5 (Consumer markets and the consumer´s purchasing behaviour – B2C) and Chapter 6 (Market analysis of business organizations – B2B). The techniques for gathering and analysing customer and other marketing information are discussed in Chapter 4, on marketing information system and marketing research. Furthermore, the grouping of consumers to form market segments that can be targeted with specific marketing mix offerings is the subject of Chapter 7 (Identification of the market segments, the choice of the target markets).

Changing customer taste, lifestyles, motivations and expectations need to be monitored so that companies supply the appropriate targeted marketing mix strategies that meet their needs. Changes in consumer behaviours also need to be monitored. Marketers should also seek out the latest customer needs that currently have not been met. The discovery of these can result in lucrative unserved markets in which first-mover advantage can be a vital asset. (Jobber, 2010, p. 91)

The presence of substitute products can lower industry attractiveness and profitability because these put a constraint on price levels. **The threat of substitute products** can be lowered by building up switching costs, which may be psychological – for example, by creating strong distinctive brand personalities – and maintaining a price differential commensurate with perceived customer values. If these tactics fail to deter a rival from launching a substitute product, the incumbent is faced with the following options: copy the substitute, copy but build in a differential advantage, form a strategic alliance with the rival, by the rival, or move to a new market. (Jobber, 2010, p. 705; Berkowitz et al., p. 707)

The key to superior performance is to gain and hold a **competitive advantage.** Competitive advantage can be achieved by creating a differential advantage (a clear performance differential over the competition factors that are important to target customers – superior product, more effective distribution, better promotion, better value for money by lower prices, high service levels, close relationships with customers, innovative product upgrading and so on) or achieving the lowest cost position. These two means of competitive advantage, when combined with the competitive scope of activities (broad vs narrow), result in **four generic strategies**: differentiation, cost leadership, differentiation focus, and cost focus. The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments, whereas differentiation focus and cost focus strategies are confined to a narrow segment. (Jobber, 2010, p. 713)

The final specific aspects of the microenvironment could be **distributors and publics.** Publics is any group that has an interest in or impact on the organization's ability to meet its goals. For example, financial publics can hinder a company's ability to obtain funds affecting the level of credit a company has. Media publics include newspapers and magazines that can publish articles of interest regarding the company and editorials that may influence customers' opinions. Government publics can affect the company by passing legislation and laws that put restrictions on the company's actions. Citizen-action publics include environmental groups and minority groups and can question the actions of a company and put them in the public spotlight. Local publics are neighborhood and community organizations and will also question a company's impact on the local area and the level of responsibility of their actions. The general public can greatly affect the company as any change in their attitude, whether positive or negative, can cause sales to go up or down because the general public is often the company's customer base. And finally those who are employed within the company and deal with the organization and construction of the company's product. [6]

3.3 Analyzing the Internal Microenvironment

The company aspect of microenvironment refers to the internal environment of the company. This includes all departments, such as management, finance, research and development, purchasing, operations and accounting. Each of these departments has an impact on marketing decisions. For example, research and development have input as to the features a product can perform and accounting approves the financial side of marketing plans and budgets. [7]

3.4 SWOT Analysis

The overall evaluation of a company´s strengths, weaknesses, opportunities, and treats is called SWOT Analysis. It is a way of monitoring the external and internal marketing environment.

Within SWOT analysis the firm should identify its internal strengths (S) and weaknesses (W) and also examine external opportunities (O) and threats (T). (Lamb, Hair and McDaniel, 2009, p. 35)

When examining internal strengths and weaknesses, the marketing manager should focus on organizational resources such as production costs, marketing skills, financial resources, company or brand image, employee capabilities, and available technology. Another issue to consider in this section of the marketing plan is the historical background of the firm – its sales and profit history. (Lamb, Hair and McDaniel, 2009, p. 35-36)

When examining external opportunities and threats, marketing manager must analyse aspects of the marketing environment. This process is called environmental scanning – the collection and interpretation of information about forces, events, and relationships in the external environment that may affect the future of the organization or the implementation of the marketing plan. Environmental scanning helps identify market opportunities and threats and provides guidelines for the design of marketing strategy. The six most often studied macroenvironmental forces are social, demographic, economic, technological, political and legal, and competitive. (Lamb, Hair and McDaniel, 2009, p. 36)

[6] Internal envrionment [online]. [cit. 2014-05-12]. Available at: http://en.wikipedia.org/wiki/Market_environment#Micro-Environment_.28internal_environment.29
[7] Internal envrionment [online]. [cit. 2014-05-12]. Available at: http://en.wikipedia.org/wiki/Market_environment#Micro-Environment_.28internal_environment.29

3.4.1 EXTERNAL ENVIRONMENT (OPPORTUNITY AND THREAT) ANALYSIS

A business unit must monitor key macroenvironment forces and significant microenvironment factors that affect its ability to earn profits. It should set up a marketing intelligence system to track trends and important developments and any related opportunities and threats.

An **environmental opportunity** is an area of buyer need and interest that a company has a high probability of profitably satisfying.

In the opportunity matrix in Figure 3-3, the best marketing opportunities facing the TV lighting-equipment company appear in the upper-left cell (1). The opportunities in the lower-right cell (4) are too minor to consider. The opportunities in the upper-right cell (2) and the lower-left cell (3) are worth monitoring in the event that any improve in attractiveness and potential.

An **environmental threat** is a challenge posed by an unfavourable trend or development that, in the absence of defensive marketing action, would lead to lower sales or profit.

Figure 3-3 and 3-4 illustrates the threat matrix facing the TV-lighting-equipment company. The threats in the upper-left cell are major, because they have a high probability of occurrence and can seriously hurt the company. To deal with them, the company needs contingency plans. The threats in the lower-right cell are minor and can be ignored. The firm will want to carefully monitor threats in the upper-right and lower-left cells in the event they grow more serious. (Kotler and Keller, 2012, p. 70-71)

Figure 3-3: Opportunity Matrix

OPPORTUNITY MATRIX

SUCCES PROBABILITY

ATTRACTIVENESS		High	Low
	High	1 Company develops more powerful lighting system	2 Company develops device to measure energy efficiency of any lighting system
	Low	3 Company develops device to measure illumination level	4 Company develops software program to teach lighting fundamentals to TV studio personnel

Source: Kotler and Keller (2012, p. 71)

Figure 3-4: Threat Matrix

THREAT MATRIX

		PROBABILITY OF OCCURRENCE High	**PROBABILITY OF OCCURRENCE** Low
SERIOUSNESS	High	1 Competitor develops superior lighting system	2 Major prolonged economic depressiion
	Low	3 Higher costs	4 Legislation to reduce number of TV studio licenses

Source: Kotler and Keller (2012, p. 71)

3.4.2 INTERNAL ENVIRONMENT (STRENGTHS AND WEAKNESSES) ANALYSIS

It is one thing to find attractive opportunities, and another to be able to take advantage of them. Each business needs to evaluate its internal strengths and weaknesses. Business can evaluate their own strengths and weaknesses by using a form like the one shown in "Marketing Memo: Checklist for Performing Strengths/Weaknesses Analysis" (Kotler and Keller, 2012, p. 71-72)

Figure 3-5: SWOT chart for the specialist sports car manufacturer

Source: own formation according to Jobber (2010, p. 47)

Once a SWOT analysis has been completed, thought can be given to how to turn weaknesses into strengths and threats into opportunities (Figure 3-5). For example, a perceived weakness in customer care might suggest the need for staff training to create a new strength. A threat posed by a new entrant might call for a strategic alliance to combine the strengths of both parties to exploit a new opportunity. Because these activities are designed to convert weaknesses into strengths and treats into opportunities they are called conversion strategies. Another way to use a SWOT analysis is to match strengths with opportunities.

Using the SWOT chart for the specialist sports car manufacturer (Figure 3-5), conversion strategies might include building a new manufacturing facility to raise production levels to 50 cars per week and to incorporate more modern production methods, establishing a marketing function and (if marketing research support it) raising price levels. The company could also seek to eliminate the threat of tougher European standards on exhaust emissions by redesigning its engines to meet them. Marketing strategies might include building on the company´s strengths in producing reliable products and possessing a well-respected global brand name to establish distribution in Germany, France, Benelux and Scandinavia, while building sales in the USA and UK (opportunities). Given the company´s lack of marketing expertise, the geographic expansion would need to be carefully planned (with full input from the newly created marketing department) at a rate of growth compatible with its managerial capabilities and production capacity. International marketing research would be conducted to establish the relative attractiveness of the new European markets to decide the order of entry. Such a phased entry strategy would enable the company to learn progressively about what is needed to market successfully in Europe. (Jobber, 2010, p. 47-48)

SWOT ANALYSIS OF BOTANICAL BOUNTY

Botanical Bounty is an Oregon-based perennial farm that grows a variety of botanical, medicinal plants. This family-owned farm has been in existence for two years, initially operating as a hobby for the owners—who have training in plant biology—rather than as a profit-producing business.

Botanical Bounty needs to establish its reputation as a highly-efficient, high-potency medicinal herb grower, and one effective and inexpensive way to do that would be to lean on loyal customer testimonials in the company's marketing strategy. Botanical Bounty also needs to establish a strong sales channel with herbal supplement manufacturers, and should invest plenty of energy into building those relationships and establishing Botanical Bounty as a reliable vendor.

- **STRENGTHS:** We consistently produce plants with high active botanical percentages. We produce a high ration of healthy plants. Co-owners have a strong combination of business development and horticulture experience.
- **WEAKNESSES:** We will need to borrow $100,000 in funds for the first year. We have not established ourselves as a reputable grower in the botanicals market yet.
- **OPPORTUNITIES:** Customers are looking for an ongoing relationship with one botanicals vendor. The market for supplements is huge and growing.
- **THREATS:** A poor growing season due to changes in weather can seriously affect production. Pests are a threat to our ability to provide healthy plants. Some similar-sized farms have been in business longer.

Source: Web portal Starting a business made easy. [online] [cit. 2019-01-23]. Available at: https://articles.bplans.com/swot-analysis-examples/

SWOT ANALYSIS OF SEDIBENG BREWERIES

Sedibeng Breweries is a medium-scale brewery located in the growing industrial center of Selebi Phikwe, Botswana. Their product is traditionally-brewed craft beer, targeted at white collar and working class Batswana alike. Sedibeng's primary market advantages are their company culture, consistent "quality" branding, traditional brew recipes, and commitment to rural distribution.

- **STRENGTHS:** We have established and maintained a strong capital base. Aggressive and focused marketing campaign with clear goals and strategies. Together have wide experience in product and business know-how.
- **WEAKNESSES:** Establishing a reputation on the internet will be challenging. There are a lot of new hires to train and organizational structures to learn. Don´t have reputation or money of big breweries.
- **OPPORTUNITIES:** New generations of consumers appreciate high-end bottling and labeling. There is a growing community of craft beer appreciators in Botswana. Promotions of and initiatives to support Botswana exports.

- **THREATS:** Major breweries are establishing control of supply and distribution channels to corner the market. Huge fluctuations in prices of supplies may occur. Competition could develop expensive new marketing campaigns.

Source: Web portal Starting a business made easy. [online] [cit. 2019-01-23]. Available at: https://articles.bplans.com/swot-analysis-examples/

3.5 Responses to Environmental Change

Companies respond in various ways to environmental change. There are four ways: (Jobber, 2012, p. 95-96)

- **Ignorance:** Because of poor environmental scanning, companies may not realize that salient forces are affecting their future prospects. They therefore continue as normal, ignorant of the environmental issues that are threatening their existence, or opportunities that could be seized. No change is made.
- **Delay:** The second response is to delay action once the force is understood. This can be caused by **bureaucratic decision processes** that stifle swift action. Then **marketing myopia** can slow response through management being product rather than customer focused. A third source of delay is **technological myopia**, when a company fails to respond to technological change. The fourth reason for delay is psychological recoil by managers who see change as a threat and defend the status quo. These are four powerful contributors to inertia.
- **Retrenchment:** This response tackles efficiency problems but ignores effectiveness issues. As sales and profits decline, management cuts costs, this leads to a period of higher profits but does nothing to stem declining sales. Costs (and capacity) are reduced once more but the fundamental strategic problems remain. Retrenchment policies only delay the inevitable.
- **Gradual strategic repositioning:** This involves a gradual, planned and continuous adaptation to the changing marketing environment.
- **Radical strategic repositioning:** Radical strategic repositioning involves changing the direction of the entire business. Radical strategic repositioning is much riskier than gradual strategic repositioning because, if unsuccessful, the company is likely to fold.

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 3. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. Marketing macroenvironment does deal with:

a) Population.
b) Competition.
c) Laws.

2. Megatrend can be understood as :

a) Unpredictable, short-lived, and without social, economic, and political significance.
b) A large social, economic, political and technological change that is slow to form, and once in place, influences us for some time – between seven and ten years, or longer.

c) The way how reveal the shape of the future and can provide strategic direction.

3. Marketing microenvironment deals with:

a) Natural sources.
b) Unemployment.
c) Customers.

4. The parts of Porter model of competitive industry structure are:

a) New entrants, buyers, substitutes, suppliers and industry competitors.
b) New entrants, buyers, substitutes, suppliers and government.
c) New entrants, buyers, complements, suppliers and industry competitors.

5. SWOT analysis include the analysis of:

a) Strengths, weaknesses, opportunities and threats.
b) Strengths, weaknesses, observations and threats.
c) Strengths, weaknesses, opportunities and targets.

CORRRECT ANSWERS

1b, 2b, 3c, 4a, 5a

4 CONDUCTING MARKETING RESEARCH

Imagine the situation when you come to a doctor with a flu, and he, without raising his head and examining you, sets a diagnosis. Which is you have fluid imbalances in your body. So he plans to take you half litre of blood, and everything will return to normal. Would you agree with such a procedure? Today, no, but for medical practice during the Middle Ages it was a common practise (Sharp, 2013). Fortunately, in today's world, not only do the doctor, but also the patient has a necessary knowledge for his decision. The doctor knows what to ask and how to analyse your problem, based on the information provided by the health documentation and interview with the patient. Thus, he does not rely on the theory of four body juices (blood, slime, black bile and white bile) that was completely illogically linked to four elements: water, earth, fire and air. He understands the basic causality (cause and effect relationship) of most diseases and is able to make informed decisions. Medicine has become much more accurate with scientific procedures. Moreover, the same scientific procedures are also available in the field of marketing research, and it is mostly a very simple approach to solving the problem by collecting data that we transform during the research process into information. Fundamental principles outlined in this chapter will ensure that time and financial investments in marketing research you spend is not wasted.

Why do we try to get data instead of using our intuition to make decisions about certain things? Making the right decisions based on intuition was once domain of experienced managers. Because, by repeating events in a closed system, our brain quickly learns to understand things, it was possible to rely on the intuitive decision of the most experienced colleagues. Closed system means, for example, a world in which there are clear rules that do not change very often. Anyone new to this system is making some mistakes that gradually disappear just as the brain's system maps and recognizes. Poker players are in a closed system, so after a certain period of time, those who play more often and have the ability to learn permanently, will begin to excel in this system. That’s it. Nothing more, nothing less. Then many decisions they make are becoming automatic, unconscious, intuitive. When we return to an experienced marketing manager who once worked in a relatively stable market system (weaker competition, stable customer needs, clearly defined target groups), we must admit that his intuition has had positive benefits for decision-making. However, the current world does not offer anything like a closed, stable, and regular-based market. The dynamics of change is now enormous, and what has worked for a number of years does not have to be valid now. To make decisions in the 21st century, we need true, useful and meaningful information.

Since marketing clearly puts the customer in the centre of all market-oriented activities, a continuous supply of accurate and systematic information about market-related facts and data has become more important than ever before and stands, in fact, at the core of any worthwhile business effort. Successful business activities not only have to meet the needs of both the customers and the company itself, but also have to adjust continually and dynamically to ongoing changes (economic, social, technological etc.). Most analyses carried out during a market research concern customers and competitors. (Kaftan, 2001, p. 143)

4.1 MARKETING RESEARCH

Marketing research is helpful to entrepreneurs or managers in three elementary ways: reduce uncertainty and risks, support effective decision-making and offer a solid base for planning (Kaftan, 2001, p. 143). With this in mind, there are several key questions, the answers to which help provide this understanding (Zikmund, 2010):

1. **What do we sell?**

This includes not only the benefits that are easily seen, but also the more emotional benefits such as the comfort and relaxation of enjoying a cup of gourmet coffee in a pleasant atmosphere or the novelty of trying a rotten egg jelly bean.

2. **How do consumers view our company?**

All too often, companies define themselves too narrowly based only on the physical product they sell. A key question involves whom the customers will do business with if they do not choose your company. For instance, how is Starbucks viewed relative to its competitors? Who are the competitors? Does Starbucks compete more directly with Maxwell House, Seattle Drip, or something completely outside the coffee arena like a local lounge? Are we viewed more or less favourably relative to the competition?

3. **What does our company/product mean?**

What knowledge do people have of the company and its products? Do they know how to use them? Do they know all the different needs the company can address? What does the packaging and promotion communicate to consumers?

4. **What do consumers desire?**

How can the company make the lives of its customers better, and how can it do this in a way that is not easily duplicated by another firm? Part of this lies in uncovering the things that customers truly desire, but which they can often not put into words.

Regarding these crucial questions, we can divide marketing research roles in marketing management into three main categories:

Table 4-1: Different roles in marketing research

PLANNING	UNDERSTANDING	EVALUATING
Which markets to enter	Customer needs and preferences	Customer satisfaction
Which products or service to offer	What customers think of existing product and services	The effectiveness of a brand's marketing mix
Which customers to target	How customers use products and services	
Potential sales of new products	How markets change over time	

Source: Sharp (2013, p. 134)

4.1.1 APPROACHES TO CONDUCTING MARKETING RESEARCH

Depending on the situation in which company is, particularly the resources allocated to marketing research, there are three ways of carrying out marketing research, described below (Drummond and Ensor, 2005, p. 60-61).

UNDERTAKE THE WORK IN-HOUSE

This is an option in the case of small-scale research projects or where an organization is large enough and employs specialist marketing staff. The increasing awareness of the importance of marketing research and the low-cost online data collection options available have enabled many companies conducting do-it-yourself marketing research. Given the nature of the research, DIY is suitable for only some projects and other times hiring a professional marketing research firm would be best.

There is no doubt that doing research in-house is less expensive than hiring a marketing research firm, especially when conducting online research. There are online software tools that provide online survey hosting at minimal cost. These tools allow DIY researchers to program simple surveys in a timely manner. When companies decide to conduct marketing research, they have set objectives they want met and questions they want answered. Because of this, many companies would like to be involved throughout the entire process. Doing research in-house lets the company have hands-on involvement and daily input during every aspect of the process. With in-house research, you have a staff that is knowledgeable of your industry conducting the research. Most marketing research firms have diverse industry experience and will not have the extensive industry knowledge that an in-house research team would have.[8]

EMPLOY A FIELDWORK AGENCY

Even for an organization with specialist market research staff that can design a research and coordinate a survey they may find that, for a large survey, they don´t have the resources to actually carry out all the data collection. In this situation they can employ a specialist fieldwork agency who will undertake the data collection then hand back the raw data for the organization to analyse. Many marketing research agencies will offer fieldwork administration as one of a range of services they offer clients.

EMPLOY A MARKETING RESEARCH AGENCY

Another option available to an organization is to contract out all aspects of the research project to an outside agency. The agency then would complete all the stages of the research project. In order for this approach to work successfully there has to be very clear communication between the client and the agency about the objectives of the research.

Conducting marketing research requires resources and time. Many companies do not have the resources available to implement all aspects of the project in a timely manner. Hiring a marketing research firm can free in-house managers to focus more on the findings and actionable decisions. One of the most beneficial reasons for hiring a professional marketing research firm is the promise of confidentiality and anonymity to the respondents. This avoids the conflicts of interest that can arise and adversely affect your results when you conduct your own research. Marketing research firms are often in compliance with certain codes and memberships to organizations. Compliance with these codes is used to signal quality service to potential and current customers.[9]

Today, marketers are well served by a professional market research industry that consist of some multinational providers, such as Nielsen and Kantar, as well as many local market research agencies (Sharp, 2013, p. 134). The industry is growing every year and provide marketers with highly professional services.

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[8] DIY Marketing Research: Pros and Cons [online]. [cit. 2014-05-18]. Available at: http://www.polarismr.com/Portals/58820/newsletters/diy_research/MRP_0311_DIY_MR_Pros&Cons.htm
[9] DIY Marketing Research: Pros and Cons [online]. [cit. 2014-05-18]. Available at: http://www.polarismr.com/Portals/58820/newsletters/diy_research/MRP_0311_DIY_MR_Pros&Cons.htm

4.1.2 BASIC PURPOSES OF MARKETING RESEARCH

Before moving on to a specific marketing research process, it is necessary to present three main types of research according to their purpose. Why we do research and what kind of nature is often neglected and overlooked. Research, which has a clearly defined purpose from its very beginnings, has a much greater chance of bringing substantial support information to support decision makers or entrepreneurs.

EXPLORATORY RESEARCH

We use this research design when we know very little about the problem, or we are not sure about some of its aspects. We need to better define and recognize it. It helps to better understand the problem, to specify the environmental influences surrounding the problem, to identify alternative solutions to the problem, and to establish hypotheses for the causal type of research (Kozel et al., 2011). Exploratory research may also show that it is not worthy to pay for further research. The research question will begin here with the words "What" or "How". The source of data can be secondary sources, expert interviews, in-depth consumer interviews, observation, or focus group discussions. Questions to the respondents will be in unstructured form and open questions will be addressed (Saunders et al., 2015). Therefore, questions to which the respondent does not choose the answer from the prepared choice of options but responds at his / her discretion.

DESCRIPTIVE RESEARCH

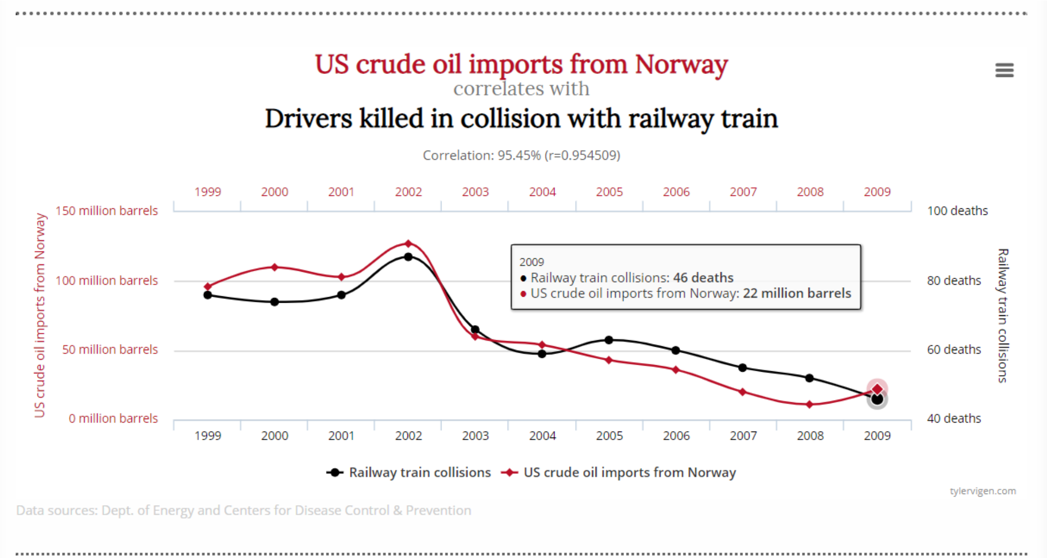
It aims to describe specific subjects or objects in the market and the phenomena surrounding them through a clearly structured procedure (Kozel et al., 2011). Compared to exploratory research, marketers are already clear about a specific problem or situation, and the research question will begin with "Who," "What," "When," "Where," and "How" (Clow and James, 2013). Descriptive research can be used for a large number of research situations and is the most commonly used type of research. In the majority of cases, descriptive studies use numbers, allowing for the study of statistical and mathematical relationships.

There is one major problem with descriptive research regarding the usefulness of the outputs. The situation may arise: "Nice ... so what?". Not always by the simple description of reality, the marketing manager actually receives essential information for his decision. For example, brand awareness research can provide information about which target groups are highly aware, and which are not aware at all. However, the answer for this question does not provide the reasons for this (why is that so?). Very often, therefore, descriptive studies are carried out with a certain regularity, thus providing information on the development of individual indicators.

CAUSAL RESEARCH

When we want to find out the cause of a certain phenomenon, we do causal research. The optimal, but not the only, method is the use of the experiment, which will be discussed later in this chapter. During this type of research, we define a dependent and independent variable. The first one depends on an independent one, and we assume that changing the independent variable will change the dependent variable. However, relations between variables need to be properly interpreted and to see whether this is really a causal relationship or just a coincidence. There are known examples of false correlations that were statistically significant, but in reality, we would hardly believe these results. Or do you think that the amount of crude oil imported into the US from Norway is related to the number of people killed by the train? (see figure 4-1) In spite of the fact that there is a correlation in the data, we do not assume that these two phenomena are related in any way.

Figure 4-1: False correlation example



Source: Spurious correlations [online] [cit. 2018-12-14]. Available at: http://tylervigen.com/spurious-correlations

4.1.3 RESEARCH METHODS ACCORDING TO BASIC TYPES OF MARKETING RESEARCH DATA

Secondary, often called desk research, and primary research are the two main categories of research data.

SECONDARY DATA RESEARCH

Secondary data are already available as it has been collected, and in some cases analysed, by other parties or organisation itself for reasons other than for use in the research project that is currently being undertaken. This type of data may be external information or it may be internally available within the organization. Normally, the first stage of any research project would be to search for secondary data before undertaking any primary data research. Before using secondary data, the researcher has to evaluate its relevance and reliability to the research project being undertaken. (Drummond and Ensor, 2005, p. 52)

Researchers may be tempted to immediately start collect the primary data by designing a survey or holding a focus group. However, there are many benefits to first conducting external secondary research including:

- **Lower costs** - because secondary data, unlike primary data, have already been collected they can be obtained at lower cost.
- **Research answers** - by analysing the secondary data researchers might find an answer to a research problem.
- **Assistance with the design of research methodology** - data from existing sources of consumer preference can provide information on desired product benefits that will help in the design of a questionnaire or focus group script.
- **Providing industry information** - even if the secondary data that are analysed do not directly provide the answer to the problem, their collection and analysis

are still helpful in providing background information and context on the research issue. (Kolb, 2008)

Secondary data can be obtained from a two key sources – internal and external. **Internal data** may include past research projects on the same topic, sales figures, documented history of the product or brand development, and marketing intelligence information like feedback from front-line staff, consumer complaints and so on. This should be a starting point, as it is may be relatively easy to get and should cost you nothing. So, keeping track and order in internal data is important – it potentially can save a lot of time, money and effort, and save you needing to research the same thing twice. **External sources** may include statistics, academic and industry publications, syndicated research reports, and various databases. (Sharp, 2013, p. 142)

PRIMARY DATA RESEARCH

Secondary data research may have provided some useful data but it is likely that there will be gaps in this information which an organization will need to fill by undertaking some primary data collection. Primary data research, sometimes referred to as field research, involves the organization directly undertaking, or commissioning a research company to specifically undertake a piece of research. A range of approaches to carrying out primary research is available to an organization. These research methods fall into two key categories, qualitative and quantitative. (Drummond and Ensor, 2005, p. 53-57)

Primary qualitative research at a basic level could be described as the collection, analysis and interpretation of data obtained by studying the behaviour and language displayed by individuals in a particular situation. The key aim of qualitative research is to provide a rich insight into the perceptions, attitudes and motivations of consumers. Unlike quantitative research, qualitative techniques do not provide large sets of numerated data that can be statistically tested for their reliability and validity. However, qualitative techniques do provide highly sophisticated and subtle insights into the phenomena being studied. A number of techniques are available to the researcher in undertaking a qualitative study. Each will now be discussed in detail below.

- ***Depth interviews:*** This is a popular method of qualitative research and involves structured or semi-structured interviews that are normally around an hour long. The interviews are generally confidential in nature, undertaken face to face and respondents are encouraged to talk openly about the topic under discussion. The interview would normally be audio recorded so that a full transcript can be typed after the session has ended. The advantage of a depth interview is that the respondent is not influenced by other individuals, as can happen in focus groups. This type of interview also allows a deeper discussion to take place on a particular topic. The key disadvantage is that normally a series of interviews with a range of individuals would need to be undertaken and that can be a costly process, both in terms of time and money. The choice of the individuals to interview will be based on their fit with the consumer profile for a particular product or service.
- ***Focus group discussions:*** Focus groups are made up of six to eight respondents who undertake an unstructured or semi-structured discussion facilitated by the researcher who acts as moderator. These discussions have traditionally taken place face to face although Internet discussions are becoming more common. Once again, the discussion is audio recorded and sometimes videoed. The researcher normally has a list of issues, relating to the overall focus of the research, that they wish to have discussed by the group, but the aim is to give as much freedom to the group as possible in order that they can discuss the issues that they deem to be important. Analysis of these discussions should allow a researcher to

identify the beliefs, attitudes, motivations, behaviours and preferences of the respondents and thereby gain a detailed understanding of the organization´s consumers.

- ***Expert consultation:*** Although much qualitative research is focused on the actual consumer, an alternative approach is to interview individuals with relevant expert knowledge. Various types of expert can be found in the academic community, financial services or the specialist press. Although they may not be a direct consumer of a particular product or service, they can be a rich source of specialist background knowledge. Experts may also be able to provide a valuable perspective on possible future developments in a product or service area.

Primary quantitative research focuses on gathering data that is quantifiable and some would argue, therefore unlike qualitative research in that it is less open to interpretation. Quantitative data includes information available through secondary sources, such as, market size, market share, sales figures (see Table 4-2). However, not all information is available through these sources and in that case primary research has to be undertaken. In these circumstances the majority of organizations will collect quantitative data through questionnaire-based surveys. Unfortunately, in most cases without any relevant logic behind this choice, which results in inaccurate, confusing and vague research results.

Table 4-2: The essential differences between qualitative and quantitative research

	Qualitative research	**Quantitative research**
Main question	Why?	How much?
Goal	Understand	Measure
Level of analysis	Rich, in-depth insights	Broad generalizations
Operation	Interpretation	Statistics
Framing	Research question	Hypothesis testing
Sampling	Small samples	Large samples

Source: Own processing

THE BASIC METHODS OF PRIMARY MARKETING RESEARCH

- ***Observation:*** Observation is a qualitative technique that finds its roots in the social anthropological approach of studying a society over periods of months or years. Consumer researchers employ a similar approach in taking detailed observations of consumers, however, normally their observations are taken over relatively shorter periods of time. This technique can be employed to find out how consumers behave in a particular retail store, allowing the researcher to build up a picture of what factors may be affecting customers´ purchase decisions. A number of observation methods can be employed including direct observation by the researcher, video recording and electronic monitoring of traffic in supermarket aisles. In general, there are two categories: strict observation with no interaction with the subject at all, or observation with some level of intervention/interaction between the researcher and subject. There is a specific form of observation which is called **mystery shopping**. Mystery shopping is a tool used by companies to measure the quality of service, food, and the overall experience of the everyday customer. Mystery shoppers are common people who visit a variety of business locations and report back on the service, food, ambiance, cleanliness, timings and the overall level of customer service. They make observation based on particular request of each client and they are required to enter this information on a form. Mystery shopping is among the most powerful tools available to companies seeking to improve their service quality and offer speedy service at the same time. Providing objective data about the service execution across a broad range of locations and delivery channels allows managers and company owners to identify specific areas that need improvement, and to reward employees in a consistent, relevant manner. The need for this research will only increase as customer demand for high-quality, efficient service grows. With today´s current economy, business cannot afford to lose customers. Thus, as competition in business is growing, so is the need for mystery shopping. (PamInca, 2009, p. 5-9)

- ***Experiment:*** Experiments and field trials involve scientific testing, where specific variables and hypotheses can be tested. The goal is to find causal relationship between variables. These tests can be conducted in controlled environments or out in the field (natural settings). For example, if the number of leaflets delivered into mailbox in the specific area influenced retail sales. This form of market research is always quantitative in nature, requires hypothesis formulation and precise operationalisation of terms used. If done right, only experiment can show causal relationship while observation and survey methods will always bear signs of doubt.
- ***Survey:*** there are a number of approaches available to a researcher in carrying out a survey. These are:
  - ***Face to face interviews:*** In the case of a survey, a structured interview is undertaken employing a standard questionnaire that is administered to every respondent in the same way. Therefore the wording, layout and order of the questions is rigorously adhered to by the interviewer. This approach means that a large number of respondents can be interviewed in a relatively short period of time. The questionnaire is designed in such a way that the respondent has to make a choice from a limited number of prescribed answers to any specific question. Once the survey is complete a statistical analysis of the respondent´s replies is undertaken based on a numeric coding of each of the prescribed answers contained on the questionnaire. It is therefore critical that the questionnaire is designed and tested in such a way as to ensure that the respondents actually interpret the questions being asked in a manner consistent with the researcher´s intentions and the respondents´ answers are not overly constrained by the limited range of answers from which they are allowed to make a choice. A weakness of this approach can therefore be an inappropriately designed questionnaire.
  - ***Telephone interviews:*** Telephone interviews are less expensive than some other methods and provide a mechanism to collect information quickly. Participation is more likely if a limited amount on information is sought from the respondent. However, there are problems with this approach. Most respondents would be reluctant to supply personal details to an unknown researcher over the phone. The sample is likely to show some bias as only individuals listed in a telephone directory can be contacted. The sample may be further biased by only including those individuals who actually respond.
  - ***Postal surveys:*** Postal questionnaires offer the advantage of speed, extensive distribution and relative inexpensive and can be used for any size of sample. Where respondents can be ensured of anonymity these methods can produce candid replies, eliminating the potential of bias associated with surveys undertaken using personal interviews. However, there are a number of problems linked with this method. Postal surveys often have quite high non-response rates, especially with longer questionnaires. There can also be a problem with ambiguity, unless very straightforward questions are asked, or questions are framed in such a way that they offer respondents the choice between highly polarized positions.
  - ***Electronic surveys:*** The questionnaire can be circulated by e-mail or social networks. This provides a very low-cost method of disseminating a survey. This approach has the added advantage that it can be more interactive than a traditional mail survey. Prompts on the questionnaire can provide the respondents with detailed clarification on particular

points, show video with product presentation and many more. However, there are some disadvantages with Internet surveys. The results may be skewed by the fact that Internet users are generally found among more affluent consumers and in younger age groups. The fact that an individual´s e-mail address is attached to any returned e-mail questionnaire violates their anonymity and therefore created reservations about the reliability of their responses on personal issues.

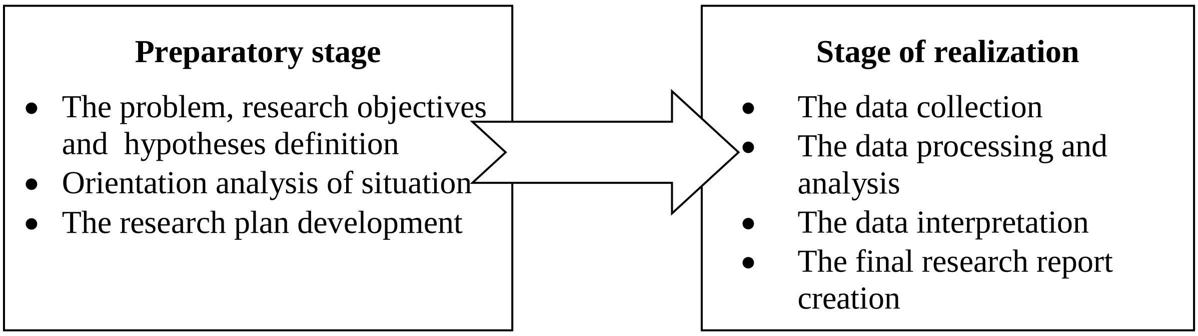
Talking about surveys, there are several important factors that have to be considered when designing a questionnaire. (Drummond and Ensor, 2005, p. 57-58; Morden, 1991, p. 53; Kozel et al., 2006, p. 166-175) Each of these is discussed below:

- The order in which questions are posed on a questionnaire is critical. In order to allow the respondent to relax, simple questions that are general in nature are usually placed at the beginning of a questionnaire. The question that follow should funnel down towards the detailed information that the researcher wishes to identify. In order not to waste the respondent´s time and also to avoid potentially alienating them, filter questions should be employed. These questions allow a respondent to avoid being asked individual questions or whole sections of the questionnaire that are not relevant to them. Identification questions should be always placed in the final part of the questionnaire.
- A questionnaire needs to be structured in such a way that all the questions are well spaced out, ensuring that it is easy for respondents to read and navigate their way around. It is necessary to realize pre-test of questionnaire (sample of about 5 respondents) before implementation into practice.
- There are the most common types of questions that can be employed on a questionnaire. ***Open questions*** which allow the respondent the freedom to provide an answer in his or her own way using their own words. ***Closed questions*** which offer the respondent a choice between pre-determined answers. ***Semi-closed questions*** which mean the combination of the previous two types of questions. ***Filtration question*** enables logical structure of questionnaire. ***Identification question*** discovers respondent´s characteristics. In the case of ***Specific question – scale question*** the respondents are asked to rate the variables under consideration on a relative basis using a five or seven-point scale. If we match several scales altogether, we can require the basis of semantic differential.
- Whatever type of questions employed on a questionnaire it is crucial that they are tested to ensure that they are:
  - Easy to understand, using straightforward day to day language.
  - Not leading the respondent into a particular response.
  - Not ambiguous, suggestive or asking two questions at the same time.
  - Not based on assumptions about the likely views of respondents.

4.1.4 STAGES IN THE MARKETING RESEARCH PROCESS

In undertaking research project there are a number of distinct stages that should be followed, as outlined in Figure 4-2. Each of these stages will be discussed.

Figure 4-2: The market research process



Source: Kozel et al.,2006, p. 71

THE PROBLEM, RESEARCH OBJECTIVES AND HYPOTHESES DEFINITION

The first stage in undertaking a marketing research project is to establish the decisions that will need to be taken and the information that is required in order to make an informed choice. This should lead to the identification of a series of research objectives.

Research objectives need to be established in order to provide a clear focus to the development of a research plan. The objectives should provide a clarity of vision for the individuals working on the project that allows them to develop an effective research brief.

Hypothesis is an educated guess about the relationship of two or more factors or what might happen in the future. There are some resources of hypotheses formulation: previous practical experience, theoretical knowledge and exploring research. It is better to determine the hypotheses in the measurable form.

Table 4-3: The example of problem, research objectives and hypothesis determination

Problem	The lack of financial resources required to ZOO development
Research objective	The marketing research of customer satisfaction with current services provided by ZOO. The better use of internal resources determination. Etc.
Research hypothesis	70 % of customers visit local restaurants in the area of the ZOO. The visit rate should be increased about 10 % among the customers between the ages 18 – 25 years by discount the price by 1,5 euro.

Source: own processing

ORIENTATION ANALYSIS OF SITUATION

An orientation analysis of situation is developed by the client in order to provide the researcher, whether they are in-house or an outside agency, with a clear definition of the organization´s precise requirements. It is likely to contain the following elements: (Drummond and Ensor, 2005, p. 61)

- Background information on the nature of the problem the organization wishes to address.
- An account of the issue that is to be the focus of the research.
- A statement of the specific research objective the organization has developed.
- The time-scale that the research has to be completed within.
- The arrangements the organization requires for reporting the project´s outcomes.

THE RESEARCH PLAN DEVELOPMENT

The research team undertaking the project will then need to develop a research plan that is approved by the client before any work commences. This proposal may build on and refine aspects of the research brief. It is a statement of the project team´s interpretation of the client´s requirements as a result of a thorough examination of the research problem. The project team´s plan should contain: (Drummond and Ensor, p. 62-63; 7, p. 79-80; Kotler and Keller, 2012, p. 129; Jobber, 2010, p. 234-235; Levens, 2012, p. 105)

1. The format of required data.
2. The research method or methods and techniques, to be employed in data collection and processing (see 4.2.4).
3. The plan of sampling process.
    - The aim of forming a probability sample is in effect to attempt to construct a model representing the wider population. The data received from the respondents in the sample can then be statistically analysed and the findings can be considered as being representative of the wider population´s opinions within specific degrees of confidence. The sampling procedure involves selecting either a probability sample or a nonprobability sample as part of sample plan.
        - **A probability sample** is a procedure whereby each member of a population has a known and nonzero chance of possibly being selected to a sample. There are several probability sampling procedures, including **simple random sampling,** where each person has an equal chance of being selected; **systematic sampling,** where a skip interval is used from a list of the population to select the sample; and **stratified sampling** where the population is subdivided into specific groups and random samples are selected from those groups.
        - **A nonprobability sample** is a procedure whereby each member of a population does not have an equal chance, or, in some cases, any chance, of being selected to a sample. Results from nonprobability samples can describe only the characteristics of the sample and not the population. There are several nonprobability procedures, including a **convenience sample,** where samples are created out of convenience, a **purposive sample,** where judgment is used to create the sample based on a perception that the respondents meet the necessary requirements, a **snowball sample,** where respondents help identify subsequent respondents for the sample, and a **quota sample**, were predetermined categories are used to identify respondents based on that predetermined criteria. In the case of quota sampling, the researcher decides that a specific percentage of the total sample will be made up of each of these groups. Therefore, the researcher might decide that 20 % of the sample should be women aged 18 to 24 who are in employment. The results may not be representative, however, this method is widely used and many researchers feel they can produce results that are a useful aid to decision-making.
        - It is also important to determine the sample size. Clearly, the larger the sample size the more likely it will represent the population. However, samples of less than 1 percent of a population can often provide good reliability, with a credible sampling procedure.
4. The techniques to be employed in analysing any primary data.
5. A timeframe for the research and a budget outline.
6. Specific research activities allocation among research team members.
7. The final verification of the plan.

THE DATA COLLECTION

Once a research method is established and the technique that is to be employed for data collection is agreed, the fieldwork can be initiated. The data collection phase of marketing research is generally the most expensive and the most prone to error. (Drummond and Ensor, 2005, p. 63) Assuming that the survey instrument has been appropriately designed, the next concern is how to obtain viable data for analysis. If the collection is through the mail, then the area to watch is when data are transferred from the mail to a computer file. If collection is directly online, then the area to watch is the program that aggregates and analyses the data, as well as the process to move the data from one program to another, if relevant.

When interviewers are involved, through either a telephone interview or an in-person interview, there are other concerns. The interviewer may not consistently execute the survey, the interviewer may record the responses incorrectly, the researcher may not understand the responses, or the researcher may improperly clarify or incorrectly clarify a question. **Non-sampling error** is any bias that emerges in the study for any reason other than sampling error. Non-sampling error includes not only interviewer error, but also respondent errors such as confusion, fatigue, or deceit.

The overarching concerns with the quality of the marketing research involve the levels of validity and reliability of the results. **Validity** is the strength of the conclusion. Were the results correct? **Reliability** is the level of consistency of the measurement. Is the marketing research repeatable with the same conditions? A variety of techniques are available to measure these factors, depending on how the scales were developed. (Levens, 2012, p. 105)

THE DATA PROCESSING AND ANALYSIS

Data processing includes the editing, coding, transcription and verification of data. The process of data preparation and analysis is essentially the same for both quantitative and qualitative techniques, for data collected from both secondary and primary sources. Considerations of data analysis do not occur after data has been collected; such considerations are an integral part of the development of an approach, the development of a research design, and the implementation of individual quantitative or qualitative methods. If the data to be collected are qualitative, the analysis process can occur as the data are being collected, well before all observations or interviews have been completed. An integral part of qualitative data preparation and analysis requires the researcher to reflect upon their own learning and the ways they may interpret what they see and hear. If the data to be analysed are quantitative, each questionnaire or observation form is inspected or edited and, if necessary, corrected. Number or letter codes are assigned to represent each response to each question in the questionnaire. The data from the questionnaires are transcribed or keypunched into a proprietary data analysis package. Verification ensures that the data from the original questionnaires have been accurately transcribed, whereas data analysis gives meaning to the data that have been collected. Univariate techniques are used for analysing data when there is a single measurement of each element or unit in the sample; if there are several measurements of each element, each variable is analysed in isolation. On the other hand, multivariate techniques are used for analysing data when there are two or more measurements of each element and the variables are analysed simultaneously. (Malhotra et al., 2011, p. 11)

THE DATA INTERPRETATION AND THE FINAL RESEARCH REPORT CREATION

In order to disseminate the results of the research the team should construct a final report that presents the findings within a clear and logical structure. (Drummond and Ensor, 2005, p. 63) Once the entire research process has been completed, it is essential to do more than simply document the results. Findings must be evaluated and conclusions developed. Most important, it is essential to attempt to answer the original research question. Think about who is receiving this information and understand that they may not have a marketing research background. Be sure to consider the findings of the research from various perspectives and ultimately try to synthesize the most viable recommendations from the findings and conclusions. (Levens, 2012, p. 106)

4.2 SELECTED TRENDS IN MARKETING RESEARCH

With the rapid development of technology and the cost-cutting of many devices, new methods are becoming more and more available, not just for a few selected research agencies, but essentially for much of the market. However, there is still a lack of extensive marketing expertise in the industry, thanks to the advanced technological features of new methods. For the purpose of this book, we select only the two most well-known. The first is neuromarketing and the second eyetracking.

4.2.1 NEUROMARKETING

As Tahal et al. (2017, p. 152), neuromarketing cannot be simply defined as a clear combination of methodologies. Neuromarketing as a term generally refers to a methodological approach to detecting reactions of different parts of the human body to external stimuli. These procedures help to eliminate the weaknesses of traditional research methods such as the questionnaires, where a number of fundamental distortions arise. People on a range of topics respond to the questionnaire differently than they actually behave. The value of such research is frankly speaking limited for the marketer.

Possible tools include measuring the responses of the human body. These include functional magnetic resonance imaging (fMRI), electroencephalography (EEG), skin resistance measurement, photoplethysmograph (monitoring of blood pressure activity) and body temperature measurement. As can be seen from this enumeration, the manifestations of the human body affecting decision and behaviour exhibit in brain activity, heartbeat, elevated temperature or changes in sweating.

The possibilities of using functional magnetic resonance that help detect the activation of individual parts of human brain in research are many. If we know which centres are active during decision-making, we can better understand customer behaviour. One such study is the work of a team of scientists around professor at Stanford University, Brian Knutson (2007).

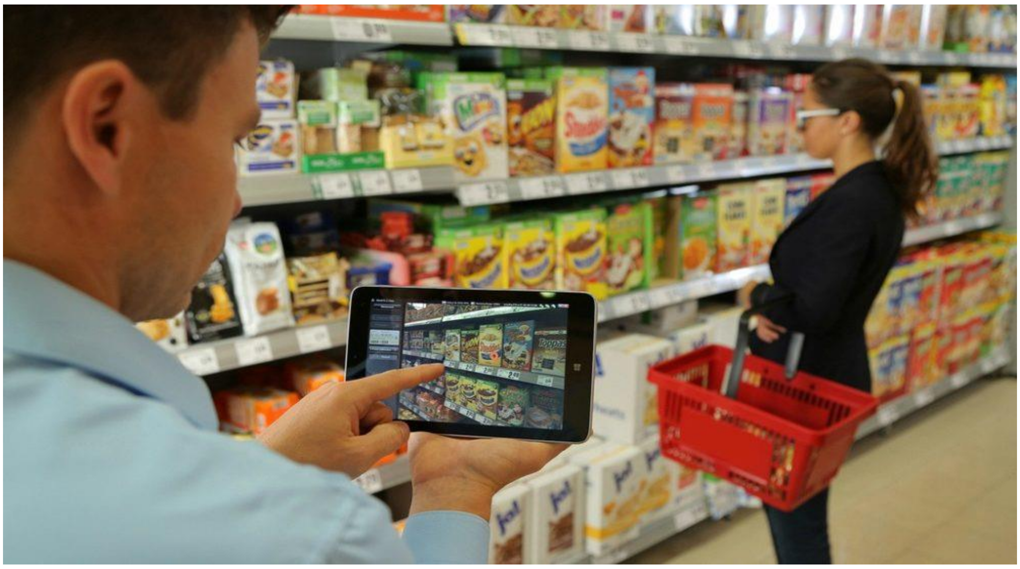
The research team placed volunteers into the drum of functional magnetic resonance and showed them three kinds of images. On the first one, the product was placed for four seconds. On the other, the price tag was added, and on the third, participants were asked to decide whether they wanted to buy the product. The entities had a budget for the purchase of these products in the research so it was not a completely unreal purchase.

During the product demonstration, part of the nucleus accumbens was activated. Its activation has positively influenced the subsequent choice. Subjects where this part of the brain was activated more strongly eventually made a purchase. The second price picture triggered the insula centre. However, the continuity with the choice was negative. The more the insula area activated in the subject, the less chance it was to finally get the product out. The prefrontal cortex was active in the last part of the research process when entities had to choose whether to purchase the product. Apart from the fact that the product, price and choice activate in our heads different brain centres, the subjects were also asked when they felt they were actually making the choice whether to buy or not to buy. Most of the answers came up in the last four seconds. This is interesting, as the strong activation of the nucleus accumbens and the weak activation of the insula were a clear prerequisite for a positive purchase decision. Consciously, people say they are deciding when they are faced with a choice. This study has shown that it is a bit earlier and it is deep in the customer's subconscious brain structures.

4.2.2 EYETRACKING

Another modern way of gaining insights are eyetracking studies. The principle is incredibly easy. Cameras placed on a computer, notebook, or portable glasses (see figure 4-2) capture pointers and are therefore able to show the researcher the places the customer has looked for. It can be seen in real time where the subject is looking, or it is possible to plot the record as a customer's view or heatmap.

Figure 4-2: Use of eyetracking glasses in retail



Source: The fun times guide [online] [cit. 2018-12-20] Available at: https://tech.thefuntimesguide.com/files/eye-tracking-technology-market-research.jpg

In this way, valuable information can be obtained not only about what you have seen, but also how long your eyes stayed in a position (the so-called fixation) or where your vision was moving (the way of the movement of sight). Popular research objects include various communication materials such as flyers, billboards, printed ads, websites, banner ads, newsletters, or a full retail shopping visit record.

Figure 4-3: Using a heat map to evaluate the eye tracking study for the campaign visuals

Source: Clikfocus [online] [cit. 2018-12-20] Available at: https://clikfocus.com/blog/how-people-work-use-faces-web-design

In figure 4-3 you can see the results from billboard testing. First image on the left shows baby with his face from a front and the second image from a side. The results of eyetracking study shows, that using the second image will increase readability of the main advertising message. Even the product is seen more intensively with the kid looking out of the image instead the eye view. In the short time available for customer passing around such a billboard in car, the commercial information may not be transferred properly when using the first image. This insight is valuable for marketers so they can find real reason for effectiveness or ineffectiveness of particular marketing messages.

KELLOG´S: NEW PRODUCTS FROM MARKET RESEARCH

Introduction

The Kellogg Company is the world's leading breakfast cereal company. Kellogg's uses market research to find out what consumers need, so it can design products and understand how to promote them to meet those needs. This study looks at the value of market research during the new product development (NPD) of Crunchy Nut Bites, a Crunchy Nut brand extension.

Why carry out market research?

Product-orientated firms create a product and then look for a market for it. Kellogg's is market orientated. Its focus is on its consumers' needs. To strengthen its range, Kellogg's designs new products. Kellogg's must find out or predict changing consumer needs before developing a new product. Launching a new product can be risky, but market research lessens risks.

Types of research

Kellogg's used a number of data collection methods for Crunchy Nut Bites.

Primary research is often time-consuming and costly. It is very helpful as it meets a particular need. There are two types of data:

• **Qualitative data** is based on consumer responses, feelings and descriptions provided, for example, through focus groups.

• **Quantitative data** uses figures or numbers. Such data is often taken from a large number of consumers, for example, by questionnaires.

Secondary research is research that has been collected by other organisations. It is often quicker and cheaper. Examples are online statistics or government reports.

Information gathering – discovery to selection

The order that data is gathered is important. Kellogg's follows four stages of research for NPD.

Stage 1: *Discovery.* Initial research helped find new ideas. Secondary research looked into new trends and new products in the market. Kellogg's used this to create a number of new options. Focus groups helped to provide qualitative research on the new ideas. Kellogg's then kept those that consumers liked best.

Stage 2: *Selecting the best idea.* Kellogg's then showed the selected ideas to a large group of consumers. This was a quantitative survey. This aimed to find out which were most liked and how many people would buy each product. The results proved Crunchy Nut Bites was the idea most people liked.

Information gathering – development to launch

Stage 3: *Creating the product.* Kellogg's then needed to make a real product from the idea.

A number of recipes and packaging designs were tested with groups of consumers to find the favourite.

Stage 4: *Forecasting sales.* The selected product then went through the 'In Home Usage Test' before launch. Consumers tried the product for a few days. They filled out a report on their thoughts. This further measured the product's appeal and sales potential. This information also helped to create a sales forecast for the product's first two years in market. Kellogg's then set budgets and planned the supply chain and food production.

Conclusion

Kellogg's was able to explore many ideas and find out which had the greatest appeal through market research. The new product was tested with consumers to ensure it met their needs. Data provided a sales forecast to predict product sales. Sales results showed the new Kellogg's product performed very well in its first year. Effective market research was valuable in achieving this.

Source: New products from market research [online]. [cit. 2014-05-18]. Available at: http://businesscasestudies.co.uk/kelloggs/new-products-from-market-research/types-of-research.html#axzz324lmnFBr

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 4. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. **The main goal of a marketing research is to:**
   a) Generate knowledge.
   b) Validate ideas.
   c) Create survey.

2. **Which activity is conducted in preparatory stage of a research:**
   a) Data visualisation.
   b) Data analysis.
   c) Research objectives development.

3. **Which data collection method is aiming to describe casual relationship:**
   a) Survey.
   b) Experiment.
   c) Observation.

4. **Which type of data is best to explore first in the research process:**
   a) Primary.
   b) Qualitative.
   c) Secondary.

5. **Which technology detect the activation of individual parts of human brain:**
   a) EEG
   b) fMRI
   c) Eyetracking

CORRRECT ANSWERS

1a, 2c, 3b, 4c, 5b

5 CONSUMER BEHAVIOUR ANALYSIS

This chapter explains how consumers behave, what influences them and how they think when buying new products. We start with a brief introduction into some of the most popular behavioral theories which are rooted in long-time social sciences research. These are also valid in the context of consumer behavior thus underlying the interdisciplinary nature of marketing discipline. We highly recommend all students pursuing career in marketing to follow also literature and research in sociology, psychology or behavioral sciences.

5.1 CONSUMER INVOLVEMENT THEORY

There are two major operational modes of human brain decision making processes. Kahneman (2013) calls this modes System 1 and System 2. System 1 is a fast and brain-less energy-friendly intuitive way of deciding. When you are experienced driver, driving becomes completely effortless therefore done by System 1 (subconscious if you want). On the other hand, there is System 2 which is deliberate and conscious, effortful, controlled mental process, so to speak rational thinking. For a decades scientists, economists included, considered System 2 to be the major force in human decision making. Based on this paradigm, the homo economicus was born: fully rational, selfish, with tastes that do not change. However, people are neither fully rational nor completely selfish, and their tastes are far away from stable. We do nearly all decisions in System 1 and few in System 2. This makes understanding of consumer behaviour complex but at the same time extremely interesting.

Many marketing textbooks tend to gloss over these facts about habitual buying, overemphasising rational decision making and thinking. Well-researched buying decisions do sometimes occur, but rarely. For the majority of brand buying and store choice, habit and convenience drives behaviour. Consumers form a stable repertoire of brands or stores and repeatedly buy from them. (Sharp, 2013, p. 36)

5.1.1 LOW INVOLVEMENT DECISIONS

A normal-sized supermarket contains about 40,000 different products, which makes even simple grocery shopping sound daunting. Similarly, in any city there are hundreds of financial institutions to choose from, thousands of accountancy practices, thousands of hairdressers, and so on. Each night, when people just want to relax and watch a bit of television, they are confronted with a choice of many, if not hundreds, of different television channels. So how does the poor consumer handle so much choice? How do they manage to do it every day, and do it so quickly? Fortunately, most of the buying that we do is repeat behaviour, something that we have done before. For most purchases we make, we have bought from that category before. In fact, we have probably bought that particular brand before; almost certainly, we've bought from that store before, or one very like it. So, we are pretty experienced consumers—although this doesn't mean we are experts, partly because there are so many categories, so many brands and so many shops. Also, few of us want to be experts: we just want to be knowledgeable enough that we do not waste too much money or time making really poor choices. Most of the time, we feel we do pretty well without having to put too much effort in. (Sharp, 2013, p. 36)

Marketers use four techniques to try to convert a low-involvement product into one of higher involvement. First, they can link the product to an engaging issue, as when Crest linked its toothpaste to cavity prevention. Second, they can link the product to a personal situation—for example, fruit juice makers began to include vitamins such as calcium to fortify their drinks. Third, they might design advertising to trigger strong emotions related to personal values or ego defense, as when cereal makers began to advertise to adults the heart-healthy nature of cereals and the importance of living a long time to enjoy family life. Fourth, they might add an important feature—for example, when GE lightbulbs introduced “Soft White” versions. These strategies at best raise consumer involvement from a low to a moderate level; they do not necessarily propel the consumer into highly involved buying behaviour. (Kotler and Keller, 2015)

5.1.2 HIGH INVOLVEMENT DECISIONS

Sharp (2013, p. 37) says that some buying decisions have greater consequences than others, which encourages us to be more thoughtful about them. Mostly this occurs when:

- a consumer buys from a category for the first time (for example a new mother buys nappies)
- a consumer has an intense interest in the category (for example their hobby is learning about wine)
- a poor decision would have substantial consequences (for example buying a bottle of wine as a gift for their boss or a valuable client).

But while a few wine consumers might be highly involved in their decisions, most won't be (or only on special occasions). So it is more sensible to distinguish categories where many or most consumers are highly involved. Decisions that are commonly seen as being highly involving are those for expensive products, such as cars, or ones with large financial consequences, such as home loans. Similarly, industrial purchases are often high-involvement; they can involve teams of people, often expert buyers, making detailed assessments of the options.

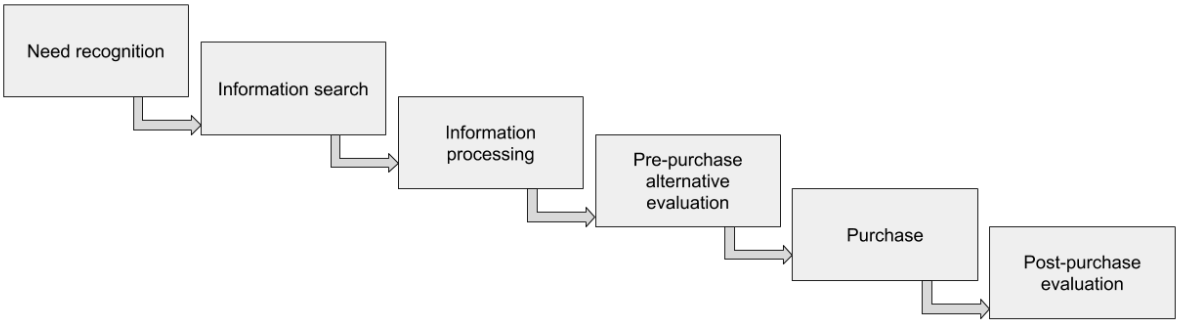
Surprisingly, empirical research shows that even in these, potentially high-involvement categories, buyers do far less careful research than might be expected. Substantial evaluation appears to be more the exception rather than the rule (notice how many purchases in categories like insurance are straight-out renewals, with no evaluation of alternatives). Hence, even though some individual buyers may feel more involved (and stressed by the purchase), together their actual brand-buying behaviours show the same repeat-buying patterns as in low-involvement buying.

For example, repeat-purchasing levels for car brands are quite high: near to 50 per cent repeat levels (with some variation between countries). In other words, almost half the time new car buyers buy the same brand as they bought last time (see Ehrenberg & Bound, 1999). This level of repeat buying seems incredible considering that in modern market economies there are typically sixty or so brands to choose from. Also, usually a number of years pass between purchases, models have changed, as have buyer's life circumstances and needs. The odds of someone choosing the same car brand again appear to be very slim. If buying were random, there would be less than one chance in fifty of a person purchasing the same brand again. But buying is not random; there is clear loyalty.

5.2 INFORMATION PROCESS THEORY

The dominant paradigm in consumer behaviour is known as the information processing approach and has it roots in cognitive psychology. It sees consumption as largely a rational process – the outcome of consumer recognizing a need and then engaging in a series of activities to attempt to fulfil that need (See Figure 5-1). (Jobber & Fahy, 2015, p. 64)

Figure 5-1: The purchasing proces



Source: own processing based on Grigsby (2018, p. 23-24)

Grigsby (2018) describes six phases as follows:

NEED RECOGNITION

The initiator of the consumer decision process is need recognition. This is a realization that there is a cognitive dissonance between some ideal state and the current state. There is much advertising around need arousal. From education consumers on real needs to informing consumers about pseudo-needs, need arousal is where it starts.

SEARCH FOR INFORMATION

Now the customer recalls what they have heard or what they know about the product to infer, depending on whether the product requires limited or extensive engagement, an ability to make decision. Obviously advertising and branding come into play here, informing consumers of benefits, differentiation, etc.

INFORMATION PROCESSING

The next step is for the consumer to absorb what information they have and what fact they know. Most marketing messaging strategies prefer for consumers to not process information, but to recall such things as positive brand exposure, satisfaction from previous interactions or emotional loyalty. If consumers do not process information (critically evaluate costs and benefits) then they can use brand equity to make the shorthand decision. It is marketing job to find those that are considering distinct from those that have already decided.

PRE-PURCHASE ALTERNATIVE EVALUATION

Now, after information has been processed, comes the critical final comparison: does the potential product have attributes that consumer considers greater than the consumer's standards? That is, given budgetary standards, what is the product likely to offer in terms of satisfaction (economic utilization) after the consumer has decided it is above minimum qualifications?

PURCHASE

Finally, the whole point of the marketing funnel is purchase. A sale is the last piece. This is the decision of the consumer based on the shopping process described above. The actual purchase action carries within it all the above processes and all of the actual and perceived product attributes.

POST-PURCHASE EVALUATION

But the consumer decision process does not end with purchase. Generally, it is a comparison with what the consumer thought would be the utilization gained from consuming the product compared to what actual (perceived) satisfaction was received from the product.

Decision-making can also be made by a group such as a household. In such a situation a number of individuals may interact to influence the purchase decision. Each person may assume a role in the decision-making process. The five basic roles are (Jobber, 2010, p. 110):

- **Initiator**: the person who begins the process of considering a purchase. Information may be gathered by this person to help the decision.
- **Influencer**: the person who attempts to persuade others in the group concerning the outcome of the decision. Influencers typically gather information and attempt to impose their choice criteria on the decision.
- **Decider**: the individual with the power and/or financial authority to make the ultimate choice regarding which product to buy.
- **Buyer**: the person who conducts the transaction. The buyer calls the supplier, visits the store, make the payment and effects delivery.
- **User**: the actual consumer/user of the product.

Multiple roles in the buying group may, however, be assumed by one person. In a toy purchase, for example, a girl may be influenced by her sister to buy a different brand. The buyer may be one of her parents, who visited the store to purchase the toy and brings it back to the home. Finally, both children can be users of the toy. (Fahy & Jobber, 2015, p. 63)

PURCHASING PROCESS OF A TV BY A FAMILY

The family of four (mother, father, two children – a boy and a girl) needs a new TV. The initiator providing need recognition is the mother, as she is cooking nearly every evening for her whole family and spends plenty of time in the kitchen. She would love to have a small TV to watch while cooking. The influencer is the boy who senses an opportunity for a distraction while eating his morning cereals. The girl also wants to watch it during her breakfast/make-up and is influencing the mother.

The decider is the father as he is the one capable of searching for all the necessary information and evaluation of different alternatives. After a lengthy process of evaluation, the purchase decision is made. The buyer is the father, although the mother takes care of the finances. The users of the TV are the three mentioned previously.

The post purchase behaviour may include an angry review on the internet about how the TV differs from all the advertising.

5.3 CONSUMER CULTURE THEORY

Consumer culture theory views consumption as a much less rational or conscious activity. In it, consumption is seen as more sociocultural or experimental activity that is laden with emotion and helps to explain, for example, why consumers derive pleasure form shopping or search for certain meanings in the brands that they choose (Fahy & Jobber, 2015, p. 64). Foundations for the understanding to consumer culture theory are culture, social and personal factors which will be described in more detail now.

5.3.1 CULTURAL FACTORS

There are a lot of different definitions of culture. The following ones illustrate the differences. The effects of culture influence us from birth, we do not choose them, we are not born with them and we often do not even realize them. In culture, we can consider many aspects, such as relationship to religion, sex, food, greetings, customs, values, lifestyle, the role of women in society and others. (Smith, 2000, p. 163)

Kotler et al. (2007, p. 311) defines culture as a set of core values, attitudes, desires and behaviour, which a member of a society takes from his or her family and other important institutions. To better understand what impact the cultural environment has on the consumer behaviour, and thus subsequently on the marketing activities of companies, it is necessary to divide the environment into certain categories: language, religion and belief, education, law, politics and economics, social organization and stratification, material culture, moral values etc. (Světlík, 2003).

LANGUAGE

Language is a key feature of every nation. It fulfils many functions, e.g. enables communication, access to the society, provides collection of information, provides social and cultural norms, etc. Language is not understood just as a set of words, but expresses many different nuances in communication between businesses, between the firm and the client, or between employees (Vaštíková, 2009).

A company that wants to do business in the European market has to cope with the fact that in many countries people speak several languages. In some countries (e.g. Switzerland) multilingualism is not a problem, but in some different language means a different mentality (Spain - Basque Country). Historical attempts to unify the world have always failed and even more local attempts did not meet with success. Therefore, there is still great fragmentation in the use of languages. But it can be said that English has managed to penetrate many countries, or as the terminology used in many fields. Still, there are countries that are proud of their native language (e.g. France), or a country without adequate prevalence of this language. For this element of culture, the historical impact of colonization is important (outsourcing activities of large telecommunication companies such as IBM, to India, where there is perfect knowledge of English because the former belonging to the Commonwealth).

As examples of cultural brand name fails, we can list the following:

- Pee Cola: sold in Ghana, meaning very good Cola, but Anglophobic tourists are afraid to drink it.
- Urinal: our Czech product for better health, again Anglophobic tourist are laughing about it.
- Nokia Lumia: mobile phones, the name should evoke the light, in Spanish it means “prostitute”.
- Rolls Royce Silver Mist and Irish Mist: both the car and the whiskey have the German market as their target, unfortunately “mist” means “manure” in German.
- Sega: famous brand of videogames, in Italian means “masturbate”.

RELIGION

Religion and language are considered the most important elements of the cultural environment. It is clearly evident determinant of differences between European, Asian and Arab nations. It is a source of human values, beliefs, life style or consumer behaviour. In addition to the religion we must take into account the superstitions and taboos, which are based on it. They serve to religious organizations for either prohibition or promotion of certain consumer goods. Religion influences such cultural dimensions as the status of women in society, power distance, individualism and collectivism, etc. The problem can also be several different religions in one country, which is further fragmenting the market into additional segments. (Vaštíková, 2009)

EDUCATION

Education plays an important role in the transfer and sharing of culture, the individual learns many values thanks to it. Education can be divided into formal (school, workplace training, and courses) and informal ('school of life'). Globally, education systems vary widely, even in the European Union (despite the efforts of unification) there are many differences. Countries adhere to their traditional systems, whether they are more academic (United Kingdom) or more professionally oriented (Germany). Educational level of the culture can be evaluated using degrees of literacy, i.e. the number of students at secondary schools or universities (Světlík, 2003). The problem for companies is the quality of education, how it is practically applicable and what skills students have. Some products require certain necessary set of skills from the customers, so education also affects consumption.

AESTHETICS AND ART

It represents the visual arts, architecture, music, dance and more. It manifests itself in style and taste of people, it affects their views on what is and is not beautiful. For companies, it is a guide for decisions about product design, colour and shape of packaging, advertising or visual concept of gift items, employee clothing or style of shops, etc. (Vaštíková, 2009)

POLITICS, ECONOMICS, LAW

The political and economic system is different in different countries. Functioning political system affects the class division of society, relation to wealth, to ethnic groups, etc. The economic system affects from a micro-economic point of view the structure of enterprises, the status of employees, management style, etc., from a macroeconomic point of view the will to take risks in the market, masculine values (liberalism) or long-distance positions of power, desire to avoid risks (bureaucracy), etc. (Světlík, 2003).

The legal system still presents many obstacles even at the EU common market. It is often based on national traditions, values and historical experience. Therefore, the effort to change (unify) law is often seen as an effort to change the nation (goulash and sour pickles in the Czech Republic).

VALUES AND BELIEFS

Cultural values are actually of a non-material nature, which the society pursues. They express a way of life. Typical values for Christians are freedom, democracy, and equality, for Muslims it is giving alms and pilgrimage to Mecca, for the Hindus it is fulfilment of inherited obligations. Opinions then determine attitude of the society to the problems, persons and things. They are often strongly rooted in national cultures, due to historical development. For companies, it is important to realize how to behave in different cultures, such as arrive on time in Germany due to their punctuality, do not communicate any personal material wealth in Cuba, do not enforce long work week for Latino due to their enjoyment of life, etc. (Vaštíková, 2009)

5.3.2 SOCIAL FACTORS

Social factors, such as reference groups, family, and social roles and statuses, affect our buying behaviour. (Kotler and Keller, 2012, p. 175)

REFERENCE GROUPS

These are the groups that have a direct (face-to-face) or indirect influence on their attitudes and behaviour. Groups having a direct influence are called membership groups. Some of these are primary groups with whom the person interacts fairly continuously and informally, such as family, friends, neighbours, and co-workers. People also belong to secondary groups, such as religious, professional, and trade-union groups, which tend to be formal and require less continuous interaction. One more term, that must be mentioned here, are opinion leaders. These are people, who offer informal advice or information about a specific product, they are highly confident, socially active, and frequent users of those products. (Kotler and Keller, 2012, p. 175)

FAMILY

Family is the most important consumer buying organization in society, and family members constitute the most influential primary reference group. There are two families in the buyer’s life. The family of orientation consists of parents and siblings. From parents a person acquires an orientation toward religion, politics, and economics and a sense of personal ambition, self-worth, and love. The other is family of procreation, person`s spouse and children. (Kotler and Keller, 2012, p. 176)

ROLES AND STATUS

Everyone participates in many groups, such as family, clubs, organizations. Groups often are an important source of information and help to define norms for behaviour. We can define a person’s position in each group in terms of role and status. A role consists of the activities a person is expected to perform. Each role in turn connotes a status. People choose products that reflect and communicate their role and their actual or desired status in society. (Kotler and Keller, 2012, p. 176)

5.3.3 PERSONAL FACTORS

Personal characteristics that influence a buyer’s decision include age and stage in the life cycle, occupation and economic circumstances, personality and self-concept, and lifestyle and values. (Kotler and Keller, 2012, p. 177)

AGE AND STAGE IN THE LIFE CYCLE

Our taste in food, clothes, furniture, and recreation if often related to our age. Consumption is also shaped by the family life cycle and the number, age, and gender of people in the household at any point in time. (Kotler and Keller, 2012, p. 177) As an example, generation X consists of people born between 1965 and 1981, while generation Y consist of people born between 1982 and 1994. Both groups are vastly different. Members of generation X already have successful careers, while members of generation Y are only establishing theirs. But they have an advantage of understanding new media more and can slowly push out the members of other generation. (Levens, 2012, p. 85-86)

OCCUPATION AND ECONOMIC CIRCUMSTANCES

Occupation also influences consumption patterns. Marketers try to identify the occupational groups that have above-average interest in their products and services and even tailor products for certain occupational groups. (Kotler and Keller, 2012, p. 178) A corporate executive typically purchases different work-related products than a member of the clergy, an emergency room surgeon, or a factory worker. Certain occupations also provide more room for individual expression. (Levens, 2012, p. 86)

PERSONALITY AND SELF-CONCEPT

Each person has a personality and characteristics that influence his or her buying behaviour. Personality is a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environmental stimuli (including buying behaviour). (Kotler and Keller, 2012, p. 178) Individuals tend to select products and services that are consistent with their perception of self-identity. This self-identity, also called personality, involves consistency, internal causality, and personal distinctiveness. Personalities can range from “rugged individualists” to “practical conformists”. (Levens, 2012, p. 85) Products and services can try to match these personalities or certain personal traits, which will lead better tailoring to customer needs and consequently to higher sales.

LIFESTYLE AND VALUES

People from the same subculture, social class, and occupation may lead quite different lifestyles. A lifestyle is a person’s pattern of living in the world as expressed in activities, interests, and opinions. It portrays the “whole person” interacting with his or her environment. (Kotler and Keller, 2012, p. 179)

5.3.4 PSYCHOLOGICAL FACTORS

MOTIVATION

Motivation has to be understood as a process. At its beginning, there is a **need** as a source of dissonance, tension or deprivation. When the tension is high enough it evokes **drive** leading to certain behaviour with specific goal. The goal is usually connected with limiting or reducing the tension. Do the basic motivation process goes as follows (Koudelka, 2018, p. 145):

Need -> Drive -> Wish -> Goal -> Need Satisfaction.

PERCEPTION

Every consumer is surrounded by a great deal of impulses from his surroundings, but also from his inner world. If we follow consumer behavior, we will be interested in how and what incentives enter it. Some stimulus is perceived by the consumer intensely, some marginally. Some stimuli are not registered at all. We understand perception as a process of selecting, organizing and interpreting stimuli into a meaningful whole. It is to some extent consistent with our expectations and expectations. (Koudelka, 2018, p. 155)

MEMORY

Consumer learning can be understood as relative changes in behavior through experience, information and thought. These are changes in content or organization of consumer long-term memory. Often it is an unconscious process, random. Similarly, consumer learning can happen deliberately. (Koudelka, 2018, p. 172)

ATTITUDE

A positive attitude towards the brand is a key prerequisite for the further successful development of consumer purchasing decisions. Attitudes mean a favorable or unfavorable relationship between the consumer and the object. Attitudes are learned and are a psychological predisposition to act in a certain direction. From the marketing point of view, the object of attitude is a product, brand, company, shop, price and more. (Koudelka, 2018, p. 184)

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 5. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. **How do we call activities a person is expected to perform in a social context?**
   a) Job
   b) Task
   c) Role

2. **Which system of thinking is guiding most of our desicions?**
   a) It is 50:50.
   b) Conscious, rational.
   c) Unconscious, automatic.

3. **Low involvement decisions occur when:**
   a) Buying known and cheap products.
   b) Consumer buys from a category for the first time.
   c) The poor decision would have substantial consequences.

4. **Which theory sees consumption as largely rational process?**
   a) Consumer culture theory
   b) Information processing theory
   c) Consumer involvement theory

5. **What is not part of a consumer culture?**
   a) Religion
   b) Language
   c) Life stage

CORRECT ANSWERS

1c, 2c, 3a, 4b, 5c

6 BUSINESS TO BUSINESS

The business market consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others. Any firm that supplies components for products is in the business-to-business marketplace. Some of the major industries making up the business market are aerospace; agriculture, forestry, and fisheries; chemical; computer; construction; defence; energy; mining; manufacturing; construction; transportation; communication; public utilities; banking, finance, and insurance; distribution; and services. (Kotler and Keller, 2015, p. 211)

In building and maintaining relationships between suppliers and customers in the B2B market, the breadth and composition of the assortment of all products offered plays a major role. Managers of supply companies should first of all understand that the intent of their industrial customers to purchase products and services is to **increase their sales** or **reduce their costs** in order to increase their performance. Therefore, it is important for industrial manufacturers, first of all, to think about the use of the products supplied in the specific conditions of each of their industrial customers when deciding on their product range. They have to find out what they need to supply from one source to satisfy their customers 'needs (Ellis, 2011, p. 214).

6.1 DIFFERENCES BETWEEN B2C AND B2B MARKETS

Business markets contrast sharply with consumer markets in some ways (Kotler and Keller, 2015, p. 213-214):

• **Fewer, larger buyers.** The business marketer normally deals with far fewer and much larger buyers than the consumer marketer does, particularly in such industries as aircraft engines and defense weapons. The fortunes of Goodyear tires, Cummins engines, Delphi control systems, and other automotive part suppliers depend in large part on getting big contracts from just a handful of major automakers.

• **Close supplier–customer relationships.** Because of the smaller customer base and the importance and power of the larger customers, suppliers are frequently expected to customize their offerings to individual business customer needs. On an annual basis, Pittsburgh-based PPG Industries purchases more than $7 billion in materials and services from thousands of suppliers. The company presented seven Excellent Supplier Awards for superior performance in 2011, the criteria for which included product quality, delivery, documentation, innovation, responsiveness, continuous improvement, and participation in the Supplier Added Value Effort ($AVE) program.With its $AVE program, PPG challenges its suppliers of maintenance, repair, and operating (MRO) goods and services to deliver on annual value-added and cost-savings proposals equaling at least 5 percent of their total annual sales to PPG. Business buyers also often select suppliers that also buy from them. A paper manufacturer might buy chemicals for its pulp and paper making from a chemical company that in turn buys a considerable amount of paper from the manufacturer.

• **Professional purchasing.** Business goods are often purchased by trained purchasing agents, who must follow their organizations' purchasing policies, constraints, and requirements. Many business buying instruments - for example, requests for quotations, proposals, and purchase contracts - are not typically found in consumer buying. Many professional buyers belong to the Institute for Supply Management (ISM), which seeks to improve the profession's effectiveness and status. This means business marketers must provide greater technical data about their product and its competitive advantages.

• **Multiple buying influences.** More people typically influence business buying decisions. Buying committees that include technical experts and even senior management are common in the purchase of major goods. Business marketers need to send well-trained sales representatives and teams to deal with these equally welltrained buyers.

• **Multiple sales calls.** A study by McGraw-Hill found that it took four to four-and-a-half calls to close an average industrial sale. For capital equipment sales for large projects, it may take many attempts to fund a project, and the sales cycle—between quoting a job and delivering the product—can even take years.

• Derived demand. The demand for business goods is ultimately derived from the demand for consumer goods. For this reason, the business marketer must closely monitor the buying patterns of end users. Pittsburgh-based Consol Energy’s coal and natural gas business largely depends on orders from utilities and steel companies, which, in turn, depend on consumer demand for electricity and for steel-based products such as automobiles, machines, and appliances. Business buyers must also pay close attention to economic factors like the level of production, investment, and consumer spending and the interest rate. Business marketers can do little to stimulate total demand. They can only fight harder to increase or maintain their share of it.

• **Inelastic demand.** The total demand for many business goods and services is inelastic—that is, not much affected by price changes. Shoe manufacturers are not going to buy much more leather if the price of leather falls, nor less if the price rises unless they find satisfactory substitutes. Demand is especially inelastic in the short run because producers cannot make quick changes in production methods. Demand is also inelastic for business goods that represent a small percentage of the item’s total cost, such as shoelaces.

• **Fluctuating demand.** The demand for business goods and services tends to be more volatile than the demand for consumer goods and services. A given percentage increase in consumer demand can lead to a much larger percentage increase in the demand for plant and equipment. Demand for plant and equipment is more volatile because it reflects the normal year-to-year replacement demand as well as the need to satisfy increased or decreased consumer demand. Economists refer to this as the acceleration effect. Sometimes a rise of only 10 percent in consumer demand can cause as much as a 200 percent rise in business demand for products in the next period; a 10 percent fall in consumer demand may cause a complete collapse in business demand as replacement needs drop considerably.

• **Geographically concentrated buyers.** For years, more than half of U.S. business buyers have been concentrated in seven states: New York, California, Pennsylvania, Illinois, Ohio, New Jersey, and Michigan. The geographical concentration of producers helps to reduce selling costs. At the same time, business marketers need to monitor regional shifts of certain industries such as the automobile industry, which is no longer concentrated around Detroit.

• **Direct purchasing.** Business buyers often buy directly from manufacturers rather than through intermediaries, especially items that are technically complex or expensive such as servers or aircraft.

6.2 PARTICIPANTS OF THE TRADE PURCHASING PROCESS

Most organisational buying tends to onvolve more than one individual and it is often in the hands of a decision-making unit (DMU) (Fahy & Jobber, 2015, p. 63) Members of the DMU may change as the decision-making process continues. Thus a managing director may be involved in the decision that new equipment should be purchased but not in the decision as to which manufacturer to buy it from. There are five roles that have been identified in the structure of the DMU (Stone & Desmond, 2007, p. 101-102):

USERS

In the case of the purchase of a new university computer network system, discussed earlier, users are the people who will use the network. They will probably know much about hardware and software but little about the various network standards and configurations available. Despite this, users should be involved in the buying process so that they can feel included and can contribute usefully their experience of the present system. It would be worthwhile knowing any defects in the present system to ensure that the new system does not replicate them.

INFLUENCERS

Provide information for evaluating alternative products and suppliers. With respect to the computer network example, the university central computing services personnel should have the expertise to evaluate different standards and platforms. They should be able to help in drawing up a technical specification for the network system and to advise on the performance and reliability of different options. Other influencers would include computing officers within departments who could communicate the specific requirements of each department.

GATEKEEPERS

Control the flow of information to other people in the purchasing process. Primarily, they involve the organization's purchasing agents and the suppliers' sales people. Within the university example, staff within the computing services section and departmental computing officers would act as gatekeepers and would be able to slant the information flow with respect to the options which they thought were most feasible.

BUYERS

Buyers are usually referred to as the purchasing agents within the role of purchasing manager. In most organizations, buyers have the authority to contact suppliers and negotiate the purchase transaction. In the university computer network example, this may be carried out by a person nominated by the university IT committee, who would report back to the committee.

DECIDERS

Persons with the authority to make a final purchase decision. In the university computing network example, it would probably be the university IT committee. This would include personnel from the central university administration and persons representing departments directly involved.

A key point to realize is that the DMU resides within the buying organisation. External influences, such as the salespeople of supplying companies, are not therefore part of the DMU: a DMU is customer not supplier based. Consequently, a decision-making unit is defined as a group of people within a buying organisation who are involved in the buying decision. For very important decisions the structure of the DMU will be complex, involving numerous people within the buying organisation. The marketing task is to identify and reach the key members in order to convince them of product`s worth. Often communicating only to the purchasing officer will be insufficient, as this person may be only a minor influence on supplier choice. Relationship management is of key importance in many organisational markets. (Jobber, 2010, p. 148)

Ordering products of low value and low risk (such as the ubiquitous paper clip) may well be the responsibility of the office junior. However, the purchase of a new plant that is vital to a business may involve a large team who makes their decision over a protracted period. The DMU at any one time is often ephemeral – specialists enter and leave to make their different contributions and, of course, over time people leave the company or change jobs far more frequently than they change family unit. This complexity and dynamism has implications for B2B markets. The target audiences for B2B communications are amorphous, made up of groups of constantly changing individuals with different interests and motivations. Buyers seek a good financial deal. Production managers want high throughput. Health and safety executives want low risk. And those are just their simple, functional needs. Each person who is party to the DMU will also bring their psychological and cultural baggage to the decision and this can create interesting variations to the selection of products and suppliers.[10]

6.3 Buying situations

The business buyer faces many decisions in making a purchase. How many depends on the complexity of the problem being solved, newness of the buying requirement, number of people involved, and time required (see table 6-1). Three elementary types of buying situations exists (Stone & Desmond, 2007, p. 104):

Straight rebuy

Here the buyer orders something without any modification which, usually, is handled on a routine basis by the purchasing department. The buyer simply chooses from the various suppliers on his/her list. In order to gain an edge, some suppliers will suggest automatic reordering and will be keen to maintain product and service quality, e.g. the situation where computer reordering takes place. In this case, where there is low perceived risk associated with a frequent purchase and a satisfactory supplier, the existing supplier might simply be asked to tender a price for resupply.

Modified rebuy

This happens when the organization's needs remain unchanged but when buying centre members are not satisfied either with the product or with the supplier. They may wish to have a better-quality product, better service or are looking for a keener price. In this case, the buyer requires information about the different products and suppliers. This opens up an opportunity for new suppliers to gain entry. The modified rebuy may end with renegotiation of the contract with an existing supplier or with the choice of a new supplier.

New task buying

A firm that is buying a product or service for the first time faces a new task situation. The size of the buying centre rises in proportion to the cost and complexity of the decision. In this case, the procedure for supplier selection will be more complex and lengthy, involving negotiations at a high level with a number of potential suppliers before a decision is made.

[10] HAGUE, P., HAGUE, N. and M. HARRISON, 2013. B2B Marketing: What makes it special? [online] [cit. 2014-05-04] Available at: http://www.b2binternational.com/publications/b2b-marketing/

Table 6-1: Key differences in buying situations

	STRAIGHT REBUY	MODIFIED REBUY	NEW TASK BUYING
Importance	Low	Medium	High
Complexity	Low	Medium	High
Buying centre size	Small	Medium	Large
Buying centre cast	Low management	Middle management	TOP management
Time to decision	Days	Weeks	Months
Information need	None	Medium	Extensive
Unit of analysis	Price	Price and quality	Price, quality and reputation

Source: own processing

The business buyer makes the fewest decisions in the straight rebuy situation and the most in the new-task situation. Over time, new-buy situations become straight rebuys and routine purchase behaviour. New-task buying is the marketer's greatest opportunity and challenge. The process passes through several stages: awareness, interest, evaluation, trial, and adoption. Mass media can be most important during the initial awareness stage, salespeople often have their greatest impact at the interest stage, and technical sources can be most important during the evaluation stage. In the new-task situation, the buyer must determine product specifications, price limits, delivery terms and times, service terms, payment terms, order quantities, acceptable suppliers, and the selected supplier. Different participants influence each decision, and the order in which these decisions are made varies. (Kotler and Keller, 2012, p. 208)

Because of the complicated selling required, many companies use a missionary sales force consisting of their most effective salespeople. The brand promise and the manufacturer's brand name recognition will be important in establishing trust and the customer's willingness to consider change. The marketer also tries to reach as many key participants as possible and provide helpful information and assistance. Once a customer has been acquired, in-suppliers are continually seeking ways to add value to their market offer to facilitate rebuys. (Kotler and Keller, 2012, p. 208)

The size of the DMU will depend in part on the type of purchase decision being undertaken. Where a simple low-risk purchase is being made one or two individuals could undertake all the roles in the DMU. A high-risk expensive purchase may involve a large number of people from different functional areas in the company. Organisational purchases can be classified in terms of their level of risk as follows (Drummond and Ensor, 2005, p. 94):

Routine order products: these are used and ordered on a regular basis. The product or service is unlikely to pose any problems regarding its use or performance and is therefore low risk (e.g. office stationery).

Procedural problem products: these products may involve some level of training in order for individuals to successfully adopt them. This will increase the risks associated with the successful introduction of the purchase to the company (e.g. personal computers or word processors).

Performance problem products: the risks here lie with the question of whether the product can perform at the level required to meet the user's requirements. There may also be concerns about the product`s ability to be compatible with the company's existing resources and current equipment (e.g. introducing new technology).

Political problem products: political problems could arise where a purchase takes away resources from another area within the organisation. A high investment in a product for one area of the business may mean that another area has to forgo investment. Political problems can also take place where it is planned that the same product will be used by several different units, each having their own requirements (e.g. a new information system).

According to Hague, Hague and Harrison, we can divide B2B purchases into four categories according to their financial value and the level of business risk associated with the purchase. Each of these categories gives rise to different purchasing behaviour and different complexities:[11]

- Low-risk, low-value purchases are the least distinct from consumer purchases. They often involve just one, frequently junior person. There is little financial or business risk involved on getting the decision wrong, meaning that relatively little thought goes into the decision.
- Low-risk, high-value items such as raw materials typically involve a mixture of technical and purchasing personnel, and often very senior people such as board members. This complexity is necessary to ensure that price is minimised without impacting upon quality. Purchasing personnel would usually be the key decision makers on a transaction-by-transaction basis, under the general guidance of more technical employees, who would review suppliers periodically.
- Low-value, high-risk items such as office insurance would similarly involve a mixture of specialists and purchasers. As the ‘risk’ is in the product rather than the price, and as each transaction is likely to be unique, an expert (in this case perhaps an in-house legal expert) would tend to be the key decision maker every time a purchase takes place.
- High-value, high-risk purchases are the most distinct from consumer purchases, with a large number of senior decision makers evaluating a large range of purchase criteria. In the case of plant equipment, we might expect a CFO, R&D Director, Production Director, Purchasing Director, Head of Legal Department, CEO and a number of upper-management department heads to be involved.

6.4 THE TRADE PURCHASING PROCESS

The exact nature of the decision-making process will depend on the buying situation. In some situations, some stages will be omitted. For example, in a routine rebuy situation the purchasing officer is unlikely to pass through the third, fourth and fifth stages (search for suppliers, and analysis and evaluation of their proposals). These stages will be bypassed, as the buyer, recognizing a need – perhaps shortage of stationery – routinely orders from an existing supplier. In general, the more complex the decision and the more expensive the item, the more likely it is that each stage will be passed through and that the process will take more time. (Jobber, 2010, p. 149)

RECOGNITION OF A PROBLEM (NEED)

Needs and problems may be recognized through either internal or external factors. An example of an internal factor would be the realization of under-capacity leading to the decision to purchase plant or equipment. Thus, internal recognition leads to active behaviour (internal/active). Some problems that are recognized internally may not be acted upon. This

[11] HAGUE, P., HAGUE, N. and M. HARRISON, 2013. B2B Marketing: What makes it special? [online] [cit. 2014-05-04] Available at: http://www.b2binternational.com/publications/b2b-marketing/

condition may be termed internal/passive. Other potential problems may not be recognized internally, and become problems only because of external cues. Production managers may be quite satisfied with their production process until they are made aware of another, more efficient, method. (Jobber, 2010, p. 149-150)

Clearly, these different problems have important implications for marketing and sales. The internal/passive condition implies that there is an opportunity for a salesperson, having identified the condition, to highlight the problem by careful analysis of cost inefficiencies and other symptoms, so that the problem is perceived to be pressing and in need of solution (internal/active). The internal/active situation requires the supplier to demonstrate a differential advantage of its products over those of the competition. In this situation problem stimulation is unnecessary, but where internal recognition is absent, the marketer can provide the necessary external cues. (Jobber, 2010, p. 150)

As an example, companies in 2013 used:[12]

- 68 % of respondents used more sources to research and evaluate purchases, relatively flat with 2012.
- 58 % of respondents spent more time researching purchases, up from 48% in 2012.
- 53 % of buyers relied more on peer recommendations, up from 19% in 2012.
- 37 % of buyers spent more time researching solutions on social media, up from 20 % in 2012.
- 51 % of buyers performed a more detailed ROI analysis before finalizing their decision, up from 30% in 2012.

DETERMINATION OF SPECIFICATION AND QUANTITY OF NEEDED ITEMS

At this stage of decision-making process the DMU will draw up a description of what is required. For example, it might decide that five lathes are required to meet certain specifications. The ability of marketers to influence the specification can give their company an advantage at alter stages of the process. By persuading the buying company to specify features that only the marketers own product possesses, the sale may be virtually closed at this stage. (Jobber, 2010, p. 151)

SEARCH FOR AND QUALIFICATION OF POTENTIAL SOURCES

A great deal of variation in the degree of search takes place in industrial buying. Generally speaking, the cheaper and less important the item, and the more information the buyer possesses, the less search takes place. Marketers can use advertising to ensure that their brands are in the buyers awareness set and are, therefore, considered when evaluating alternatives. (Jobber, 2010, p. 151)

Social media is where B2B buyers do research:[13]

- 22 % ask for recommendations.
- 22 % connect with potential suppliers.
- 23 % seek expert advice.
- But 46 % of buyers use search engines to start their purchase research.

[12] COHEN, H., 2014. B2B Purchase Process 2014: What You Need To Know! [online] [cit. 2014-05-04] Available at: http://heidicohen.com/b2b-purchase-process-need-know-2014/

[13] dtto

ACQUISITION AND ANALYSIS OF PROPOSALS

Having found a number of companies that, perhaps through their technical expertise and general reputation, are considered to be qualified to supply the product, proposals will be called for and analysis of them undertaken. (Jobber, 2010, p. 151)

EVALUATION OF PROPOSALS AND SELECTION OF SUPPLIER(S)

Each proposal will be evaluated in the light of the choice criteria deemed to be more important to each DMU member. It is important to realize that various members may use different criteria when judging proposals. Although this may cause problems, the outcome of this procedure is the selection of a supplier or suppliers. (Jobber, 2010, p. 151)

SELECTION OF AN ORDER ROUTINE

Next, the details of payment and delivery are drawn up. Usually, this is conducted by the purchasing officer. In some decisions – when delivery is an important consideration in selecting a supplier – this stage is merged into the acquisition and evaluation stages. (Jobber, 2010, p. 151)

PERFORMANCE FEEDBACK AND EVALUATION

This may be formal, where a purchasing department draws up an evaluation form for user departments to complete, of informal through everyday conversations. (Jobber, 2010, p. 151)

The implication of all this are that sales and marketing strategy can affect a sale through influencing need recognition, through the design of product specifications, and by clearly presenting the advantages of the product or service over that of competition in terms that are relevant to DMU members. By early involvement, a company can benefit through the process of creeping commitment, whereby the buying organization becomes increasingly committed to one supplier through its involvement in the process and the technical assistance it provides. (Jobber, 2010, p. 151-152)

In light of increasingly complex buying process, here's what buyers want:[14]

- 76 % of respondents considered timely vendor response important.
- 71 % of respondents considered relevant information important.
- 66 % of respondents considered industry peer reviews and references important.
- 61 % of respondents considered vendor reputation as industry thought leader important.

MORE B2B SALES STATISTICS

- 75% of buyers use social media to find information about vendors. (IDC)
- 47% of buyers view 3-5 pieces of content before engaging with a sales rep. (Demand Gen Report 2016)
- 40% of B2B salespeople say getting a response from prospects is becoming harder. (Hubspot)
- B2B sales reps can spend up to 40% of their time looking for somebody to call. (InsideSales)

[14] COHEN, H., 2014. B2B Purchase Process 2014: What You Need To Know! [online] [cit. 2014-05-04] Available at: http://heidicohen.com/b2b-purchase-process-need-know-2014/

- B2B buyers complete 57% of the buying decision before they are willing to talk to a sales rep. (CEB)
- 59% of buyers prefer to do research online rather than talk to a sales rep because the sales rep may push a sales agenda rather than help solve a problem. (Forrester)
- 84% of B2B decision-makers begin their buying process with a referral. (Sales Benchmark Index)
- 5.4 people are now involved in the average B2B buying decision. (CEB)
- 70% of exec-level buyers say that sales people are not prepared for the questions they ask. (Forrester)
- The average call back rate for cold calls is 1-2%. (Hubspot)
- 90% of buyers won't respond to a cold call. (HBR)
- Only 28% of those who are cold called engage in conversations. (Keller Center)

6.5 BEHAVIOURAL MODEL OF TRADE PURCHASE PROCESS

The objective of behavioural model is the same in both industrial and consumer goods markets. Theoretical models of buyer behaviour attempt to show the inter-relationship between the various behavioural and economic factors that are involved. Within the context of industrial goods markets, organisational factors must be added to the list of relevant variables. One of the best known models was constructed by J. Sheth, and this model is described and explained in a simplified form, thus: (Morden, 1991, p. 185-186)

Information sources: a variety of information sources will be available. They include sales representatives, advertising and promotion, trade exhibitions and trade news, professional and technical conferences and journals, word of mouth opinion (etc.). each information source will be subject to some degree of filtering and perceptual distortion by members of the buying organisation.

Contingency factors: include the relevant economic and market circumstances that are likely to influence product investigations and purchase decisions.

Product-specific factors: are those factors which will determine the nature, timing, risk and technical content of the buying process.

Company-specific factors: include such variables as: organisation size and degree of centralism, official purchase decision-making procedures and processes, role of buying department and other buying process roles, means of resolving conflicts or differences that appear within the DMU during the buying decision-making process.

Expectations and past experience: there may be a variety of expectations about products and purchase decisions to be found at different places within the buying organisation. Similarly, there may be variations in people's experience of purchasing and using the product or service in question. How are these expectations and experiences articulated? How are they communicated? What influence do they have? And by what means does the organisation interpret, choose between, and make use of these expectations and this experience?

Individual objectives and behavioural factors: the Sheth model focuses on such factors as: individual role and expectations, individual background, training and motivation, individual objectives in the purchasing process.

It is noticeable that the behavioural and needs-based segments that emerge in business-to-business markets are frequently similar across different industries. Needs-based segments in a typical B2B market often resemble the following:[15]

- A price-focused segment, which has a transactional outlook to doing business and does not seek any 'extras'. Companies in this segment are often small, working to low margins and regard the product/service in question as of low strategic importance to their business.
- A quality and brand-focused segment, which wants the best possible product and is prepared to pay for it. Companies in this segment often work to high margins, are medium-sized or large, and regard the product/service as of high strategic importance.
- A service-focused segment, which has high requirements in terms of product quality and range, but also in terms of aftersales, delivery, etc. These companies tend to work in time-critical industries and can be small, medium or large. They are usually purchasing relatively high volumes.
- A partnership-focused segment, usually consisting of key accounts, which seeks trust and reliability and regards the supplier as a strategic partner. Such companies tend to be large, operate on relatively high margins, and regard the product or service in question as strategically important.

6.6 INSTITUTIONAL AND GOVERNMENT MARKETS

This chapter focused on the buying behaviour of profit-seeking companies. Much of what was written also applies to the buying practices of institutional and government organisations. However, there are some differences that need to be highlighted. The institutional market consists of schools, hospitals, nursing homes, prisons, and other institutions that must provide goods and services to people in their care. Many of these organisations are characterized by low budgets and captive clienteles. For example, hospitals must decide what quality of food to buy for patients. The buying objective here is not profit, because the food is provided as part of the total service package, nor is cost minimisation the sole objective, because poor food will cause patients to complain and hurt the hospital`s reputation. The hospital purchasing agent must search for institutional-food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low. In fact, many food vendors set up a separate sales division to cater to institutional buyers' special needs and characteristics. Heinz produces, packages, and prices its ketchup differently to meet the requirements of hospitals, colleges, and prisons. (Kotler and Keller, 2012, p. 227-228)

In most countries, government organisations are a major buyer of goods and services. They typically require suppliers to submit bids and often award the contract to the lowest bidder. In some cases, they will make allowance for superior quality or a reputation for completing contracts on time. Governments will also buy on a negotiated contract basis, primarily in complex projects with major R&D costs and risks and those where there is little competition. A major complaint of multinationals operating in Europe is that each country shows favouritism toward its nationals despite superior offers from foreign firms. (Kotler and Keller, 2012, p. 228)

Because their spending decisions are subject to public review, government organisations require considerable paperwork from suppliers, who often complain about bureaucracy, regulations, decision-making delays, and frequent shifts in procurement staff. In many countries, the government is the most buying customer on the whole market, e.g. US

[15] HAGUE, P., HAGUE, N. and M. HARRISON, 2013. B2B Marketing: What makes it special? [online] [cit. 2014-05-04] Available at: http://www.b2binternational.com/publications/b2b-marketing/

government, which is also the largest and therefore most potentially attractive customer in the world. (Kotler and Keller, 2012, p. 228)

Government decision makers often think vendors have not done their homework. Different types of agencies – defence, civilian, intelligence – have different needs, priorities, purchasing styles, and time frames. In addition, vendors do not pay enough attention to cost justification, a major activity for government procurement professionals. That is why many official guidelines have been written for would-be suppliers, how to sell to the government, and for the government, how to perceive products and services of certain companies and how to see their added benefits. (Kotler and Keller, 2012, p. 228)

6.7 Relationship management on the B2B market

Building relationships is very important on the B2B market, as was indirectly described in the purchasing models. There are several types of relationships; this subchapter will only focus on mega-relationship, and supplier-customer relationship (Jobber, 2010, p. 161-162):

Mega-relationship concerns the economy and society in general. Examples of such relationships are mega-marketing (lobbying, public opinion and political power), mega-alliances (the European Union, which forms a stage for marketing) and social relationships (friendships and ethic bonds). The large companies try to influence even these mega-relationships.

Supplier-customer relationship is focused on shifting from activities of attracting customers to activities concerned with current customers and how to retain them.

The discussion of reverse marketing has also given examples of buyers adopting a proactive stance in their dealings with suppliers, and has introduced the importance of buyer-seller relationships in marketing between organisations. The Industrial Marketing and Purchasing Group developed the interaction approach to explain the complexity of buyer-seller relationships. This approach views these relationships as taking place between two active parties. Thus reverse marketing is one manifestation of the interaction perspective. Both parties may be involved in adaptations to their own process or product technologies to accommodate each other, and changes in the activities of one party are unlikely without consideration of or consultation with the other party. For example, Airbus consulted FedEx about the design of the A380 cargo plane so that it met the latter’s requirement for delivering parcels and other goods. (Jobber, 2010, p. 162)

In such circumstances a key objective of business-to-business markets will be to manage customer relationships. This means considering not only formal organisational arrangements such as the use of distributors, salespeople and sales subsidiaries, but also the informal network consisting of the personal contacts and relationships between supplier and customer staff. Marks & Spencer’s senior directors meet the boards of each of its major suppliers twice a year for frank discussions. When Marks & Spencer personnel visit a supplier it is referred to as a “royal visit”. Factories may be repainted, new uniforms issued and machinery cleaned: this reflects the exacting standards that the company demands from its suppliers and the power it wields in its relationship with them. (Jobber, 2010, p. 162)

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 6. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. **Who do usually control the flow of information to other people in the purchasing process?**
   a) Gatekeepers.

b) Influencers.
c) Users.

2. What type of purchase is applied when buying centre members are not satisfied with the product?

a) Straight rebuy.
b) Modified rebuy.
c) New task.

3. What is typical for B2B markets?

a) Inelastic demand.
b) More, small buyers.
c) Only few buying influencers.

4. How many business buyers won't respond to a cold call?

a) 10 %
b) 90 %
c) 50 %

5. What product can be delivered to your business partnter to raise the business results?

a) Product that help reduce costs.
b) Product that drives more sales.
c) It can be done with both types.

CORRECT ANSWERS

1a, 2b, 3a, 4b, 5c

7 SEGMENTATION, TARGETING AND POSITIONING ON CONSUMER MARKET

The process of segmentation, targeting and positioning is central to effective strategic marketing (see Figure 7-1). Segmentation is concerned with the process of identifying different groups of customers who are similar in ways that are relevant to marketing. In order to segment a market, it is important to understand who customers are, why they behave in particular ways and how they may be grouped together. Targeting decisions can then be made based on the range of identified segments. In order to choose the most appropriate target markets, it is necessary to understand what different segments want and the extent to which the organization can supply those wants. Finally, having identified target markets, the organization must then consider how to position itself in those markets. Positioning refers to the way in which an organization tries to communicate its value proposition to its target market in order to convince customers that it has a distinct offer. In effect, positioning is about the way in which the organization tries to build and communicate its competitive advantage. (Ennew and Waite, 2007)

Segmentation, targeting and positioning is a means by which a number of important benefits are secured for both providers and consumers of products and services. Alongside the benefits, there are also costs associated with segmentation. Identifying, measuring and maintaining a system of segmented markets is a cost in itself. Additionally, costs are incurred through the development of different products and different marketing campaigns for these different segments. Any exercise in market segmentation must be aware of these costs, and look to implement market segmentation only where the benefits outweigh the costs. In summary, the benefits are as follows: (Ennew and Waite, 2007, p. 148-149)

1. **It facilitates efficient resource utilization.** Indiscriminate use of the marketing mix is a wasteful use of precious resources. By identifying and targeting discrete segments of consumers, a company is able to limit the scope of individual components of the mix and thus reduce costs. To take a simple example, an advertising programme involving the use of the press media will be less expensive if it involves the use of magazines that are read by a discrete target segment of consumers rather than the entire population. Similarly, products designed to meet the particular needs of a given segment will not need features they do not require. Thus, segmentation results in greater resource efficiency, which benefits consumers through better value, shareholders through reduced waste and lower costs, and the environment through resource efficiency.
2. **It allows effective targeting of new customers.** The logical next step from segmenting a market is the selection of segments to target for marketing activities. Nowadays, it is unusual for a company to have a completely indiscriminate approach to targeting new customers. As the costs of customer acquisition have increased and companies become increasingly focused upon customer profitability, they have to be selective in respect of which kinds of people or organization they want to be their customers. It must be appreciated that different customers display different characteristics and behaviours that impact upon customer value.
3. **It facilitates competitive advantage.** The more specific an organization´s approach to segmenting the market, the easier it is to establish and maintain competitive advantage. This arises by virtue of the fact that competitive advantage is a relative concept that involves differentiating an organization from its rivals in the eyes of its customers. Self-evidently, the more indiscriminate the approach to targeting, the wider the array of competitors against whom an organization will have to seek do differentiate itself.

4. **It directs the marketing mix.** Best practice dictates that each target segment chosen by an organization should be subject to a specific and relevant marketing campaign. In this way, marketing is managed to achieve the best fit with each target segment.
5. **It enhances customer satisfaction.** Segmentation and targeting is an effective means of enhancing customer satisfaction through the ways in which the mix should achieve a close match with customer needs and wants. Clearly, the more precisely a product and its features reflect the characteristics of a given group of individuals, the greater the degree of satisfaction they should experience from its consumption. The corollary to this is that the absence of well-managed segmentation results in a generalized approach to the market. This results in customers feeling that a number of product features are irrelevant to them, and that communications messages are ill-judged and lacking real relevance to their personal circumstances and preferences. As a consequence, such consumers will always be vulnerable to competitors with a more focused approach to segmentation that enables them to deliver greater customer satisfaction.

Figure 7-1: The process STP

Source: own formation according to Kotler and Keller (2012, p. 235)

7.1 Segmentation

Very few product or services can satisfy all customers in a market. Not all customers want or are prepared to pay for the same things. Therefore to implement the marketing concept and successfully satisfy customer needs, different product and service offerings must be made to the diverse customer groups that typically comprise a market. The technique that is used by marketers to get to grips with the diverse nature of markets is called market segmentation. (Jobber, 2010, p. 260)

*“**Market segmentation** is aggregating prospective buyers into group that (1) have common needs and (2) will respond similarly to a marketing action. The groups that result from this process are **market segments**, a relatively homogenous collection of prospective buyers.”* (Berkowitz et al., 1989, p. 196)

“Segmentation is the division of consumer markets into meaningful and distinct customer groups.” (Levens, 2012, p. 131)

Market segmentation, then, consists of dividing a diverse market into a number of smaller, more similar, sub-markets. The objective is to identify groups of customers with similar requirements so that they can be served effectively while being of a sufficient size for the product or service to be supplied efficiently. Usually, particularly in consumer markets, it is not possible to create a marketing mix that satisfies every individual´s particular requirements exactly. Market segmentation, by grouping together customers with similar needs, provides a commercially viable method of serving these customers. It is therefore at the heart of strategic marketing since it forms the basis by which marketers understand their markets and develop strategies for serving their chosen customers better that the competition. (Jobber, 2010, p. 260)

7.1.1 REASONS FOR SEGMENTATION

There are a number of reasons why organizations undertake segmentation: (Drummond and Ensor, 2005, p. 67)

- **Meet consumer needs more precisely:** In a generic market customer´s demands will differ, by developing a distinct marketing mix for each consumer segment an organization can offer customers better solutions for their needs.
- **Increase profits:** Differ consumer segments react in contrasting ways to prices, some are far less price-sensitive than others. Segmentation allows an organization to gain the best price it can in every segment, effectively raising the average price and increasing profitability.
- **Segment leadership:** In any particular market the brands that have dominant shares of the market will be highly profitable. Their market leadership gives them economies of scale in marketing and production and they will also have established access to distribution channels. Small companies or new entrants in a market are unlikely to be able to gain leadership, they can however take a dominant share of a particular market segment. This focus can allow them to develop a specialist marketing mix to satisfy the needs of the consumers in that group while at the same time building a competitive cost position relative to other companies in that segment.
- **Retain customers:** Providing products or services aimed at different consumer segments allows an organization to retain that customer´s loyalty as their needs change. As an individual moves through life their needs in financial services will change. For example, young single individuals may need a minimum of credit and banking facilities and car insurance, while younger families will need in addition life insurance policies and mortgages and in middle age these needs will turn to pension provision. If an organization can provide all these services they may retain a customer who otherwise would transfer to another brand. An organization may also be able to use segmentation as a way of moving a customer over time from entry level products or services to products at the premium end of the market.
- **Focus marketing communications:** Segmentation allows an organization to identify media channels that can specifically reach the target groups. For example, young women interested in fashion are likely to read certain fashion magazines. Rather than spending money on mass-market media that reach far wider that the target group, organizations can target their money and effort by using media focused directly on their potential consumer group.

7.1.2 SEGMENTATION CRITERIA

The segmentation process involves establishing criteria by which groups of consumers with similar needs can be identified. These criteria have to identify consumer groups that have the following characteristics: (Drummond and Ensor, 2005, p. 68; Kotler and Keller, 2012, p. 253)

- The consumers in the segment respond in the same way to a particular marketing mix – **homogenous.**
- The consumers within the segment have to react in a clearly different way from other groups of consumers to the marketing mix on offer – **heterogeneous.**

- The group has to be **large enough** to provide the return on investment necessary to the organization.
- The size, purchasing power, and characteristics of the segments can be **measured – measurable.**
- The segments can be effectively reached and served – **accessible.**
- Effective programs can be formulated for attracting and serving the segments – **actionable.**

Segmentation is a creative process and can be conducted using a range of different variables, each bringing a particular perspective to the dynamics of the market. Segmentation variables are the criteria that are used for dividing a market into segments. Segmentation criteria can be divided into three main categories: profile, behavioural, psychographic variables (see Table 7-1). (Drummond and Ensor, 2005, p. 75)

- **Profile variables** are used to characterize the consumer but in terms that are not expressly linked to, or predictive of, an individual´s behaviour in the specific market.
- **Behavioural variables** relate to the behaviour of the consumer. Thus behavioural factors such as benefits sought, usage and the purchase occasion all come under this category.
- **Psychographic variables** identify individuals´ attitudes, opinions and interests to build up a lifestyle profile that includes the consumer´s consumption patterns. Thus these profiles are inextricably associated with specific purchasing behaviour.

There is no hierarchy to these variables. Marketers can use any variable at a starting point (first order variables), and then add further variables (second order variables) to give the grouping a clearer definition. Thus a segment of consumers seeking physical fitness may initially be determined using benefit segmentation. Profile variables may then be added such as age, gender, geodemographics etc., in order to more clearly identify the consumer in order to allow the company to develop specific media communication and distribution plans. (Drummond and Ensor, 2005, p. 76)

Table 7-1: Consumer segmentation variables (criteria)

Variables (criteria)		Examples
Profile	Age	Under 12, 12-18, 19-25, 26-35, 36-49, 50+
	Gender	Female, male
	Life cycle	Young single, young couples, young parents, middle-aged empty nesters, retired
	Social class	Upper middle, middle, skilled working, unwaged
	Terminal education age	16, 18, 21 years
	Income	Income breakdown according to study objectives and income levels per country
	Geographic	North vs south, urban vs rural, country
	Geodemographic	Upwardly mobile young families living in larger owner-occupied houses, older people living in small houses, European regions based on language, income, age profile and location
Behavioural	Benefits sought	Convenience, status, performance, price
	Purchase occasion	Self-buy, gift, special occasions, eating occasions
	Purchase behaviour	Solus buying, brand switching, innovators
	Usage	Heavy, light
	Perceptions, beliefs and values	Favourable, unfavourable
Psychographic	Lifestyle	Trendsetter, conservatives, sophisticates
	Personality	Extroverts, introverts, aggressive, submissive

Source: Jobber (2010, p. 264)

MARKET SEGMENTATION – VICTORIA´S SECRET

Demographic segmentation - A company Victoria's Secret deals in designing and marketing women lingerie and beauty products. They focused on women and "women" is the primary market segment in their marketing strategy. Victoria's Secret is also segmenting their target market with product differentiation as PINK for teenage girls.

Geographic Segmentation - Victoria's Secret is not only operating in America but expended it to geographies like UK and Europe. The currently have more than a dozen stores.

Victoria's lingerie brand is operating in almost 75 countries with more or less 1000 stores globally. It also has 990 sales points in USA. This company also expanded its geographical segments to China. It is expanding lingerie market.

Psychographic segmentation - Victoria's Secret is segmented its customer based on women personality and self-confidence. Todays' Female Personality traits Victoria is targeting include looking sexy, fashionable, trying new looks and styles and open minded.

Behavioral segmentation - Victoria's secret has loyal customers because Victoria feels them alive and confident. Consumers purchase Victoria lingerie product line for prestige. Customers also prefer this brand during birthdays and holidays.

Source: Web portal Marketing tutor – Marketing segmentation examples [online] [cit. 2019-01-25] Available at: https://www.marketingtutor.net/market-segmentation-examples/

7.2 TARGETING

Targeting is centred upon the decision about which segment(s) an organization decides to select for its sales and marketing efforts. "*Target marketing, in other words, is where the organization identifies market segments, selects one or more of them, and develops products and marketing mixes tailored to each.*" According to Levens (2012, p. 136) *"targeting is the process of evaluating and selecting the most viable market segment to enter."*

7.2.1 EVALUATING MARKET SEGMENTS

In evaluating different market segments, an organization should examine two broad issues: **market attractiveness and the company´s capability** to compete in the segment. (Jobber, 2010, p. 278)

In organizational markets (B2B), individual customers may be evaluated on such criteria as sales volume, profitability, growth potential, financial strength and their fit with market and product strategy. Their allocation to a segment will be based on these factors. (Jobber, 2010, p. 281)

A. Market attractiveness

There are a number of criteria that can be used to judge the attractiveness of a market segment. These fall under three broad headings: **market factors, the nature of competition and the wider environmental factors.** Market factors will be discussed in detail, the others only briefly.

1. **Market factors** (Drummond and Ensor, 2005, p. 212-214)
   - **Segment size:** A large segment will generally have greater sales potential. This in itself will make it more attractive but it may also offer the potential of gaining economies of scale because of the larger volumes involved. Large segments with their potentially larger sales can justify the higher investments that may be necessary for organizations wishing to operate within them. However, large segments may not always be the most attractive. Large segments can be more competitive as their very size will attract other companies into them. Smaller organizations may not have the resources to address a large market and therefore may find smaller segments more appropriate for their attention.
   - **Segment´s rate of growth:** Segments that are growing are normally seen as being more attractive than segments where growth has peaked or even begun to decline. Segments in growth are seen as having a longer-term potential and therefore justify any investment necessary. Once again, however, these segments are likely to be more competitive as other companies also recognize their potential.
   - **Segment´s profitability:** If an organization is already operating in this segment it is not its profitability alone that should be reviewed. In order that all segments are evaluated on a consistent basis it is the profitability of all companies operating in the segment that should be calculated. This will have to be an estimate based on analysing competitor´s activities.
   - **Customers´ price sensitivity:** Segments where consumers have low price-sensitivity are likely to be more attractive as higher profit margins can be gained. Consumers will be more concerned about quality and service rather than price alone. Price-sensitive segments are more susceptible to price competition, which leads to lower margins.

- **Stage of industry life cycle:** Entering a segment that is in the early stages of an industry´s life cycle offers the advantages of potentially high growth in the future. In the early stages there are also likely to be less competitors. However, the early stages of the industry life cycle are characterized by the need for high investment in new plant, promotional activities and securing distribution channels.
- **Predictability:** The potential value of a market will be easier to predict if it is less prone to disturbance and the possibility of discontinuities. In the long term a predictable market is likely to be more viable.
- **Pattern of demand:** The attractiveness of a segment will be affected by any seasonal or other cyclical demand patterns it faces (gift and card market - Christmas time). The same problem occurs in other industry sectors such as travel and tourism.
- **Potential of substitution:** In any market there is the potential for new solutions to be developed that will address consumers´ needs. An organization should review markets to establish whether new innovations could be used in the segment.

2. **Competitive factors** (Jobber, 2010, p. 280)

Segments that are characterized by strong aggressive competition are less attractive than where competition is weak (**nature of competition**). A segment may seem superficially attractive because of the lack of current competition, but care must be taken to assess s the dynamics of the market (**new entrants**). Segments will be more attractive if there is a real probability of creating a differentiated offering that customers value (**competitive differentiation**).

3. **Political, social and environmental factors** (Jobber, 2010, p. 280-281)

Political forces can open new market segments. Alternatively the attraction of entering new geographic segments may be reduced if political instability exists or is forecast. Changes in society **(social trends)** can give rise to latent market segments, under-served by current products and services. The **environmental trend** towards more environmentally friendly products has affected market attractiveness both positively and negatively.

B. Company´s capability (Jobber, 2010, p. 281)

Against the market attractiveness factors must be placed the firm´s capability to serve the market segment. The market segment may be attractive but outside the resources of the company. Capability may be assessed by analysing **exploitable marketing assets, cost advantages, technological edge, and managerial capabilities and commitment.**

7.2.2 TARGETING STRATEGIES

In addition to choosing the basis upon which to segment a market, choices must be made regarding which segments to target. This is not necessarily a sequential process. Indeed, choice of segmentation criteria and choice of targets (the targeting strategy) is an interactive and interdependent set of processes which may well require a high degree of iteration before a final strategic position is arrived at. Segments must be evaluated in terms of market attractiveness and the company´s capability (see Chapter 7.2.1). This information can then be taken into consideration when deciding which segments to target. The basic array of targeting strategies is as follows: (Waite and Ennew, 2007, p. 157; Jobber, 2010, p. 281-284)

- **Undifferentiated**: *It serves an entire marketplace with a single marketing mix which does not distinguish between sub-segments of the market.* Occasionally, a market analysis will show no strong differences in customer characteristics that have implications for marketing strategy. Alternatively, the cost in developing a separate market mix for separate segments may outweigh the potential gains of meeting customer needs more exactly. Under these circumstances a company may decide to develop a single marketing mix for the whole market. Undifferentiated marketing is more convenient for managers since they have to develop only a single product.

- **Differentiated:** *It is organized into a number of segments, each of which is targeted with a tailored marketing mix.* For example, airlines design different marketing mixes for first-class and economy passengers including varying prices, service levels, quality of food, in-cabin comfort and waiting areas at airports. One potential disadvantage of a differentiated compared to an undifferentiated marketing strategy is the loss of cost economies. However, the use of flexible manufacturing systems can minimize such problems.
- **Focused**: *A choice is made to target a small subset of the segments of a multi-segment marketplace with a single marketing mix that best suits the needs of that segment.* The identification of several segments in a market does not imply that a company should serve all of them. Some may be unattractive or out of line with business strengths. Perhaps the most sensible route would be to serve just one of the market segments. When a company develop a single marketing mix aimed at one target market (niche) it is practising focused marketing. This strategy is particularly appropriate for companies with limited resources. Focused marketing allows research and development expenditure to be concentrated on meeting the needs of one set of customers, and managerial activities can be devoted to understanding and catering for their needs. Large organizations may not be interested in serving the needs of this one segment, or their energies may be co dissipated across the whole market that they pay insufficient attention to their requirements. One form of focused marketing is to concentrate efforts on the relatively small percentage of customers that account for a disproportionately large share of sales of a product (in some markets 20 per cent of customers account for 80 per cent of sales). An example of focused marketing in the B2C market is given by Bang & Olufsen, the Danish audio electronics firm. It targets upmarket consumers who value self-development, pleasure and open-mindedness, with its stylish television and music system.
- **Customized** – *each individual that comprises the target market is the subject of a marketing mix that is tailored in some way to the individual´s specific needs.* In some markets the requirements of individual customers are unique and their purchasing power sufficient to make designing a separate marketing mix for each customer viable. Many service providers, such as advertising and marketing research agencies, architects and solicitors, vary their offering on a customer-to-customer basis. They will discuss face to face with each customer their requirements and tailor their services accordingly. Customized marketing is also possible on the Internet, with customers being treated differently on an individual basis. An example is the locomotive manufacturers will design and build products to specifications given to them by individual rail transport providers. A fascinating development in marketing in recent years has been the introduction of mass customization in consumer markets. This is the marketing of highly individual products on a mass scale. Car companies such as Audi, BMW, Mercedes and Renault have the capacity to build to order where cars are manufactured only when there is an order specification from a customer. Dell Computers will also build customized products, often ordered on the Internet.

Behavioral targeting is a recent development that optimizes the online advertising potential for products and services. The ultimate idea is to increase interest in particular product at a point when the consumer is actively shopping within the product category. Behavioral targeting works by placing a cookie, information that a Web site places on your computer to identify you at a later time, on behaviour. An example would be a consumer searching a variety of automotive sites and then receiving an offer for vehicle insurance. (Levens, 2012)

TARGET MARKETS

FACEBOOK: The target market of Facebook has evolved along with the company. The founders targeted the college students of the United States in its initial years, which can be seen in its pitch deck too. Facebook has now widened its target market and has positioned itself as a social media platform used mostly by middle-aged (25-34 years) mobile using adults in 157 countries.

MC DONALD´S: McDonald’s targets students, employees, and professionals in the age group of 8 to 45 years belonging to low & middle-income groups and having an easy-going and careless personality.

APPLE:

Young children and kids – Apple products are also useful to young children and kids. The reason for this is that devices such as iPods and iPads are easy to use due to their touch screen quality which is good for children. Parents can download learning game apps on Apple devices to teach children and kids.

Teenagers – are considered one of Apple Inc.‘s target markets. Teenagers use iPods for many reasons. Some of these reasons are to socialize with friends, listen to music and go on Facebook, MSN, Twitter etc. There are also many gaming apps that appeal to them. iPods have become quite a trend with teenagers.

College and university students - are also targeted by Apple Inc. These students use Apple Inc. products such as iPads, MacBooks, iPhones etc. to quickly record notes. These notes are kept organized in their devices.

Adults –are also one of Apple Inc.‘s target markets. iPhones are useful to adults for their everyday needs such as phone calls, map directions, internet connection, documents and cameras. Carrying these small devices makes adults lives much easier for communicating daily.

Source: Source: Web portal The entrepreneurs´ guide; Apple inc. case study [online] [cit. 2019-01-25] Available at: https://www.feedough.com/target-market-definition-examples-strategies-analysis/; https://appleinccasestudy.weebly.com/apples-target-market.html

7.3 POSITIONING

Having selected a target market or markets, the organization then has to decide on what basis it will compete in the chosen segment or segments. This has to be done in such a way that consumers can allocate a specific position to the company´s product or service within the market, relative to other products. Consumers have to cope with a huge amount of product information. Customers will position a product in their mind in relation to other products on the market based on their perception of the key attributes it contains. (Drummond and Ensor, 2005, p. 222)

"Marketing positioning is arranging for a brand or product to occupy a clear, distinctive and desirable place in the minds of targeted customers relative to competing products or brands." It is based on the product´s or brand´s attributes, standing, quality, the types of users, its strengths and weaknesses price and value, plus any other memorable characteristics, as perceived by the target market. (Dibb and Simkin, 2004, p. 67)

Before you position your product or service, you should answer the following strategic questions about your market and your products or services:[16]

- **What's your customer really buying from you?** Remember that McDonald's isn't just selling burgers and fries. It sells fast food that tastes the same, no matter when or where it's ordered, in an environment that's clean and friendly to families.
- **How's your product or service different from those of your competitors?** A cheeseburger is a cheeseburger, you may think. But look how McDonald's, Burger King and Wendy's differentiate their fast food. They offer different side dishes (onion rings at Burger King, french-fried potatoes at McDonald's), different toys with kids' meals (a big incentive for the under-age-10 set), and different ways of cooking their burgers (Burger King's are broiled, McDonald's, grilled).
- **What makes your product or service unique?** In New England, McDonald's is the only fast-food chain to offer lobster rolls (a lobster salad sandwich served in a grilled hot-dog roll) in the summer.

Once you've answered these strategic questions based on your market research, you can then begin to develop a positioning strategy for your business plan. A positioning statement for a business plan doesn't have to be long or elaborate, but it does need to point out who your target market is, how you'll reach them, what they're really buying from you, who your competitors are, and what your USP (unique selling proposition) is. Remember, the right image packs a powerful marketing punch. To make it work for you, follow these steps:[17]

- **Create a positioning statement for your company.** In one or two sentences, describe what distinguishes you from your competition.
- **Test your positioning statement.** Does it appeal to your target audience? Refine it until it speaks directly to their wants and needs.
- **Use the positioning statement** in every written communication to customers.
- **Create image-marketing materials** that communicate your positioning. Don't skimp.
- **Include your team in the image-marketing plan.** Help employees understand how to communicate your positioning to customers.

There are four critical factors for successful positioning: Credence, Competiveness, Consistency, Clarity. (Drummond and Ensor, 2005, p. 223; Jobber, 2010, p. 285-286)

- **Credence:** The attributes used to position the product have to be perceived to be credible by the target customers. It would be very difficult for a nuclear power generator to position itself as environmentally friendly.
- **Competiveness:** The product should offer the consumer benefits which competitors are not supplying. For example, the success of the iPod was based on the differential

[16] Entrepreneur – positioning. [online] [cit. 2014-05-19] Available at: http://www.entrepreneur.com/encyclopedia/positioning
[17] Entrepreneur – positioning. [online] [cit. 2014-05-19] Available at: http://www.entrepreneur.com/encyclopedia/positioning

advantage of seamless downloading of music from a dedicated music store, iTunes, to a mobile player that produced better sound quality than its rivals.

- **Consistency:** A consistent message over time is invaluable in helping to establish a position against all the other products and services fighting for a share of the consumer´s mind. The good example can be Gillette ("The best a man can get") and L´Oréal ("Because you´re worth it"). Both receive high recall when consumers are researched because of the consistent use of a simple message over many years.
- **Clarity:** The positioning statement an organization chooses has to create a clearly differentiated position for the product in the minds of the target market. Complicated positioning statements are unlikely to be remembered. Simple message such as "BMW: the ultimate driving machine", Wal–Mart´s "Low prices, always" are clear and memorable.

BRAND POSITIONING – EXAMPLE 1

Brand positioning is the creation of a clear and distinctive image for the brand. A brand can be positioned using a range of associations, such as:

- **Product attributes:** Heinz positions its products on the attributes of no artificial colouring, flavouring or preservatives.
- **Product benefits:** Volvo positions itself using the product benefits of safety and durability.
- **Usage occasions:** The convenience store SPAR eight-till-late shops are positioned on the usage occasion. Customers use the shops when they need to shop out of normal hours or near to their home.
- **Users:** Ecover cleaning products are positioned as environmentally friendly products for the green customer.
- **Activities:** Lucozade is positioned as an isotonic drink for sporting activities.
- **Personality:** Harley Davidson motorbikes are positioned as a macho product with a free spirit.
- **Origin:** Audi clearly illustrates it German origins in the UK market by the use of the "Vorsprung durhc technik" slogan. The hope is the product will be linked to the German reputation for quality engineering.
- **Competitors:** Pepsi-Cola positions itself as the choice of the next generation, reflecting the fact that in blind tasting tests younger people preferred Pepsi over competitors´ offerings.
- **Product class:** Kellogg´s Nutrigrain bars are positioned as "morning bars", a substitute for the traditional breakfast.
- **Symbol:** Esso petrol has used the symbol of the tiger to position itself in the market.

Source: Drummond and Ensor (2005, p. 222)

BRAND POSITIONING – EXAMPLE 2

- **Position and own the category benefit**
  - Volvo: Safety
  - Miller Lite: Great Taste, Less Filling
  - Walt Disney Company: Magic

- **Position the product and the consumer**

- U.S. Army: Be all you can be
- Budweiser: For all you do, this Bud's for you
- Pepsi Generation

- **Position how the company does business**
  - Burger King: Have it your way
  - United Airlines: The friendly skies of United
  - WalMart: Always the lowest price

- **Position against the competition**
  - Avis: We're #2. We try harder
  - Seven-Up: The Un-cola
  - Apple: Think different

Source: EquiBrand consulting [online] [cit. 2019-01-24] Available at: http://equibrandconsulting.com/services/brand-consultant/brand-positioning/examples

7.3.1 POSITIONING STRATEGIES

Levens (2012) states three types of positioning: functional, symbolic and experiential. **Functional positioning** is based on the attributes of products or services and their corresponding benefits and is intended to communicate how customers can solve problems or fulfil needs. An example would be high quality. **Symbolic positioning** is based on characteristics of the brands that enhance the self-esteem of customers. An example would be the concept of physical appearance. **Experiential positioning** is based on characteristics of the brands that stimulate sensory or emotional connections with customers. An example would be the feeling of joy.

Whichever positioning approach is taken, there are a number of positioning mistakes that can be made by an organization. The first one is **underpositioning.** In this situation consumers have only a very limited perception of the brand and are unaware of any distinguishing features. In the case of **overpositioning**, consumers have a perception that the brand is only active in a very focused area, when in fact the brand covers a much broader product range. And the last one is **confused positioning,** when consumers have an unclear view of how the brand relates to competitive offerings. (Drummond and Ensor, 2005, p. 227-228)

7.3.2 PERCEPTUAL MAPPING

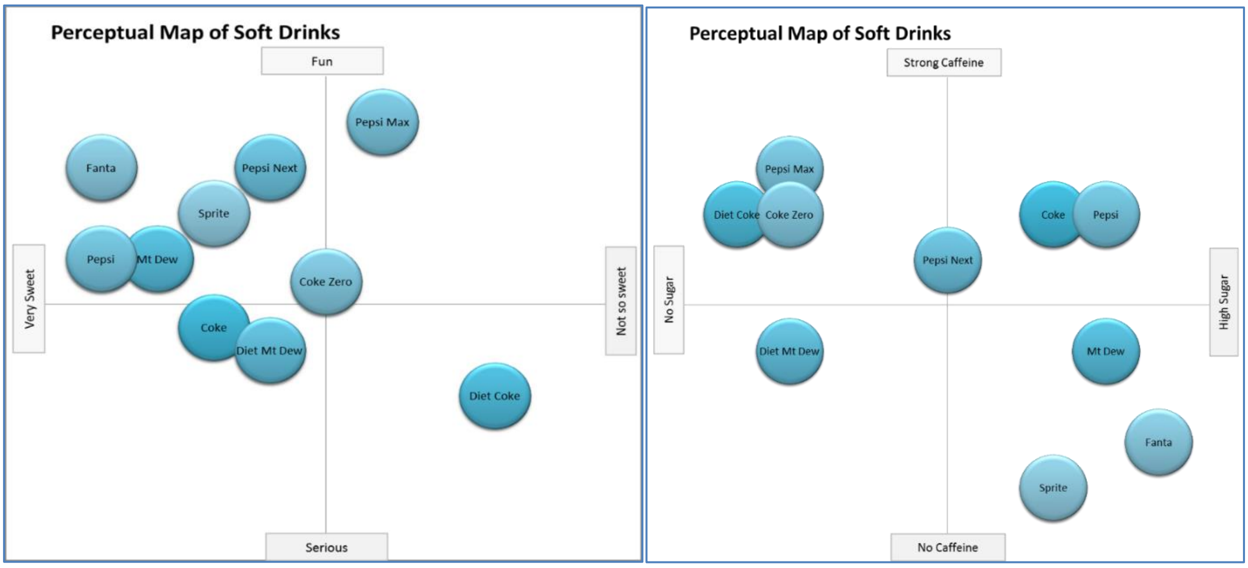
A useful tool for determining the position of a brand in the marketplace is the perceptual map. This is a visual representation of consumer perceptions of the brand and its competitors using attributes (dimensions) that are important to consumers. Perceptual maps can also be valuable in identifying the strengths and weaknesses of brands as perceived by consumers. Such findings can be very revealing to managers, whose own perceptions may be very different from those of consumers. The key steps in developing a perceptual map are as follow: (Jobber, 2010, p. 287)

- Identify a set of competing brands.
- Identify important attributes that consumers use when choosing between brands using qualitative research.
- Conduct quantitative research where consumers score each brand on all key attributes.

- Plot brands on two-dimensional map(s).

It is important to remember that perceptual maps are based on the buyer's perception this is challenging: what may be viewed as a quality product by one buyer, may not be perceived as a quality product by another buyer. Perceptual maps help firms understand how customers view their products. However as perception is very subjective, firms need to ensure that the data they use to plot the map is accurate. If customer perception data is wrong, the map will be wrong and this will affect the success of any marketing strategy based on the perceptual (positioning) map. Perceptual maps may help organisations identify gaps in the market. Before deciding to fill any gaps in the market firms need to ensure that there is likely to be a demand for a product positioned in that gap.[18]

EXAMPLES OF PERCEPTUAL MAPPING FOR THE SOFT DRINK MARKET



Source: All about perceptual maps for marketing [online] [cit. 2019-01-24] Available at: http://www.perceptualmaps.com/example-maps/

7.3.3 REPOSITIONING

Occasionally a product or service will need to be repositioned because of changing customer tastes or poor sales performance. Repositioning involves changing the target markets, the differential advantage, or both. A useful framework for analysing repositioning options is given in Table 7-2. Using product differentiation and target market as the key variables, four generic repositioning strategies are shown. (Jobber, 2010, p. 288)

Table 7-2: Repositioning strategies

[18] *Marketing [online] [cit. 2019-01-24] Available at: https://www.learnmarketing.co.uk/perceptualmaps.htm*

	Unchanged target market	Changed target market
Unchanged product attributes	*Image repositioning*	*Market repositioning*
Changed product attributes	*Product repositioning*	*Total repositioning*

Source: Drummond and Ensor (2005, p. 240)

A product needs to be repositioned when there is a need to change the way it is viewed in the mind of the target. Changing perception is much more difficult than working with an existing position or creating a new one. Repositioning should work to define a new or special niche in consumer´s mind. (Blakeman, 2015, p. 44)

REPOSITIONING

COCA COLA: The first example relates to Mother Energy Drinks, which was launched into the Australian market in 2006 by the Coca-Cola Company. Coca-Cola used a heavy launch program to generate trials of the product. In particular, they had a series of TV commercials that have a look and feel similar to the Madagascar movie that was popular at the time. They leveraged their extensive distribution channels and were able to get the product in many retailers, with prominent point-of-sale displays. The can's packaging had a tattoo look about it, again tapping into the popular culture of the time.

While the launch campaign was professionally and effectively executed, the taste of the product was not great and repeat purchases were quite low as a consequence. Obviously, Coca-Cola is a major firm in beverage, so a poorly performing product is simply not suitable for them. Therefore, they had to decide whether to improve and reposition the product or to withdraw it and replace it with a new brand and product. The firm decided to reposition the product. This is because they had done such a good job with the launch, that the brand awareness (a key part of brand equity) was very high in the marketplace.

With the relaunch and repositioning project, their biggest challenge was to convince consumers to re-trial the product. As a result, they changed the packaging, increased the size of the can and, of course, improved the product's taste.

However, they approached the problem of the product's perceived poor taste head-on. For instance, on the can's packaging, in quite prominent letters, they had "New Mother, tastes nothing like the old one". Their TV commercials for the relaunch (see below), which used a humor appeal, showed commandos breaking into the lab to get the scientists that invented the original formula. As a consequence, they are able to reposition the product as having a great taste and many consumers were willing to re- trial the product and today the product enjoys a good share of the Australian market and is performing to the firm's expectations.

NAPISAN: Napisan is a laundry detergent product that was designed to wash baby diapers (called nappies in Australia, hence the name of the product). Napisan was a very popular product up until around the 1980s when there was a significant change in consumer lifestyles. As consumers became more time poor, as a consequence of both parents working, there was a big shift from using washable cloth diapers to using disposable ones.

Therefore, sales of the NapiSan product fell in line with the decrease in consumer demand. This is a good example of repositioning being required due to the change in the macro environment.

The firm had a good quality product, so they had to decide whether to reposition the product or to bring out the same product under a new brand name. They decided to reposition it because it had good brand equity (high awareness and it was trusted by consumers).

Over recent years the NapiSan product has been successfully repositioned for a new use; being the ideal laundry detergent for tough stains.

BURBERRY: Burberry is a fantastic example of how a brand can change its image with a few simple marketing tweaks. Just a couple decades ago, Burberry was suffering from a bad reputation, being associated as gang wear. In 2001, a new creative director, Christopher Bailey, took over and started introducing new products like swimwear and trench coats that were unaffiliated with previous images of the brand. Celebrity endorsements from Emma Watson and Kate Moss helped cement the new image of Burberry, and now the company is a major luxury brand, touted as a symbol of high class and wealth.

APPLE: In the early- to mid-1990s, Apple was suffering from low sales, low consumer interest, and tons of competition driving customers away from them. The brand didn't stand for much, and certainly didn't stand out, until Steve Jobs took over the company in 1997 and started flipping consumer expectations on their heads. With an image of minimalism and modernity, a host of innovative new products, and a series of marketing and advertising campaigns that focused on ideas and experience more than products or purchases, Apple was able to attract a new, diversified customer base, and cement itself as a thought leader in the tech industry. It's still riding the momentum of that dramatic shift today.

Source: Marketing segmentation study guide [online] [cit. 2019-01-24] Available at: http://www.segmentationstudyguide.com/understanding-repositioning/repositioning-examples/

Repositioning is often misunderstood as a synonym for the term rebranding. **Rebranding has different meaning because it is** marketing a product or service with a new logo (see the figure below), name, identity, web presence, and often new messages and campaigns. (Doyle, 2016, p. 396)

Figure 7-2: Pepsi logo evolution – rebranding

Source: Web portal Better than Success [online] [cit. 2019-01-24] Available at: https://betterthansuccess.com/3-reasons-you-need-to-rebrand/

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 7. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. **The segmentation is:**
   a) Division of the whole market using segmentation criteria into specific segmentation groups. The condition is that individuals within the segment are homogeneous and heterogeneous compared to other segments.
   b) Division of the whole market using segmentation criteria into specific segmentation groups. The condition is that individuals within the segment are heterogeneous and homogeneous compared to other segments.
   c) The process of addressing one target segment of customers (consumers) to meet their needs with tailor-made special products and services.

2. **Targeting is:**
   a) Market segmentation into market segments based on segmentation criteria.
   b) A place of product (brand) in customers´mind.
   c) Selection of the target segment.

3. **Positioning is:**
   a) A place of product (brand) in customers´mind.
   b) Market share of the firm.
   c) Placement and presentation of products in shops.

4. **What defines the customization the best?**
   a) Tailor made products.
   b) Positive references of customers.
   c) Product launch on the market.

5. **What is the nature of mass customization?**
   a) The goal is to create a mass product that will only be sold through personal sales to individual customers.
   b) The aim is to create a product that will meet the individual needs of customers, but will be offered massively.
   c) The aim is to create a product that can be sold in unaltered form on foreign markets.

CORRECT ANSWERS

1a, 2c, 3a, 4a, 5b

8 PRODUCT

Armstrong et al. (2015, p. 232) define a product as anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. Products include more than just tangible goods. Broadly defined, products include physical objects, services, events, persons, places, organisations, ideas or mixes of these entities. Throughout this text, we use the term product broadly to include any or all of these entities. Thus, an Apple iPad, a Toyota Avensis and a tin of Dulux paint are products. But so are a skiing holiday, HSBC banking services and advice from your doctor. Because of their importance in the world economy, services are given our special attention. Services are a form of product that consists of activities, benefits or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, hotel, airline, retail, accounting and home repair services.

8.1 PRODUCT CLASSIFICATIONS

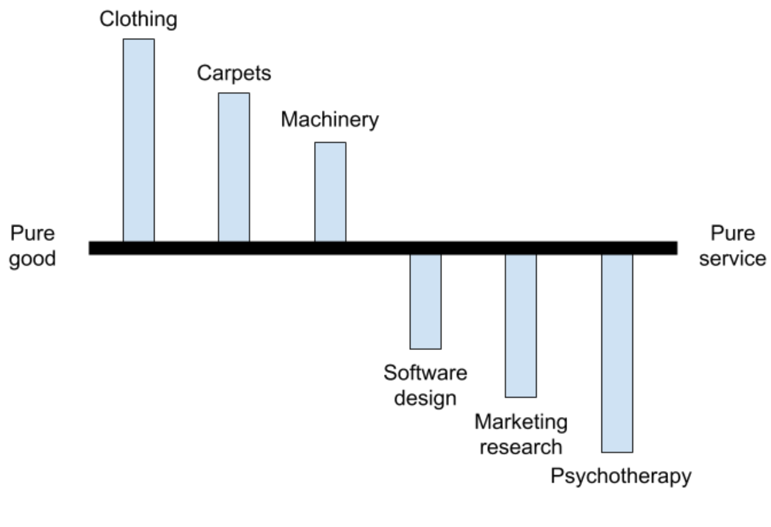
Marketers classify products on the basis of tangibility, durability, and use (consumer or industrial). (Kotler and Keller, 2012, p. 349-350)

TANGIBILITY

- **Goods** are tangible, can be stored for later sell, do not differ piece by piece very much, and can be sold second hand. Production is separated from consumption. Examples include toys, smartphones, and fast-moving consumer goods.
- **Services** are intangible, inseparable, variable, and perishable products that normally require more quality control, supplier credibility and adaptability. Examples include haircuts, legal advice, and appliance repairs.

There are pure services, which do not consist any tangible element but also services consisting the tangible parts (Figure 8-1). On the other side of the spectrum, there are pure goods with no additional service included.

Figure 8-1: The physical good-service continuum



Source: Jobber & Fahy (2015, p. 146)

Table 8-1: Service characteristics and Marketing Challenges

Service Characteristics	Resulting Marketing Challenges
Intangibility	Difficult for customer to evaluate. Customer does not take physical possession. Difficult to advertise and display. Difficult to set and justify prices. Service process usually not protectable by patents.
Inseparability of production and consumption	Service provider cannot mass-produce services. Customer must participate in production. Other consumers affect service outcomes. Services are difficult to distribute.
Perishability	Services cannot be stored. Balancing supply and demand is very difficult. Unused capacity is lost forever. Demand may be very time-sensitive.
Heterogeneity	Service quality is difficult to control. Service delivery is difficult to standardize.
Client-based relationships	Success depends on satisfying and keeping customers over the long term. Generating repeat business is challenging. Relationship marketing becomes critical.
Customer contact	Service providers are critical to delivery. Requires high levels of service employee training and motivation. Changes a high-contact service into a low-contact service to achieve lower costs without reducing customer satisfaction.

Source: Pride & Ferrell (2015 p. 316)

DURABILITY

Product fall into two groups according to durability.

- **Nondurable goods** are tangible goods normally consumed in one or a few uses, such as beer and shampoo. Because these goods are purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small markup, and advertise heavily to induce trial and build preference.
- **Durable goods** are tangible goods that normally survive many uses: refrigerators, machine tools, and clothing. Durable products normally require more personal selling and service, command a higher margin, and require more seller guarantees.

CONSUMER-GOODS CLASSIFICATION

When we classify the vast array of consumer goods on the basis of shopping habits, we distinguish among convenience, shopping, specialty, and unsought goods.

- The consumer usually purchases **convenience goods** frequently, immediately, and with minimal effort. Examples include soft drinks, soaps, and newspapers. ***Staples*** are convenience goods consumers purchase on a regular basis. A buyer might routinely purchase Heinz ketchup, Crest tooth-paste. ***Impulse goods*** are purchased without any planning or search effort, like candy bars and magazines. ***Emergency goods*** are purchased when a need is urgent – umbrellas during a rainstorm, boots and shovels during the first winter snow.

- **Shopping goods** are those the consumer characteristically compares on such bases as suitability, quality, price and style. Examples include furniture, clothing, and major appliances. ***Homogeneous shopping goods*** are similar in quality but different enough in price to justify shopping comparisons. ***Heterogeneous shopping goods*** differ in product features and services that may be more important than price.
- **Speciality goods** have unique characteristics or brand identification for which enough buyers are willing to make a special purchasing effort. Examples include cars, stereo components, and men´s suit. Speciality goods don´t require comparisons, buyers invest time only to reach dealers carrying the wanted products.
- **Unsought goods** are those the consumer does not know about or normally think of buying, such as smoke detectors. Classic examples of known but unsought goods are life insurance, cemetery plots, and gravestones. Unsought goods require advertising and personal-selling support.

Figure 8-2: Marketing considerations for consumer products

	Type of consumer product			
Marketing considerations	Convenience	Shopping	Speciality	Unsought
Customer buying behaviour	Frequent purchase, little planning, little comparison or shopping effort, low customer involvement	Less frequent purchase, much planning and shopping effort, comparison of brands on price, quality, style	Strong brand preference and loyalty, special purchase effort, little comparison of brands, low price sensitivity	Little product awareness, knowledge (or, if aware, little or even negative interest)
Price	Low price	High price	Higher price	Varies
Distribution	Widespread distribution, convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both producer and resellers	More carefully targeted promotion by both producer and resellers	Aggressive advertising and personal selling by producer and resellers
Examples	Toothpaste, magazines, laundry detergent	Major appliances, TVs, furniture, clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance, Red Cross blood donations

Source: Armstrong et al. (2015, p. 235)

INDUSTRIAL-GOODS CLASSIFICATION

We classify industrial goods in terms of their relative cost and how they enter the production process: materials and parts, capital items, and supplies and business services.

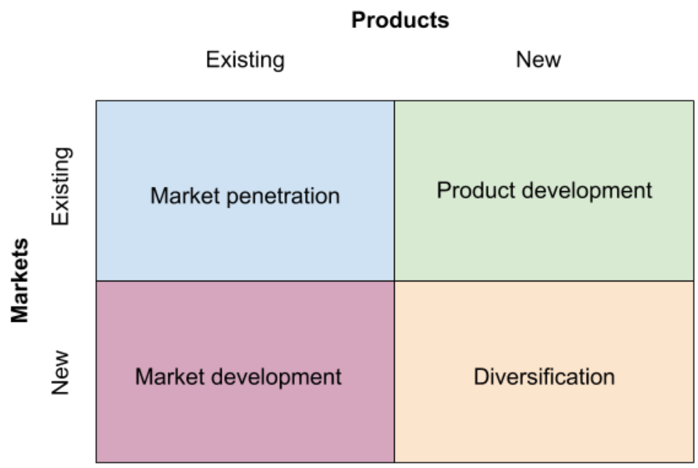
- **Materials and parts** are goods that enter the manufacturer´s product completely. They fall into two classes: raw materials, and manufactured materials and parts. ***Raw materials*** fall into two major groups: ***farm products*** (wheat, cotton, livestock, fruits, and vegetables) and ***natural products*** (fish, lumber, crude petroleum, iron ore). ***Manufactured materials and parts*** fall into two categories: ***component materials*** (iron, yarn, cement, wires) and ***component parts*** (small motors, tires, castings). Component materials are usually fabricated further – pig iron is made into steel, and yarn is woven into cloth. Component parts enter the finished product with no further change in form, as when small motors are put into vacuum cleaners, and tires are put on automobiles.

- **Capital items** are long-lasting goods that facilitate developing or managing the finished product. They include two groups: installations and equipment. ***Installations*** consist of buildings (factories and offices) and heavy equipment (generators drill presses, mainframe computers, elevators). ***Equipment*** includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (personal computers, desks).
- **Supplies and business services** are short-term goods and services that facilitate developing or managing the finished product. Supplies are of two kinds: ***maintenance and repair items*** (paint, nails, brooms) and operating supplies (lubricants, coal, writing paper, pencils. Business services include ***maintenance and repair service*** (window cleaning, copier repair) and ***business advisory services*** (legal, management consulting, advertising).

8.2 THE PRODUCT STRATEGY – THE ANSOFF MATRIX

A useful way of looking at growth opportunities is the Ansoff Matrix, as shown in Figure 8-3. By combining present and new products, and present and new markets into a 2x2 matrix, four product strategies for growth are revealed. Although the Ansoff Matrix does not prescribe when each strategy should be employed, it is a useful framework for thinking about the ways in which growth can be achieved.

Figure 8-3: The Ansoff Growth Matrix



Source: Jobber (2010, p. 370)

For a firm that wishes to grow its sales volume, there are four options to pursue (Sharp, 2013, p. 262):

- The first is **market penetration**, where the firm focuses on gaining share at the expense of its competitors. Various marketing tactics could be used to achieve this, but essentially these would be based on the marketing mix.
- The next option is **product development**. The essential idea here is that the firm examines what their current customers need and are buying from other firms. They ask themselves: Why can't we supply that to them? The firm aims to trade on the fact that it is known to the customer and it has in place much of the infrastructure and know how to do business with them. A simple example is that for a long time

McDonald's did not offer breakfast and did not open until lunchtime. They subsequently adopted product development and now offer breakfast.
- The third option is **market expansion**, to find new customers for firms existing products or services. A simple example would be a Sydney firm offer its products in Victoria, with similar clients to those it had in its home state.
- The last option, **diversification**, is available theoretically, but it is usually a bad idea. It is when a firm attempt to offer things that are new to it and to customers it is not used to dealing with. This strategy is high risk.

We can draw imaginary diagonal of the risk through the growth matrix. It would go from the upper left quadrant to the bottom right. Deeper market penetration, for example, through increased investment in marketing communications, is not risky, but leads to more intense competition. On the other hand, diversification is associated with a considerable risk. The company enters a market that does not know and with a product with which has little experience. However, the results of diversification have considerable benefits. If the original business is maintained, diversification becomes a tool for reducing business risk in long term. If a company deals with real estate and also manufactures metal structures for rail transport, the crisis in the construction industry does not have to jeopardize its existence. Fluctuations in cash flow in one sector are covered by other products in other markets.

8.3 DESIGNING NEW PRODUCTS

Companies can include new products in their product portfolio in two ways. The first is the acquisition, and the second is its own development. Both of these variants have their pros and cons. Acquisitions can be capital intensive. Often it is about buying a whole company or its division. The advantage, however, is the possibility to acquire a wide customer base of the purchased company. An example might be the purchase of Instagram by Facebook for one billion US dollars in April 2012. Self-development can be time-consuming and human resources intensive regarding knowledge that people in the company have. In both cases, marketers and product managers play an important role in specifying the estimated benefits of a new product, implementing decisions, and evaluating the results of a new product on the market.

8.3.1 NEW PRODUCT DEVELOPMENT PROCESS

There is much debate relating to new product development (NPD) as to what is meant by the term “new product”. The reality is that few products can be deemed to be truly “new” in the sense of being innovative/unique or novel. Most “new” products are updates and revamps of existing goods and services. There is a view of new product strategy in terms of three categories: (Drummond and Ensor, 2005, p. 120-122)

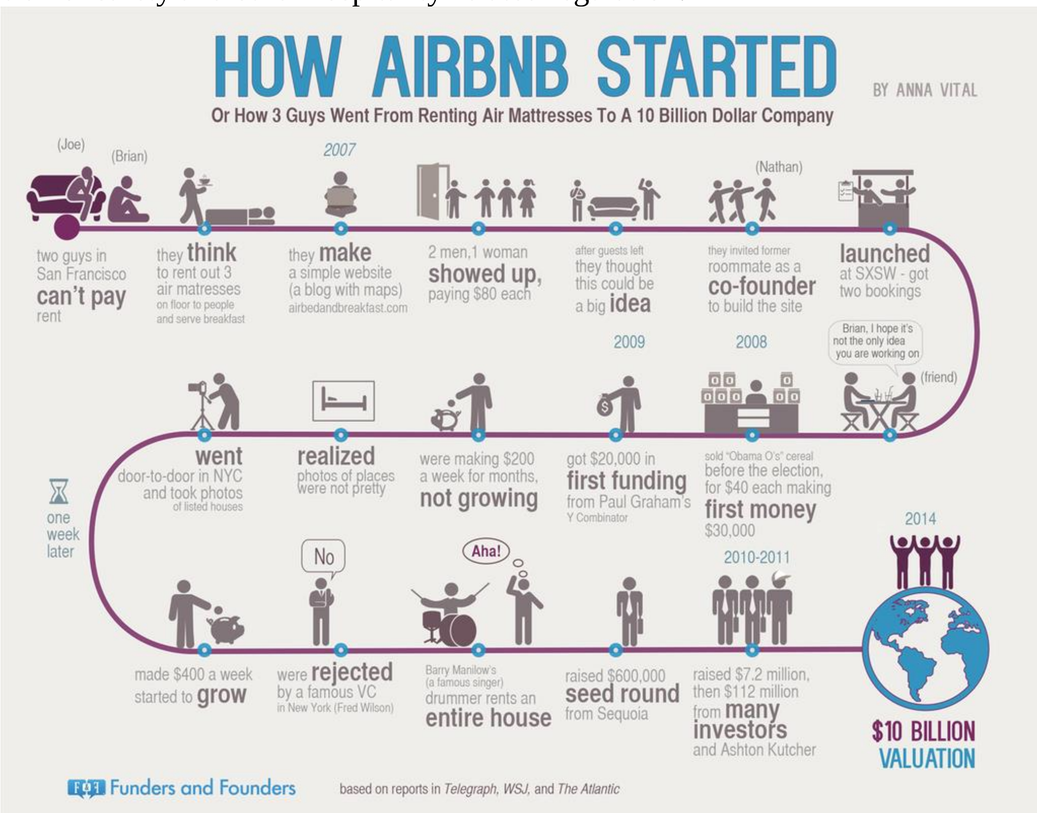
- **Product improvement/modification:** Unless products are to be replaced by completely new entities they must be upgraded and enhanced as a matter of necessity. The process can have two possible aims: Maintaining the competitive position in an existing market, and/or adapting the product in order to appeal to other market segments.
- **Product imitation:** This strategy involves capitalizing on the initiatives of others and suits organizations that are risk-averse and/or have limited funds to invest. Clearly, there are potential ethical and legal problems with this option and organizations must define the line between imitation and copying.

- **Product innovation:** This involves bringing new and novel ideas to the market place. Product innovation may be aimed at: (1) Replacing existing products with new approaches and items that enhance customer satisfaction. (2) Providing diversification in order to target opportunities in new markets.

NEW PRODUCT DEVELOPMENT EXAMPLE

Rhode Island School of Design graduates Brian Chesky and Joe Gebbia came upon the idea of making a little extra money by launching www.airbedandbreakfast.com and renting out air mattresses to attendees at an industrial design conference in San Francisco. Emboldened by their success at attracting three very different guests for a week, the two shortened the name of their venture to Airbnb, hired a tech expert, and set out to extend their "couch-surfing" business

by adding features such as escrow payments and professional photography so the potential rental properties looked their best. Around-the-clock customer service for guests and a $1 million insurance policy for hosts provided each party with valuable peace of mind. All kinds of spaces were included—not just rooms, apartments, and houses but also driveways, treehouses, igloos, and even castles. Airbnb applied a broker's model to generate revenues: 3 percent from the host and 6 percent to 12 percent from the guest, depending on the property price. Although it now operates in 190 countries and 28,000 cities, books millions of spaces annually, and has seen its valuation approach $10 billion, it faces several significant challenges, including government intervention in the form of taxes, disputes over illegal subletting, and the imposition of safety and other hospitality-related regulation.



Source: Kotler (2016, p. 486) and Anna Vital

Table 8-2: Types of "new" product developments

Type of product development	Nature
NEW TO WORLD	Often scientific or technical developments, high risk, high return activities which can revolutionize or create markets.
NEW PRODUCT LINES OR LINE ADDITIONS	Such products can either be new to the provider, as opposed to the market place, or additions to the product ranges already on offer.
PRODUCT REVISION	These are replacements and upgrades of existing products.
REPOSITION	Aiming to diversify away from existing markets by uncovering new applications, uses or market segments for current products.

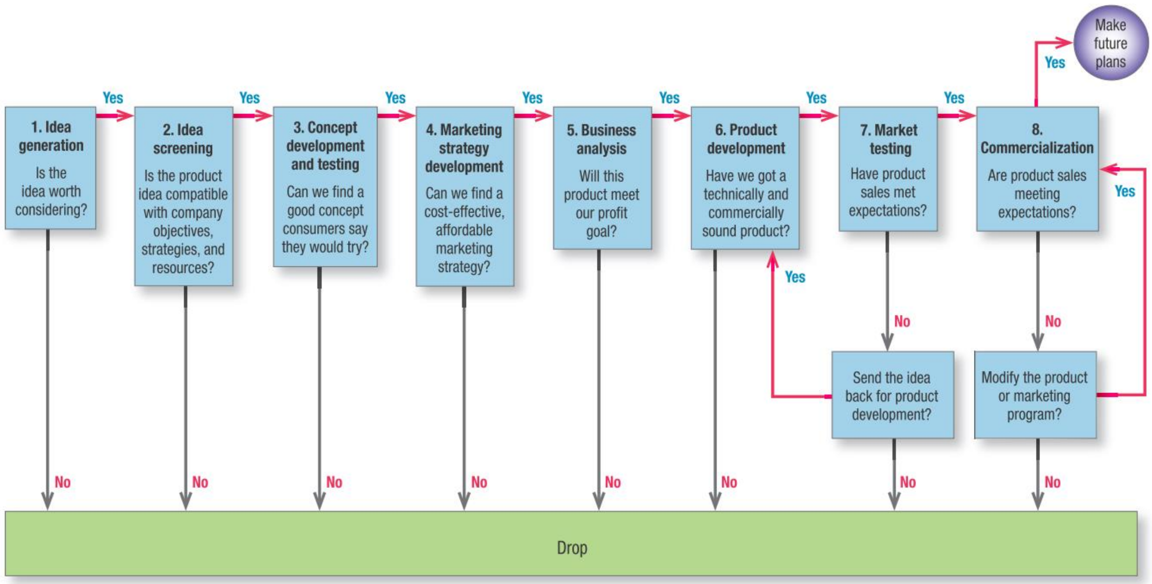
Source: Drummond and Ensor (2005, p. 122)

THE NEW PRODUCT DEVELOPMENT PROCESS

No matter what type of new product is under development – a "new to word" product, a new product line or a development simply aiming to reduce cost – an organization requires some mechanism, or process, by which to evaluate idea and, when appropriate, translate them into commercial products. Such a process provides a vital ingredient in the fight for commercial success. The lack of rigorous process is a factor commonly contributing to the failure of new products.

Stage-gate systems (Figure 8-4) make the innovation process visible to all and clarify the project leader's and team's responsibilities at each stage. The gates or controls should not be so rigid, however, that they inhibit learning and the development of novel products. These systems have evolved over the years as users have made them more flexible, adaptive, and scalable; built in better governance; integrated portfolio management; incorporated accountability and continuous improvement; and adapted the process to include open innovation and input from sources outside the company at different stages. (Kotler & Keller, 2016, p. 459)

Figure 8-4: New product development process



Source: Kotler & Keller (2016, p. 459)

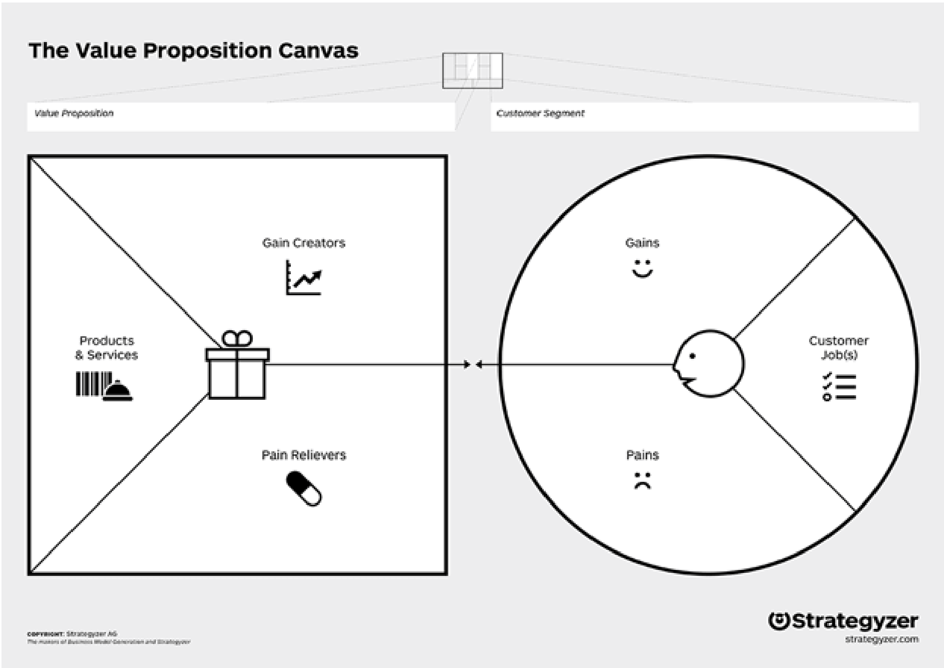
NPD processes take many shapes and forms but it is vital that any process is driven by an overall NPD strategy. If this is not the case, development activities will lack coordination and focus. The majority of NPD processes employed by organizations will contain many of the stages discussed below. (Drummond and Ensor, 2005, p. 125-126)

1. **Idea generation:** The critical first stage in the NPD process is the development of a new product idea. There are numerous approaches organizations employ in order to generate the initial new product idea. They may be generated via a formalized technical research and development process or from systems that scan the business environment, enabling the organization to identify trends, customer requests and competitors´ intentions. Market research certainly has a role to play in this process. Many companies use specific techniques such as brainstorming in order to generate idea for new products.
2. **Idea evaluation:** Once a new product ideas have been developed they have to be screened in order to establish their feasibility. Ideally, idea should be screened against the organization´s strategic objectives by establishing whether they can demonstrate that they are likely to contribute to the achievement of these outcomes. It is important to establish criteria against which all ideas are evaluated. This provides a consistent approach to decision-making and the safeguards associated with rigorous testing. The organization will need to develop criteria to measure the attractiveness of the market for the new product idea. Other key measures the organization should employ to evaluate the potential of a new product proposal are likely to include financial, marketing, operational and production criteria.
3. **Concept development:** Having successfully passed through a screening process, an idea has to be developed into a fully fleshed out product concept. This stage involves initial technical and marketing evaluations. Marketing information, such as secondary data sources on general industry trends and key competitor profile, should be employed to establish the potential of the product. Once this has been undertaken a marketing strategy needs to be outlined identifying the intended product positioning in the target segment(s), and a range of marketing goals such as market share.
4. **Business evaluation:** Business evaluation is undertaken with the aim of evaluating the commercial potential and investment requirements of the new product. Sales volume, revenue and cost projections will establish the viability of the project. Often organizations have predetermined return on investment which project must demonstrate they will meet.
5. **Product development:** This stage turns the concept into an actual product. There is a need to examine both the development of the product (styling, features, performance/branding/etc.) and the means of its production and delivery (manufacturing, administration, after-sales support, etc.). This stage may see the building of a prototype and the use of market research to establish the final product offering. To gauge market-place reaction, products may be test marketed with groups of actual consumers.
6. **Product launch:** Using the knowledge and targets generated in the previous stages of the NPD process, a final marketing plan is developed. This includes all the remaining element of the marketing mix. Thus, a final price is set, a promotion campaign is designed and the build-up of stock begins within the distribution channels.

8.3.2 VALUE PROPOSITION

The value proposition describes the benefits that a customer can expect from goods and services. The simplest tool to display it is the so-called value map and customer profile (Osterwalder et al., 2016). In a simple scheme, the company strives to find consistency between its offer and customer requirements. Figure 8-5 shows a value proposition canvas visualization. We can use it for both a start-up company that is developing its products and companies that are already on the market and want to reassure themselves or plan for product innovation.

Figure 8-5: Value proposition canvas



Source: Osterwalder et al. (2016)

Visualization of a value proposition uses so-called canvas. On this screen we are using post-it papers, and place the individual jobs the customer is trying to accomplish, then we put problems that have or expect the benefits or would be pleasantly surprised. Subsequently, as soon as the right side of the customer is filled, all three categories will be ranked according to the importance of important tasks, extreme difficulties and the necessary benefits for insignificant tasks, mild problems and bonus benefits below.

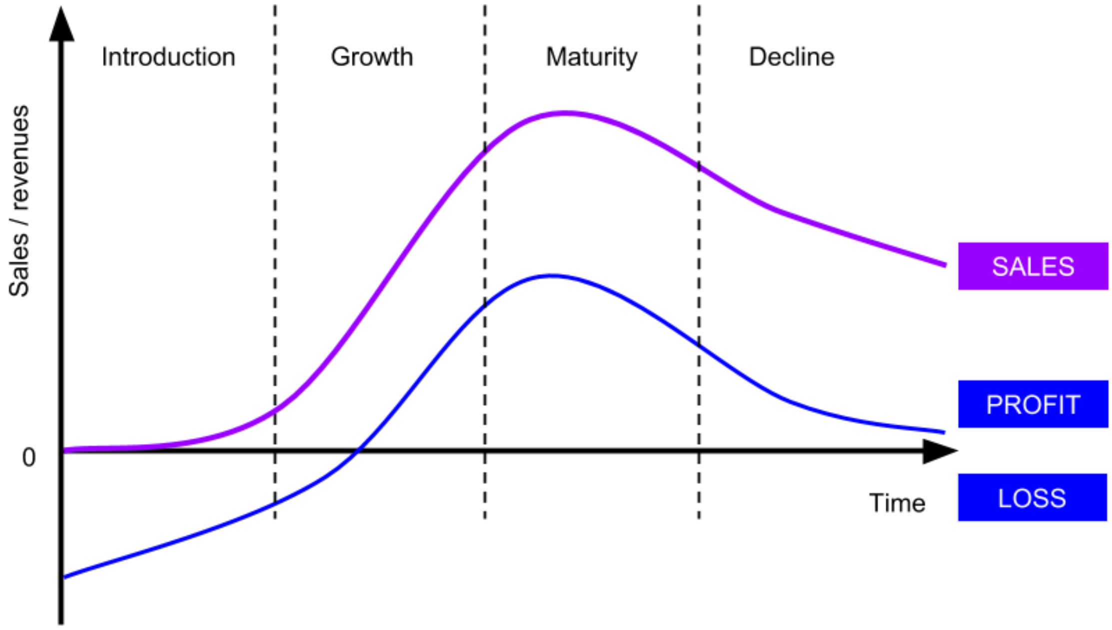
The same applies to the proposition page or a value map. First, we describe the products, then we add to them how they create gain or relieve pain. Once we are done, we will get back to prioritization again. Sorting will give us a total of six columns of coloured paper. The last step is to find compliance. Now we are going through individual products and services and we only leave on the canvas those that are actually add value to solving a customer's job, while create gain or reduce pain.

8.4 MANAGING PRODUCT LIFE CYCLE

After the company make or buy new product usually four different stages follow which forms the product lifecycle (PLC). These are **introduction, growth, maturity and decline** (see Figure 8-6).

Understanding the PLS concept is very useful in allocating resources, assessing market attractiveness or managing product portfolios. Marketers must track sales and benchmark performance against rivals´ products and market conditions in order to deploy the PLC. (Dibb and Simkin, 2004, p. 85)

Figure 8-6: The product life cycle



Source: Based on Jobber & Fahy (2015, p. 162)

8.4.1 DESCRIPTION OF PLC PHASES

The PLC emphasizes the need to review marketing objectives and strategies as products pass through the various stages (Jobber & Fahy, 2015, p. 162 – 163):

INTRODUCTION

When a product is first introduced onto the market its sales growth is typically low and losses are incurred as a result of heavy development and initial promotional costs companies will be monitoring the speed of production adoption and if it's disappointing may terminate the product at this stage. the strategic marketing objective is to build sales by expanding the market for the product. The brand objective will be to create a bonus so that customers will become familiar with generic product benefits but the product is likely to be fairly basic, with an emphasis on reliability and functionality rather than special features to appeal to different customer groups. promotional support brand objectives by gaining awareness for the Brand and product type, and stimulating trial advertising has been found to be more effective at the start of the life of a product that in later stages. Typically, price will be high because of the heavy development course and the low level of competition distribution will be patchy as some dealers will be wary off stocking the new products until it has proved successful in the marketplace.

GROWTH

This second stage is marked by a period of faster sales and profit growth sales Grove is fuelled by rapid market acceptance and for many products repeat purchasing top off with me began to decline towards the latter stages of growth as new rivals enter the market attracted by the twin magnet of fast sales growth and high profit potential. For example, the internet search engine business grew rapidly and delivered very high profits for some incumbent firms like Google. But the profitability of this sector attracted a range of new entrance, such as Jeteye.com Blinkx.com and Icerocket.com, all of which provide new and innovative search solutions but fails to dislodge Google from its dominant position. Similarly, in developed countries, the growth in pet ownership have given rise to rapidly growing pet products and pet service sector. The end of the growth is often associated with competitive shakeout whereby weaker suppliers cease production. The strategic marketing objectives during the growth phase is to build sales and market share. The strategic focus will be to penetrate the market by building brand performance. To accomplish this task the product will be redesigned to create differentiation, and promotion will stress the functions or psychological benefits that accrue from the differentiation. Awareness and trial are still important, but promotion will begin to focus on repeat purchases as development costs are defrayed and competition increases prices will fall. Rising consumer demand and increased sales-force effort will widen distribution.

MATURITY

Sales will eventually peak and stabilize and saturation occurs, hastening competitive shake-out. Mobile phone adoption rates, for example, have surpassed 100% in most European countries. The survivors now battle for market share by introducing products improvements, using advertising and sales promotional offers, dealer discounting and price cutting, the result is strain on profit margins, particularly for follower brands. The need for effective brand building is felt most acutely during maturity and brand leaders are in the strongest position to resist pressure on profit margins. Careful strategy decisions are very important in major markets. For example, the falling profitability of Starbucks in 2007 was attributed to decisions that sought to grow the business too rapidly (it is now over 17000 outlets worldwide) in a mature market, which has left to market saturation and poor control over cafes.

DECLINE

During the decline stage - when new technology or changes in consumer tastes work to reduce demand for the product - sales and profits fall. Suppliers may decide to cease production completely or reduce product depth (see Table 8-3). Promotional and product development budgets maybe slashed and marginal distributors dropped as suppliers seek to maintain (or increase) profit margins. Products like cathode ray tube (CRT) televisions have fallen out of favour as customers have switched to flat panel screens. For example, Dixons dropped the price of a CRT television from £1,300 in 2004 to £300 in 2005 and the range still fails to sell.

Table 8-3: Marketing objectives and strategies over the PLC

	Introduction	Growth	Maturity	Decline
Strategic marketing objective	Build	Build	Hold	Harvest/manage for cash/divest
Strategic focus	Expand market	Penetration	Protect share/innovation	Productivity
Brand objective	Product awareness/trial	Brand preference	Brand loyalty	Brand exploitation
Products	Basic	Differentiated	Differentiated	Rationalized
Promotion	Creating awareness/trial	Creating awareness/trial/repeat purchase	Maintaining awareness/repeat purchase	Cut/eliminated
Price	High	Lower	Lowest	Rising
Distribution	Patchy	Wider	Intensive	Selective

Source: Jobber (2010, p. 357)

8.4.2 DURATION OF THE PRODUCT LIFE CYCLE

Innovations take time to spread through the marketplace. Not every business or consumer is equally willing to try new things. Diffusion of innovations refers to the speed with which consumers and businesses adopt a particular product. Marketers segment populations into five groups with various degrees of openness toward innovations (see Table 8-4 below).

Table 8-4: Innovation segments

Innovators	**2.5 %**	The innovators are the most willing to adopt innovations. They are open-minded, adventurous, and tend to be younger, better educated, and more financially secure. They try new things just because they like having something new and unusual.
Early adopters	**13.5 %**	Early adopters are more socially aware than innovators and consider the prestige or social implications of being seen using a new product. They are media savvy, and more mainstream groups look to early adopters for cues as to what is the "next big thing".
Early majority	**34 %**	Members of the early majority do not want to be the first or the last to try a new product. Instead, they wait to see what excites the early majority adopts a product, it is no longer a cutting-edge item, but has become part of the mainstream.
Late majority	**34 %**	Older and more conservative than other groups, the late majority will not adopt a product they consider to be too risky. They will purchase something only if they consider it to be a necessity or when they are under some form of social pressure.
Laggards	**16 %**	Laggards are heavily bound by tradition and are the last to adopt an innovation. By the time laggards take up a product, it may already have been rendered obsolete by another innovation.

Source: Levens (2012, p. 172-73)

When launching a new product, marketers will focus their efforts on innovators and early adopters to get the diffusion process rolling. Depending on how readily these groups adopt the new product, the PLC may be quite short or very long. Although the average human lifetime is approximately 78 years, the estimated life cycle for a product or service is only 13 years. Not every PLC is this short, however, because some product may be long lived. Colt pistols, Stetson hats, Vaseline emollient, and Pepsi-Cola have endured form more than 100 years. Marketers can extend a product´s life span by doing the following: (Levens, 2012, p. 173)

- Promoting the product to new customers or markets.
- Finding new uses or applications for the product.
- Repositioning the product or brand.
- Adding product features or benefits.
- Offering new packages or sizes.
- Introducing low-cost product variations and/or reducing price.

PRODUCT DELETION

Generally, a product cannot satisfy target market customers and contribute to the achievement of an organization's overall goals indefinitely. Product deletion is the process of eliminating a product from the product mix, usually because it no longer satisfies a sufficient number of customers. Kia, for example, discontinued its Kia Sedona with plans to replace it with a new

minivan. A declining product reduces an organization's profitability and drains resources that could be used to modify other products or develop new ones. A marginal product may require shorter production runs, which can increase per-unit production costs. Finally, when a dying product completely loses favour with customers, the negative feelings may transfer to some of the company's other products. (Pride & Ferrel, 2015)
Most organizations find it difficult to delete a product. A decision to drop a product may be opposed by managers and other employees who believe that the product is necessary to the product mix. Salespeople who still have some loyal customers are especially upset when a product is dropped. Considerable resources and effort are sometimes spent trying to change a slipping product's marketing mix to improve its sales and thus avoid having to eliminate it. (Pride & Ferrel, 2015)

Some organizations delete products only after the products have become heavy financial burdens. A better approach is some form of systematic review in which each product is evaluated periodically to determine its impact on the overall effectiveness of the firm's product mix. Such a review should analyse the product's contribution to the firm's sales for a given period, as well as estimate future sales, costs, and profits associated with the product. It also should gauge the value of making changes in the marketing strategy to improve the product's performance. A systematic review allows an organization to improve product performance and ascertain when to delete products. General Motors decided to delete the Hummer, Saturn, and Pontiac brands in order to lower costs, improve its reputation, and become more profitable. (Pride & Ferrel, 2015)

8.4.3 LIMITATIONS OF PLC

The product life cycle is an aid to thinking about marketing decisions, but it needs to be handled with care. Management needs to be aware of the limitations of the PLC so that it is not misled by its prescriptions. (Jobber, 2010, p. 361; Drummond and Ensor, 2005, p. 112)

While the PLC normally conforms to the classic S-shaped curve (Figure 8-2), it is not always the case. **Product life cycles can take different forms.** They can display: cyclical and or seasonal trends, constant demand, where a steady level of sales is reached, rapid growth and fall, common to fashion or fad products.

Some would argue that **the length of each PLC phase is closely related to marketing decisions and not simply a natural cycle.** Effective marketing should be able to extend and sustain the growth or maturity of a product offering. Equally, ineffective marketing would hasten its decline.

The duration of the PLC stages is unpredictable. The PLC outlines the four stages that a product passes through without defining their duration. Clearly this limits its use as a forecasting tool since it is not possible to predict when maturity or decline will begin.

8.5 THE PRODUCT MIX

"A product mix (also called a product assortment) is the set of all products and items a particular seller offers for sale." A product mix consists of various product lines. **A product line is a group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels, or fall within given price ranges**. A product line may consist of different brands, or a single family brand, or individual brand that has been line extended. Example: life insurance. (Kotler and Keller, 2012, p. 358) The present Procter & Gamble company, for example, which was founded by tow soap and candle makers in 1837, now offers over 250 different brand variations in product lines such as detergents, paper products, household, cleaners, cosmetics and others. (Kaftan, 2001, p. 173)

A company´s product mix (Figure 8-7) has a certain width, length depth, and consistency. (Kotler and Keller, 2012, p. 359)

- **The width of a product mix** refers to how many different product lines the company carries.
- **The length of a product mix** refers to the total number of items in the mix. We can also talk about the average length of a line. We obtain this by dividing the total length by the number of lines, for an average product line length.
- **The depth of a product mix** refers to how many variants are offered of each product in the line.
- **The consistency of the product mix** describes how closely related the various product lines are in end use, production requirements, distribution channels, or some other way.

These four product mix dimensions permit the company to expand its business in four ways. It can add new product lines, thus widening its product mix. It can lengthen each product line. It can add more product variants to each product and deepen its product mix. Finally, a company can pursue more product line consistency.

Figure 8-7: Product mix matrix example

Source: own processing

8.6 THE PRODUCT PORTFOLIO

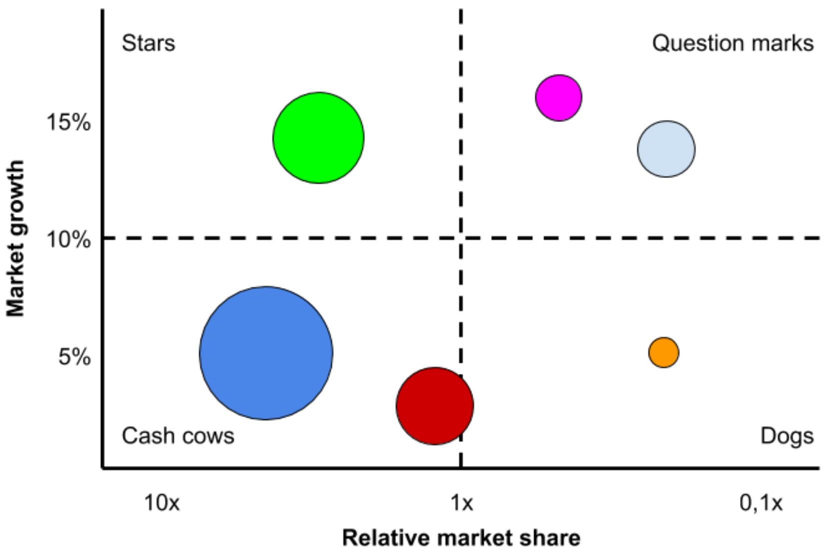
Most organizations produce a number of products or services supplying a range of markets and market segments. Each of these products will perform differently and face different market conditions. Organizations are not only faced with making decisions about an individual product but also about the competing demands of all the product in their portfolio. Organizations are faced with dilemmas, such as the fact that maybe some products warrant greater investment than others because their potential is greater. There are a number of portfolio models that can be employed to identify the current position of an organization´s product portfolio in the market and can assist a company in making decisions about the management of their products. (Drummond and Ensor, 2005, p. 114)

8.6.1 THE BOSTON CONSULTANCY GROUP (BCG) GROWTH SHARE MATRIX

This is one of the best-known portfolio analysis model. The growth share matrix is concerned about the generation and use of cash within a business and can be used to analyse Strategic Business Units as well as products. The two axes on the model represent relative market share and market growth (see Figure 8-8). Relative market share is seen as a predictor of the product´s capacity to generate cash, the proposition being, that products with a dominant position in the market will achieve high sales, but will need relatively less investment as they are already an established brand and should have lower costs through economies of scale advantages. Market growth, on the other hand, is seen as a predictor of the product´s need for cash. Products in high growth sectors require investment to keep up with the increased demand.

The model uses markets share relative to competitors as an indication of the product´s relative strength in the market. To do this the axes uses a log scale. At the mid-point of the axes, represented by 1.0 (or 1X) on the scale, the product´s market share is equal to its largest competitor´s market share. At the extreme left-hand side of the axis, represented by 10.0 (or 10X), a product has ten times the market share of the largest competitor. At the other extreme of the axis, represented by 0.1X, the product would only have a tenth or 10% of the largest competitor´s market share.

Figure 8-8: The Boston Consultancy Group´s growth share matrix (BCG)



Source: own processing

Products are represented on the model by circles and fall into one of the four cells into which the matrix is divided. The area of the circle represents the product´s sales relative to the sales of the organization´s other products. The four cells in the matrix represent (Drummond and Ensor, 2005, p. 115):

- **CASH COWS:** These products have high profitability and require low investment, due to market leadership in a low growth market. These products are generating a high level of cash. These products should be defended to maintain sales and market share. Surplus cash should be channelled into Stars and Question Marks in order to create the Cash Cows of the future. Current Cash Cows will inevitably over time lose their position as their market changes.

- **STARS:** Are market leaders and so are generating high levels of cash, but are in areas of rapid growth which require equally high levels of cash to keep up with the growth in sales. Cash generated by the Cash Cows should be channelled to support these products.
- **QUESTION MARKS:** These are also sometimes referred to as Problem Children or Wildcats. Question Marks are not market leaders and will have relatively high costs while at the same time these products require large amounts of cash as they are in high growth areas. An organization has to judge whether to use cash generated by the Cash Cow to try to develop this product into a Star by gaining market share in a high growth market or to invest in other areas of the business.
- **DOGS:** These are products with low levels of market share in low growth markets. Product that is in a secondary position to the market leader may still be able to produce cash (Cash Dogs). For others the organization´s decision is likely to be a choice between moving the product into a defendable niche, harvesting it for cash in the short term, or divestment.

The overall aim of an organization should be to maintain a balanced product portfolio. This means investments should flow from Cash Cows into Stars and Question Marks in an effort to make products move round the matrix from Question Marks into Stars and from Stars into Cash Cows. This movement of cash and products round the matrix thus ensures the future cash flows of the business.

The BCG is criticized for having a number of limitations, amongst them are: (Drummond and Ensor, 2005, p. 116)

- Market growth is seen as an inadequate measure of a market or of an industry´s overall attractiveness. This measure doesn´t consider such issues as barriers to entry, strength of buyers or suppliers or investment levels.
- Market share is an inadequate measure of a product´s relative ability to generate cash. Other factors such as product positioning, brand image and access to distribution channels may allow an organization to gain higher margin and strong cash flows as a result.
- The focus on market share and growth ignores fundamental issues such as developing sustainable competitive advantage.
- Not all products face the same life cycle. Therefore, for some stars facing a short life cycle it may be better for the organization to harvest them, rather than committing further investment.
- Cash flow is only one factor on which to base investment decisions. There are others to consider such as return on investment, market size and competitors.

There are a number of models that use a range of weighted criteria in place of relative market share and growth in order to overcome some of the limitations of the growth share matrix.

KELLOG´S: PRODUCT LIFE CYCLE

Businesses need to set themselves clear aims and objectives if they are going to succeed. The Kellogg Company is the world's leading producer of breakfast cereals and convenience foods, such as cereal bars, and aims to maintain that position.

In 2006, Kellogg's had total worldwide sales of almost $11 billion (£5.5 billion). In 2007, it was Britain's biggest selling grocery brand, with sales of more than £550 million. Product lines include ready-to-eat cereals (i.e. not hot cereals like porridge) and nutritious snacks, such as cereal bars.

Kellogg's brands are household names around the world and include *Rice Krispies*, *Special K* and *Nutri-Grain*, whilst some of its brand characters, like Snap, Crackle and Pop, are amongst the most well-known in the world.

Kellogg's has achieved this position, not only through great brands and great brand value, but through a strong commitment to corporate social responsibility. This means that all of Kellogg's business aims are set within a particular context or set of ideals. Central to this is Kellogg"s passion for the business, the brands and the food, demonstrated through the promotion of healthy living.

The company divides its market into six key segments. *Kellogg's Corn Flakes* has been on breakfast tables for over 100 years and represents the 'Tasty Start' cereals that people eat to start their day. Other segments include 'Simply Wholesome' products that are good for you, such as Kashi Muesli, 'Shape Management' products, such as *Special K* and 'Inner Health' lines, such as *All-Bran*. Children will be most familiar with the 'Kid Preferred' brands, such as *Frosties*, whilst 'Mum Approved' brands like *Raisin Wheats* are recognised by parents as being good for their children.

Each brand has to hold its own in a competitive market. Brand managers monitor the success of brands in terms of market share, growth and performance against the competition. Key decisions have to be made about the future of any brand that is not succeeding.

This case study is about *Nutri-Grain*. It shows how Kellogg's recognised there was a problem with the brand and used business tools to reach a solution. The overall aim was to re-launch the brand and return it to growth in its market.

Each product has its own life cycle. It will be 'born', it will 'develop', it will 'grow old' and, eventually, it will 'die'. Some products, like *Kellogg's Corn Flakes*, have retained their market position for a long time. Others may have their success undermined by falling market share or by competitors.

The product life cycle shows how sales of a product change over time. The five typical stages of the life cycle are shown on the graph. Not all products follow these stages precisely and time periods for each stage will vary widely. Growth, for example, may take place over a few months or, as in the case of *Nutri-Grain*, over several years.

However, perhaps the most important stage of a product life cycle happens before this graph starts, namely the research and development (R&D) stage. Here the company designs a product to meet a need in the market. The costs of market research - to identify a gap in the market and of product development to ensure that the product meets the needs of that gap - are called “sunk” or start-up costs.

Nutri-Grain was originally designed to meet the needs of busy people who had missed breakfast. It aimed to provide a healthy cereal breakfast in a portable and convenient format.

1. Launch - Many products do well when they are first brought out and *Nutri-Grain* was no exception. From launch (the first stage on the diagram) in 1997 it was immediately successful, gaining almost 50% share of the growing cereal bar market in just two years.

2. Growth - *Nutri-Grain's* sales steadily increased as the product was promoted and became well known. It maintained growth in sales until 2002 through expanding the original product with new developments of flavour and format. This is good for the business, as it does not have to spend money on new machines or equipment for production. The market position of *Nutri-Grain* also subtly changed from a “missed breakfast” product to an 'all-day' healthy snack.

3. Maturity - Successful products attract other competitor businesses to start selling similar products. This indicates the third stage of the life cycle - maturity. This is the time of maximum profitability, when profits can be used to continue to build the brand. However, competitor brands from both Kellogg's itself (e.g. *All Bran* bars) and other manufacturers (e.g. *Alpen* bars) offered the same benefits and this slowed down sales and chipped away at *Nutri-Grain's* market position. Kellogg's continued to support the development of the brand but some products (such as *Minis* and *Twists*), struggled in a crowded market. Although Elevenses continued to succeed, this was not enough to offset the overall sales decline.

4. Saturation- This is the fourth stage of the life cycle and the point when the market is 'full'. Most people have the product and there are other, better or cheaper competitor products. This is called market saturation and is when sales start to fall. By mid-2004 Nutri-Grain found its sales declining whilst the market continued to grow at a rate of 15%.

5. Decline - Clearly, at this point, Kellogg's had to make a key business decision. Sales were falling, the product was in decline and losing its position. Should Kellogg's let the product "die", i.e. withdraw it from the market, or should it try to extend its life?

Source: A Kellog´s case study: Product life cycle. [online] [cit. 2014-05-19] Available at: http://businesscasestudies.co.uk/kelloggs/extending-the-product-life-cycle/introduction.html#axzz324lmnFBr

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 8. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. **The services are:**
   a) Intangible, inseparable, variable, and perishable products.
   b) Intangible, inseparable, variable, and imperishable products.
   c) Tangible, separable, variable, and perishable products.

2. **The depth of a product mix is**
   a) Number of all products offered.
   b) Number of variants offered of each product in the line.
   c) Number of lines in product portfolio.

3. **Unique characteristics or brand identification for which enough buyers are willing to make a extra purchasing effort is characteristic for:**
   a) Unsought products.
   b) Convenience product.
   c) Speciality.

4. **These products have high profitability and require low investment, due to market leadership in a low growth market:**
   a) Question marks.
   b) Stars.
   c) Cash cows.

5. **Product lifecycle (PLC) consist of**
   a) Development, growth, maturity and investment.
   b) Introduction, growth, maturity and decline.

c) Introduction, maturity, investment and growth.

CORRECT ANSWERS

1a, 2b, 3c, 4c, 5b

9 PRICE

Price is the odd-one-out of the marketing mix, because it is the revenue earner. The price of a product is what the company gets back in return for all the effort that is put into producing and marketing the product. The other three elements of the marketing mix – product, promotion and place – are investments. Therefore, no matter how good the product, how creative the promotion or how efficient the distribution, unless price covers costs the company will make a loss. It is therefore essential that managers understand how to set prices, because both undercharging (lost margin) and overcharging (lost sales) can have dramatic effects on profitability. (Jobber, 2010, p. 422)

One of the key factors that marketing managers need to remember is that price is just one element of the marketing mix. Price should not be set in isolation; it should be blended with product, promotion and place to form a coherent mix that provides superior customer value. The sales of many products, particularly those that are a form of self-expression – such as drinks, cars, perfumes and clothing – could suffer from prices that are too low. Price is an important part of positioning strategy since it often sends quality cues to customers. (Jobber, 2010, p. 422)

The 21st century brings many challenges for marketing managers because the consumers now have a powerful tool at their disposal – the Internet. The Internet is changing how buyers and sellers interact. Buyers can get instant price comparisons from thousands of vendors through sites like Heureka.cz. Buyers can name their price and have it met, through sites like Priceline.com, where the buyer states a price for a product and the site finds sellers that are willing to accept such a price. Buyers can also get product free, thanks to open-source like Linux. (Kotler and Keller, 2012, p. 406)

JEANS AND T-SHIRT

Why does a black T-shirt for women that looks pretty ordinary cost $275 from Armani but only $14.90 from the Gap and $7.90 from Swedish discount clothing chain H&M? Customers who purchase the Armani T-shirt are paying for a more stylishly cut T-shirt made of 70 percent nylon, 25 percent polyester, and 5 percent elastane with a "Made in Italy" label from a luxury brand known for suits, handbags, and evening gowns that sell for thousands of dollars. The Gap and H&M shirts are made mainly of cotton. For pants to go with that T-shirt, choices abound. Gap sells its "Original Khakis" for $44.50, though Abercrombie & Fitch's classic button-fly chinos cost $70. But that's a comparative bargain compared to Michael Bastian's plain khakis for $480 or Giorgio Armani's for $595. High-priced designer jeans may use expensive fabrics such as cotton gabardine and require hours of meticulous hand-stitching to create a distinctive design, but equally important are an image and a sense of exclusivity.

Source: Kotler (2016, p. 487)

9.1 Setting the Price

A firm must set a price for the first time when it develops a new product, when it introduces its regular product into a new distribution channel or geographic area, and when it enters bids on new contract work. The firm must position its product on quality and price. (Kotler and Keller, 2012, p. 411) A firm must also adjust the price during the whole product life cycle to meet the consumers demand and fight the competition.

9.1.1 STEP 1: SELECTING THE PRICING OBJECTIVE

When considering how a price should be set, there is one fundamental question to address. What is the organisation trying to achieve? In other words, what is the objective of setting a price? The obvious answer – to make a profit – is overly simplistic. Pricing can look to deliver a range of objectives. First, cost, where the focus is on internal/product related factors. Secondly, a competition focus that concerns industry benchmarks and rivalries. Finally, a marketing approach that emphasizes marketing strategy and the customer`s perceived value. However, careful consideration of pricing sees price fall into two main areas: financial and marketing. (Drummond and Ensor, 2005, p. 136-137)

PRICING OBJECTIVES

The company first decides where it wants to position its market offering. The clearer a firm`s objectives (See chapter 2), the easier it is to set price for marketing objectives, which are as follows (Kotler and Keller, 2015, p. 491-492):

- **Survival** is sometimes pursued by a company if it is plagued with overcapacity, intense competition, or changing consumer wants. As long as prices cover variable costs and some fixed costs, the company stays in business. Survival is a short-run objective, in the long run, the firm must learn how to add value or face extinction.

- **Maximum current profit.** Many companies try to set a price that will maximize current profits. They estimate the demand and costs associated with alternative prices and choose the price that produces maximum current profit, cash flow, or rate of return on investment. This strategy assumes the firm knows its demand and cost functions; in reality, these are difficult to estimate. In emphasizing current performance, the company may sacrifice long-run performance by ignoring the effects of other marketing variables, competitors' reactions, and legal restraints on price.

- **Maximum market share** is for companies that believe that a higher sales volume will lead to lower unit costs and higher long-run profit. They set the lowest price (also called market-penetration pricing), assuming the market is price sensitive and try to get as much of the market share as possible.

- **Maximum market skimming**. Companies unveiling a new technology favor setting high prices to maximize market skimming. Sony has been a frequent practitioner of market-skimming pricing, in which prices start high and slowly drop over time. When Sony introduced the world's first high-definition television (HDTV) to the Japanese market in 1990, it was priced at $43,000. So that Sony could "skim" the maximum amount of revenue from the various segments of the market, the price dropped steadily through the years—a 28-inch Sony HDTV cost just over $6,000 in 1993, but a 42-inch Sony LED HDTV cost only $579 20 years later in 2013.

  This strategy can be fatal, however, if a worthy competitor decides to price low. When Philips, the Dutch electronics manufacturer, priced its videodisc players to make a profit on each, Japanese competitors priced low and rapidly built their market share, which in turn pushed down their costs substantially. Moreover, consumers who buy early at the highest prices may be dissatisfied if they compare themselves with those who buy later at a lower price. When Apple dropped the early iPhone's price from $600 to $400 only two months after its introduction, public outcry caused the firm to give initial buyers a $100 credit toward future Apple purchases.

Market skimming makes sense under the following conditions: (1) A sufficient number of buyers have a high current demand; (2) the unit costs of producing a small volume are high enough to cancel the advantage of charging what the traffic will bear; (3) the high initial price does not attract more competitors to the market; and (4) the high price communicates the image of a superior product.

- **Product-quality leadership** A company might aim to be the product-quality leader in the market. Many brands strive to be "affordable luxuries"—products or services characterized by high levels of perceived quality, taste, and status with a price just high enough not to be out of consumers' reach. Brands such as Starbucks, Aveda, Victoria's Secret, BMW, and Viking have positioned themselves as quality leaders in their categories, combining quality, luxury, and premium prices with an intensely loyal customer base. Grey Goose and Absolut carved out a super-premium niche in the essentially odourless, colourless, and tasteless vodka category through clever on-premise and off-premise marketing that made the brands seem hip and exclusive.

9.1.2 STEP 2: DETERMINING DEMAND

All pricing decisions are, in the end, dependant on the level of market demand, and on "what the market will bear". The market demand for luxury product, such as Rolls Royce cars, is very small, and so is the supply. Supply and demand meet at a very high price, because there are a few customers that are willing to pay a lot extra for a luxury product because of its prestige value, etc. On the other hand, most customers for toothpaste are only prepared to pay a relatively small amount for each tube, rationalising that there is a limit to the value-added potential of the product, which in any case they purchase relatively frequently. (Morden, 1991, p. 287)

The normally inverse relationship between price and demand is captured in a demand curve. The higher the price, the lower the demand. For prestige goods, the demand curve sometimes slopes upward. One perfume company raised its price and sold more rather than less! Some consumers take the higher price to signify a better product. However, if the price is too high, demand may fall. One of the terms, that must be mentioned here, is price sensitivity. Generally speaking, customers are less price sensitive to low-cost items or items they buy infrequently. They are also less price sensitive when there are few or no substitutes or competitors, they do not readily notice the higher price, they are slow to change their buying habits, they think the higher prices are justified, and price is only a small part of the total cost obtaining, operating, and servicing the product over its lifetime. The other term, that must be mentioned here, is price elasticity of demand. It means, how responsive, or elastic, demand is to a change in price. (Kotler and Keller, 2012, p. 412-414)

9.1.3 STEP 3: ESTIMATING COSTS

Companies often use cost-oriented methods when setting prices. Two methods are normally used (Jobber, 2010, p. 423-425):

Full cost pricing: this type of cost pricing calculates all costs together, fixed costs and variable costs per unit, and adds a margin (profit for the company). It also takes into account sales estimates that are used as a dividing number. After a certain breakpoint, be it a month, a quarter year, or a year, the total costs of production are calculated and the price is set accordingly. This approach brings some negatives. First, it leads to an increase in price as sales fall. Second, the procedure is illogical because a sales estimate is made before a price is set. Third, it focuses on internal costs rather than customers' willingness to pay.

Direct cost pricing: direct cost pricing is sometimes called marginal cost pricing. It includes the calculation of only those costs that are likely to rise as output increases. The obvious problem is that this price does not cover full costs and so the company would be making a loss selling a product at this low price. Direct cost pricing is useful for services marketing – for example, where seats in aircraft or rooms in hotels cannot be stored, if they are unused in any time the revenue is lost. In such situations, pricing to cover direct costs plus a contribution to overheads can make sense. Direct costs, then, indicate the lowest price at which it is sensible to take business if the alternative is to let machinery (or seats or rooms) lie idle. Also, direct cost pricing does not suffer from the "price up as demand down" problem that was found with full cost pricing.

9.1.4 STEP 4: ANALYSING COMPETITORS COSTS, PRICES, AND OFFERS

Within the range of possible prices determined by market demand and company costs, the firm must take competitor's costs, prices, and possible price reactions into account. If the firms offer contains features not offered by the nearest competitor, it should evaluate their worth to the customer and add that value to the competitor's price. If the competitors offer contains some features not offered by the firm, the firm should subtract their value from its own price. Now the firm can decide whether it can charge more, the same, or less than the competitor. (Kotler and Keller, 2012, p. 417)

The introduction or change of any price can provoke a response from customers, competitors, distributors, suppliers, and even government. Competitors are most likely to react when the number of firms is few, the product is homogeneous, and buyers are highly informed. Competitor reactions can be a special problem when these firms have a strong value proposition. (Kotler and Keller, 2012, p. 417)

How can a firm anticipate a competitor's reactions? One way is to assume the competitor reacts in the standard way to a price being set or changed. Another is to assume the competitor treats each price difference or change as a fresh challenge and reacts according to self-interest at the time. Now the company will need to research the competitor's current financial situation, recent sales, customer loyalty, and corporate objectives. If the competitor has a market share objective, it is likely to match price differences or changes. If it has a profit-maximization objective, it may react by increasing its advertising budget or improving product quality. (Kotler and Keller, 2012, p. 417)

SHAKING YOUR COMPETITORS WITH LOW COST PRICING

In France, the mobile phone services market has long been dominated by three main suppliers: Orange, part of France Telecom; SFR, owned by Vivendi; and Bouygues. These companies compete with each other through advertising and slightly differentiated product offerings. What they rarely do, however, is challenge each other on pricing. As a result, all three were comfortably profitable in the early twenty-first century.

In 2012, that changed with the entrance of Free Mobile, a new mobile telephone services brand of Iliad, headed by Xavier Niel. On 10 January 2012, Free introduced a new mobile service plan that offered unlimited domestic and international calls, SMS and mobile data for €19.99 per month, While it was difficult to compare this price directly with the plans of other suppliers (deliberate obfuscation makes shopping more difficult) it appeared that the plan was about half the price of similar offerings at the time.

Free Mobile directly challenged the market leaders, who had built up one of the most expensive mobile markets in Europe. In 2011, mobile users in France spent an average of €392 (about US$500) compared with €181 in Germany and €167 in Portugal, according to the research firm Gartner. Free Mobile was able to offer a low price by building on its existing broadband and television service network. In order to obtain the licence to become the fourth big operator in France, Free Mobile had to overcome fierce lobbying from France Telecom and the other operators, who were worried about Iliad's reputation for cutting prices. In fact, Xavier Niel seems to have a penchant for upsetting his complacent rivals by undercutting them whenever he can.

At the press conference that launched the service, Niel said, 'You now have the chance to teach your operator a lesson. You have two choices: you can sign up with Free, or you can call your operator and ask them to match our rates.'

In response to this assault, Orange began sending reassuring text messages to its subscribers, them that it was checking to make sure they had the appropriate calling plan for their usage. Meanwhile, there was some protection for the existing suppliers in the fact that their customers were locked into long-term contracts. Free Mobile, on the other hand, does not require a minimum subscription period. Marketing and customer service could also be challenging for Free: while Orange, SFR and Bouygues have networks of shops across France, Free plans to operate only a handful of stores, relying mostly on internet sales. This is core to the low-price strategy that relies on the industry leading low-cost base.

Source: Sharp (2013, p. 301)

9.1.5 Step 5: Selecting a Pricing Method

Given the customers demand schedule, the cost function, and competitors' prices, the company is now ready to select a price. Costs set a floor to the price. Competitors' prices and the price of substitutes provide an orienting point. Customers' assessment of unique features establishes the price ceiling. Companies select a pricing method that includes one or more of these three considerations. There are 6 basic price-setting methods: mark-up pricing (adding a standard mark-up to the products cost), target-return pricing (the firm determines the price that yields its target rate of return on investment), perceived-value pricing (based on the value perceived by the customer), value pricing (offering a good value for low price), going-rate pricing (the firm bases its price largely on competitors prices), and auction-type pricing (price is settled in an auction). (Kotler and Keller, 2012, p. 417-424)

9.1.6 Step 6: Selecting the Final Price

Pricing methods narrow the range from which the company must select its final price. In selecting that price, the company must consider additional factors, including the impact of other marketing activities, company pricing policies, gain-and-risk-sharing pricing, and the impact of price on other parties (Kotler and Keller, 2012, p. 424-425):

- Impact of other marketing activities means that the company must take into account the brands quality and advertising relative to the competition.
- Company pricing policies means that the company must take into account its own pricing policy, including pricing penalties and benefits under certain circumstances.
- Gain-and-risk-sharing pricing is based on the seller offering to absorb part or all the risk if the product does not deliver the full promised value.

- Impact of price on other parties takes care of how will distributors and dealers feel about the contemplated price.

PREMIUM PRICING STRATEGY

Millions of people use ballpoint pens every day. The basic design of ball point pen is the same, it includes a barrel, ink cartridge, and pocket clip. Simple versions have a cap to keep ink fresh, while others are spring activated by a push button. Some customers perceive this product as a simple tool to do their work, e.g. write an essay or a quick note. But other customers might have a high involvement with the special product that conveys an image of prestige or exclusiveness based on the brand of pen or its heritage. Mont Blanc targets a smaller group of customers who are highly involved with their pens and view them as fashion items or exclusive collectibles. The brand uses a premium pricing strategy because its buyers will pay a premium for top quality and craftsmanship. Mont Blanc rollerballs can run USD 300, or more than 2000 times the price of a disposable pen.

Source: Levens (2012, p. 188)

9.2 Price adaptation

It is reasonable to expect segmentation to strongly influence pricing. Prices may be adapted to meet the needs of various customer groups, such as student discounts, off-peak travellers, those buying in bulk, etc. However, care must be taken, as those paying full price may perceive adaptive pricing negatively, because they perceive themselves as subsidising other segments. An example would be companies offering discounts only to new customers. Price adaptation often extends into discount policy. The creative use of discount can be a major marketing tool. Discounts can stimulate demand and can be applied both directly (e.g. price reduction) and indirectly (e.g. interest fee credit, optional extras provided at no additional cost). (Drummond and Ensor, 2005, p. 141)

The final area of adaptation is in response to competitors' actions. It is more likely that organisations will follow competitors' price cuts when there is excess supply within a market, or when customer loyalty is deemed to be weak. Price increases are likely to be matched when there is excess demand, or industry costs are rising. (Drummond and Ensor, 2005, p. 141)

Geographical pricing: the company decides how to price its products to different customers in different locations and countries. The effects of distance and market strategy take effect. Another issue closely connected is how to get paid, this leads to barter, compensation deals, offsets and buyback arrangements. (Kotler and Keller, 2012, p. 426)

Price discounts and allowances: companies can use discounts in many ways, for example for early payment, volume purchases, off-season buying, etc. Company must never forget that it may attract new customers but it may also harm the image and it definitely decreases income. (Kotler and Keller, 2012, p. 426-427)

Promotional pricing: this includes special event pricing, cash rebates, longer payment terms, etc. These strategies get often copied by the competition and lose their effectiveness early. (Kotler and Keller, 2012, p. 427)

Differentiated pricing: also called price discrimination. It occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. The pricing can be differentiated: customer-segment pricing, product-form pricing, image pricing, channel pricing, location pricing, time pricing. (Kotler and Keller, 2012, p. 428)

HAMBURGER PRICING STRATEGIES

Who doesn't like a tasty hamburger? But not all of these delicious foods are created and priced equally. Various restaurants (franchises) charge different prices for their burgers, according to the unique characteristics of their products and their pricing objectives, and of course their positioning. We can name some examples:

- Profitability – Applebee's sells a cheeseburger for about USD 7. It is not the cheapest burger, nor the most expensive, but it is sold at a price adequate to cover costs and earn a little profit.
- Volume – White Castle sells cheeseburgers for about USD 0.7. This low price is designed to maximize sales volume and encourage customers to buy a sack full of these products.
- Meeting competition – both McDonalds and Burger King sell cheeseburgers for around USD 1, because their product is basic, prices are essentially equal, and marketing emphasis shifts to promotions, for example, movie tie-ins or kids meal prizes.
- Prestige – A Burger Royale at the DB Bistro Moderne in New York City sells for USD 32. It is a sirloin burger stuffed with short ribs and foie gras. The ingredients are high quality, but customers are also paying for the prestige of a burger prepared by some of New York's top chefs.

Source: Levens (2012, p. 187)

9.3 Psychological Pricing

Many economists traditionally assumed that consumers were "price takers" who accepted prices at face value or as a given. Marketers, however, recognize that consumers often actively process price information, interpreting it from the context of prior purchasing experience, formal communications (advertising, sales calls, and brochures), informal communications (friends, colleagues, or family members), point-of-purchase or online resources, and other factors. Purchase decisions are based on how consumers perceive prices and what they consider the current actual price to be—not on the marketer's stated price. Customers may have a lower price threshold, below which prices signal inferior or unacceptable quality, and an upper price threshold, above which prices are prohibitive and the product appears not worth the money. Different people interpret prices in different ways. (Kotler & Keller, 2016, p. 487)

Reference prices

Although consumers may have fairly good knowledge of price ranges, surprisingly few can accurately recall specific prices. When examining products, however, they often employ reference prices, comparing an observed price to an internal reference price they remember or an external frame of reference such as a posted "regular retail price." For example, a seller can situate its product among expensive competitors to imply that it belongs in the same class. Department stores will display women's apparel in separate departments differentiated by price; dresses in the more expensive department are assumed to be of better quality. Marketers also encourage reference-price thinking by stating a high manufacturer's suggested price, indicating that the price was much higher originally, or by pointing to a competitor's high price. Clever marketers try to frame the price to signal the best value possible. For example, a relatively expensive item can look less expensive if the price is broken into smaller units, such as a $500 annual membership for "under $50 a month," even if the totals are the same (Kotler & Keller, 2016, p. 487 - 488)

PRICE QUALITY INFERENCES

Many consumers use price as an indicator of quality. Image pricing is especially effective with ego-sensitive products such as perfumes, expensive cars, and designer clothing. A $100 bottle of perfume might contain $10 worth of scent, but gift givers pay $100 to communicate their high regard for the receiver. Price and quality perceptions of cars interact. Higher-priced cars are perceived to possess high quality. Higher quality cars are likewise perceived to be higher priced than they actually are. When information about true quality is available, price becomes a less significant indicator of quality. When this information is not available, price acts as a signal of quality. Some brands adopt exclusivity and scarcity to signify uniqueness and justify premium pricing. Luxury-goods makers of watches, jewellery, perfume, and other products often emphasize exclusivity in their communication messages and channel strategies. For luxury-goods customers who desire uniqueness, demand may actually increase price because they then believe fewer other customers can afford the product. (Kotler & Keller, 2016, p. 488)

USING REFERENCE PRICES AND QUALITY INFERENCES

Some years ago, Heublein produced Smirnoff, then America's leading vodka brand. Smirnoff was attacked by another brand, Wolfschmidt, which claimed to have the same quality as Smirnoff but was priced at one dollar less per bottle. To hold on to market share, Heublein considered either lowering Smirnoff's price by one dollar or holding Smirnoff's price but increasing advertising and promotion expenditures. Either strategy would lead to lower profits and it seemed that Heublein faced a no-win situation. At this point, however, Heublein's marketers thought of a third strategy. They raised the price of Smirnoff by one dollar! Heublein then introduced a new brand, Relska, to compete with Wolfschmidt. Moreover, it introduced yet another brand, Popov, priced even lower than Wolfschmidt. This clever strategy positioned Smirnoff as the elite brand and Wolfschmidt as an ordinary brand, producing a large increase in Heublein's overall profits. The irony is that Heublein's three brands were pretty much the same in taste and manufacturing costs. Heublein knew that a product's price signals its quality. Using price as a signal, Heublein sold roughly the same product at three different quality positions.

Source: Armstrong et al. (2015, p. 319)

PRICE ENDINGS

Many sellers believe prices should end in an odd number. Customers perceive an item priced at $299 to be in the $200 rather than the $300 range; they tend to process prices "left to right" rather than by rounding. Price encoding in this fashion is important if there is a mental price break at the higher, rounded price. Another explanation for the popularity of "9" endings is that they suggest a discount or bargain, so if a company wants a high-price image, it should probably avoid the odd-ending tactic. One study showed that demand actu-ally increased one-third when the price of a dress rose from $34 to $39 but was unchanged when it rose from $34 to $44.Prices that end with 0 and 5 are also popular and are thought to be easier for consumers to process and retrieve from memory. "Sale" signs next to prices spur demand, but only if not overused: Total category sales are highest when some, but not all, items in a category have sale signs; past a certain point, sale signs may cause total category sales to fall. Pricing cues such as sale signs and prices that end in 9 are more influential when consumers' price knowledge is poor, when they purchase the item infrequently or are new to the category, and when product designs vary over time, prices vary seasonally, or quality or sizes vary across stores. They are less effective the more they are used. Limited availability (for example, "three days only") also can spur sales among consumers actively shopping for a product. (Kotler & Keller, 2016, p. 488)

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 9. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. **Skimming pricing strategy can be described as:**
   a) Setting low prices to gain large market share.
   b) Setting high prices with intention to keep it high in the future.
   c) Setting high prices with potential to price reduction in the future.

2. **What is the first step in setting prices?**
   a) Estimating costs
   b) Selecting price objectives
   c) Analysing competition

3. **When adding slightly worse option similar to the first into the set of two options. What will most likely happend?**
   a) The added option will be more attractive
   b) The second option will be more attractive
   c) The first option will be more attractive

4. **If a women's dresses in the more expensive department are assumed to be of better quality. We can use one of the pricing tactics.**
   a) Referral pricing
   b) Price endings
   c) Reference pricing

5. **Mont Blanc rollerballs can cost USD 300, or more than 2000 times the price of a disposable pen. What pricing strategy is that?**
   a) Premium pricing
   b) Selective pricing
   c) Penetration

CORRECT ANSWERS

1b, 2b, 3c, 4c, 5a

10 DISTRIBUTION

Producing products that customers want, pricing them correctly and developing well-designed promotional plans are necessary but not sufficient conditions for customer satisfaction. The final part of the jigsaw is distribution: the place element of the marketing mix. Products need to be physically available in adequate quantities, in convenient locations and at times when customers want to buy them. Producers need to consider not only the needs of their ultimate customer but also the requirement of channel intermediaries, those organisations that facilitate the distribution of products to customers. (Jobber, 2010, p. 625)

In managing its intermediaries, the firm must decide how much effort to devote to push versus pull marketing communication strategy within a distributional channel. A push strategy uses the manufacturer`s sales force, trade promotion money, or other means to induce intermediaries to carry, promote, and sell the product to end users. A push strategy is particularly appropriate when there is low brand loyalty in a category, brand choice is made in the store, the product is an impulse item, and product benefits are well understood. In a pull strategy the manufacturer uses advertising, promotion, and other forms of communication to persuade consumers to demand the product from intermediaries, thus inducing the intermediaries to order it. Pull strategy is particularly appropriate when there is high brand loyalty and high involvement in the category, when consumers are able to perceive differences between brands, and when they choose the brand before they go to the store. (Kotler and Keller, 2012, p. 438) Here we can see how interconnected all aspects of marketing are because pull and push strategies are marketing communication strategies but they have massive effect on distribution.

Ways of distribution vary in different parts of the world. For example in China, the retail distribution working the best is required to be of a kind of a market place. In USA customers are used to buy in big shopping malls, like Wall Mart. And in Dubai shops are organized into luxurious galleries.

10.1 INTERMEDIARIES

The most basic question to ask when designing channel strategy is whether to sell directly to the ultimate customer or to use channel intermediaries such as retailers and/or wholesalers. (Jobber, 2010, p. 625) This is becoming increasingly tricky question, because of the raise of internet sales. Even small companies can nowadays sell directly to an end customer living on the other side of the globe, because he or she has found the firm online and orders from its e-shop.

RECONCILING THE NEEDS OF PRODUCERS AND CONSUMERS

Manufactures typically produce a large quantity of a limited range of goods, whereas consumers usually want only a limited quantity of a wide range of goods. The role of channel intermediaries is to reconcile these conflicting situations. A related function of channel intermediaries is breaking bulk. A wholesaler may buy large quantities from a manufacturer (perhaps a container load) and then sell smaller quantities (such as by the case) to retailers. (Jobber, 2010, p. 626)

IMPROVING EFFICIENCY

Channel intermediaries can improve distribution efficiency by reducing the number of transactions and creating bulk for transportation. Small producers can benefit by selling to intermediaries, which then combine a large number of small purchases into bulk for transportation. Without the intermediary it may prove too costly for each small producer to meet transportation costs to the consumer. (Jobber, 2010, p. 627)

IMPROVING ACCESSIBILITY

Two major divides that need to be bridged between producers and consumers are the location and time gaps. The location gap derives the geographic separation of producers from the customers they serve. The internet is reducing the location gap, allowing consumers to buy without the need to visit a producer or distributor. The time gap results from discrepancies between when a manufacturer wants to produce goods and when consumers wish to buy. For example, producers want to produce Monday to Friday but consumers may want to buy during a weekend. (Jobber, 2010, p. 627)

PROVIDING SPECIALIST SERVICES

Channel intermediaries can perform specialist customer services that manufacturers may feel ill-equipped to provide themselves. Distributors may have long-standing expertise in such areas as selling, servicing and installation to customers. Producers may feel that these functions are better handled by channel intermediaries so that they can specialize in other aspects of manufacturing and marketing activity. (Jobber, 2010, p. 627)

10.1.1 TYPES OF INTERMEDIARIES

There are a number of different types of middlemen that act in distribution channels. Some do not take title to the foods they handle nor sometimes even physically handle the product. There are important distinctions between the roles and characteristics of the most common intermediaries (Drummond and Ensor, 2005, p. 165):

Agents: differ from other middlemen in that they do not take ownership or physical possession of the products they represent (i.e. they do not take title to the goods). They will act on a producer`s behalf and take a commission on any sales they negotiate with a third party. (Drummond and Ensor, 2005, p. 165)

Producers' agents: tend to work for a number of different producers and deal with non-competitive or complementary products in a specific geographic area. They are normally used by producers that have fairly limited product lines and the agent is only involved in delivering the sales function. (Drummond and Ensor, 2005, p. 165)

Sales agents: generally only deal with one producer and deliver a full range of marketing activities for this specific client. These activities would include creating distribution, pricing and promotional policies and plans. These agents would also provide recommendations on future product strategy. Sales agents are commonly used by small companies with limited resources or by business start-ups. Sales agents can also be employed by producers that are moving into an unknown overseas market. In this situation the sales agent can provide essential local knowledge. (Drummond and Ensor, 2005, p. 165)

Brokers: endeavour to bring potential buyers and sellers together by negotiating specific deals. Brokers usually do not have a long-term relationship with either party involved in a negotiation. Brokers, like agents, do not take title to the goods, nor do they physically handle the product and they act on a commission basis. (Drummond and Ensor, 2005, p. 166)

Wholesalers: differ from agents in that they take title to the goods they handle and are involved in the physical distribution of those products. They sell principally to other middlemen or directly to industrial, commercial or institutional customers rather than individual consumers. Full service wholesalers carry out a broad range of marketing activities for their suppliers and customers. These would include services such as purchasing, sales, warehousing and transportation of goods. They may also offer additional services such as advice on accounting and inventory control procedures. In contrast, limited service wholesalers strip out non-essential services and as a result are able to offer cost savings to customers. (Drummond and Ensor, 2005, p. 166)

Retailers: sell goods and services directly to the end consumer. Retailers take title to the goods they stock, which is a crucial factor in their relationship with their suppliers. (Drummond and Ensor, 2005, p. 166)

There are a number of other, less common middlemen. These include:

Purchasing agents: these usually have a long-term contract with an organisation on whose behalf they will act. Their responsibilities may be wider than merely purchasing on behalf of the company buy may also include receiving, inspecting, storing and shipping the goods to their client. (Drummond and Ensor, 2005, p. 166)

Resident buyers: are found in sectors such as the clothing industry. They are to be found in major clothing markets, for instance, London, Paris, Milan. They provide essential information to smaller retailers and will buy merchandise on behalf of these clients. (Drummond and Ensor, 2005, p. 166)

HOW LISTERINE MOUTHWASH GETS TO A STORE

Have you ever wondered how a bottle of Listerine mouthwash gets to your local shop? Every bottle travels through a series of manufacturing and distribution partners that work together to form a marketing channel:

- Warner-Lambert is producing the Listerine, purchases eucalyptol, synthetic alcohol, sorbitol, menthol, citric acid, and other ingredients. These are transported to their manufacturing and distribution facility, where they are mixed together to create the product.
- The product is bottled, capped, labelled, and then put in large boxes. The boxes are organized into pallets, which are then transported to the distribution centre where they will remain for about two to four weeks.
- When Warner-Lambert receives an order from a retailer (such as your local drug store), the order is screened to ensure that it can be filled. Software calculates the price for the order and how much product is already in stock. If there is a shortage, additional production is scheduled.
- When the order can be filled, pallets are transported by forklift to the appropriate shipping door. Trucks are loaded with the product, and those trucks depart for the customer's warehouse.
- The trucks are unloaded at the retailer's warehouse where the Listerine is stored for as long as three weeks until it is needed.
- When one of the retailer's stores begins running low on Listerine, that store requests a shipment of additional product from the warehouse. Another software program optimizes delivery schedules for all the retailers' stores that are requesting product, and boxes of Listerine are shipped.
- Trucks unload their cargo of Listerine at each of the destination stores, where staffers place bottles on shelves.

Source: Levens (2012, p. 198)

10.1.2 CHANNEL LEVELS

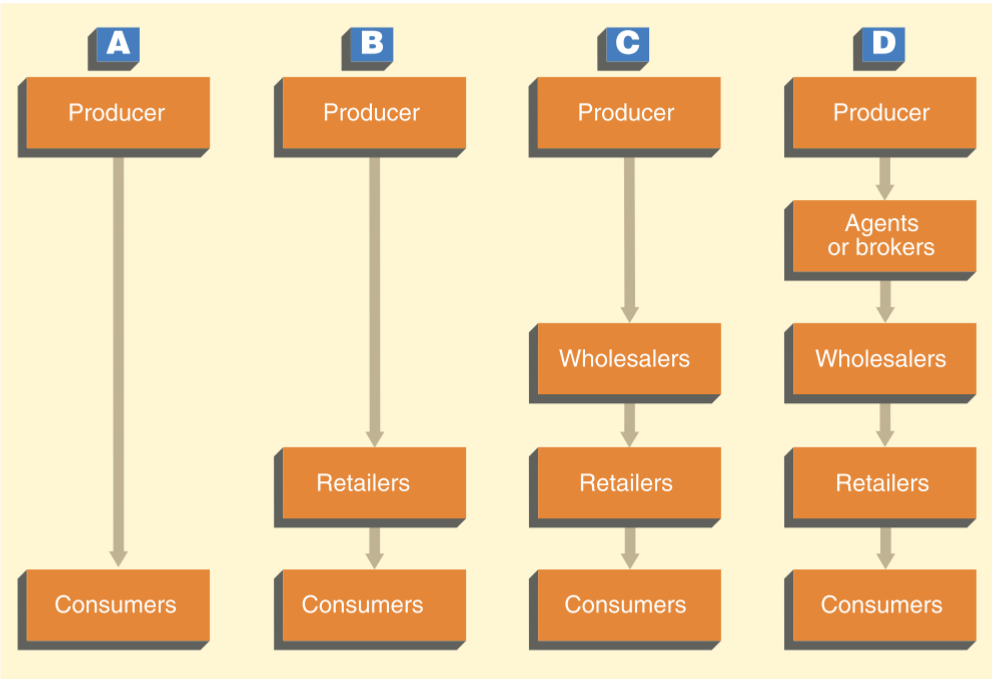
The producer and the final customer are part of every channel. We will use the number of intermediary levels to designate the length of a channel.

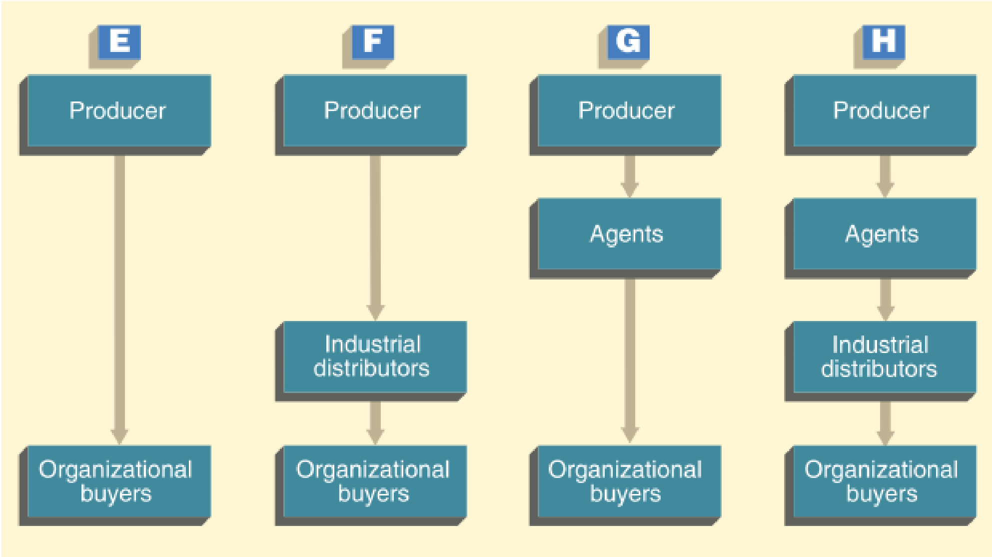
A zero-level channel, also called a direct marketing channel, consists of a manufacturer selling directly to the final customer. The major examples are door-to-door sales, home parties, mail order, telemarketing, TV selling, Internet selling, and manufacturer-owned stores. (Kotler and Keller, 2012, p. 442)

A one-level channel contains one selling intermediary, such as a retailer. A two-level channel contains two intermediaries. In consumer markets, these are typically a wholesaler and a retailer. A three-level channel contains three intermediaries. Obtaining information about end users and exercising control becomes more difficult for the producer as the number of channel levels increases. (Kotler and Keller, 2012, p. 443)

Channels normally describe a forward movement of products from source to user, but reverse-flow channels are also important, to reuse products or containers, to refurbish products for resale, to recycle products, and to dispose of products and packaging. Reverse-flow intermediaries include manufacturers' redemption centres, trash-collection specialists, recycling centres, and central processing warehousing. (Kotler and Keller, 2012, p. 443)

Figure 10-1: Typical Marketing Channels for Consumer and Business Products





Source: Pride & Ferrell (2015, p. 367 - 368)

In these systems, each level in a given channel operates under independent ownership. In other words, the producers, wholesaling middlemen, and retailers in the channel are separate business entities. Each possesses its own goals, objectives, and priorities that can lead to conflict within the channel. As a result, each of these independent channel members tends to make decisions in its own best interests. The interests of other channel members and the concerns about the overall efficiency of the channel become secondary. Vertical marketing systems (VMSs) have evolved over time in some industries to minimize such 'channel conflict' and improve channel efficiency. Vertical marketing systems, as the name implies, are systems of vertically integrated channel members that are organized to induce cooperation and control into the channel in any of three ways:[19]

- By the common ownership of multiple levels of the channel by a single firm. Such arrangements are called corporate vertical marketing systems.
- By creating contractual arrangements between channel members that specify exactly how the channel should function. Various types of cooperatives and franchise operations fall into this category. These VMS's are referred to as contractual vertical marketing systems.
- By virtue of the sheer 'power' that one member of the channel may have over other channel members to influence the decisions of those members. Channels of this nature are called administered vertical marketing systems.

TAZA CULTIVATES CHANNEL RELATIONSHIPS WITH CHOCOLATE

Taza Chocolate is a small Massachusetts-based manufacturer of stone-ground organic chocolate made in the classic Mexican tradition. Founded in 2006, Taza markets most of its products through U.S. retailers, wholesalers, and distributors. Individual customers around the world can also buy Taza chocolate bars, baking squares, chocolate-covered nuts, and other specialty items directly from the Taza website. If they live in Somerville, Massachusetts, they might even find a Taza employee riding a "chococycle," selling products and distributing samples at an upscale food truck festival or a weekend market festival.

[19] University of North Texas. Channel Design Decisions: Selecting the Type of Channel Structure. [online] [cit. 2014-05-04] Available at: http://courses.unt.edu/kt3650_16/sld004.htm

Taza seeks to make personal connections with all the certified organic growers who supply its ingredients. “Because our process here at the factory is so minimal,” says the company’s director of sales, “it’s really important that we get a very high-quality ingredient. To make sure that we’re getting the absolute cream of the cocoa crop, we have a direct face-to-face human relationship between us and the actual farmer who’s producing those beans.”

Dealing directly with suppliers allows Taza to meet its social responsibility goals while ensuring the kind of quality that commands a premium price. “We’re a premium brand,” explains the director of sales, “and because of the way we do what we do, we have to charge more than your average chocolate bar.” A Taza chocolate bar that sells at a retail price of $ 4.50 carries a wholesale price of about $ 2.70 . The distributor’s price, however, is even lower, closer to $ 2.00.

Distributors buy in the largest quantities, which for Taza means a pallet load rather than a case that a wholesaler would buy. “But wholesale will always be our bread and butter, where we really move the volume and we have good margins,” says Taza’s director of sales. In the company’s experience, distributors are very price-conscious and more interested than wholesalers in promotions and extras.

Taza offers factory tours at its Somerville site, charging a small entrance fee that includes a donation to Sustainable Harvest International. There, visitors can watch the bean-to-bar process from beginning to end, learning about the beans and the stone-ground tradition that differentiates Taza from European chocolates. Visitors enjoy product samples along the way and, at the end of the tour, they can browse through the factory store and buy freshly made specialties like chipotle chili chocolate and ginger chocolate. On holidays like Halloween and Valentine’s Day, Taza hosts special tastings and limited-edition treats to attract customers to its factory store. Its annual beer-and-chocolate pairing event, hosted with the Drink Craft Beer website, is another way to introduce Taza to consumers who appreciate quality foods and drinks.

Taza’s marketing communications focus mainly on Facebook, Twitter, blogs, e-mail, and specialty food shows. Also, the company frequently offers samples in upscale and organic food stores in major metropolitan areas. As it does with its growers, Taza seeks to forge personal relationships with its channel partners. “When we send a shipment of chocolate,” says the sales director, “sometimes we’ll put in a little extra for the people who work there. That always helps because it is building that kind of human relationship.”

Privately owned Taza has begun shipping to Canada and a handful of European countries. Its channel arrangements must allow for delivering perishable products that stay fresh and firm, no matter what the weather. As a result, distributors often hold some Taza inventory in refrigerated warehouses to have ready for next-day delivery when retailers place orders.

Source: Pride and Ferrell (2015, p. 394)

10.2 CHANNEL DESIGN DECISIONS

To design a marketing channel system, marketers analyse customer needs and wants, establish channel objectives and constraints, and identify and evaluate major channel alternatives.

ANALYSING CUSTOMER NEEDS AND WANTS

Consumers may choose the channels they prefer based on price, product assortment, and convenience, as well as their own shopping goals (economic, social, or experiential). As with products, segmentation exists, and marketers must be aware that different consumers have different needs during the purchase process. (Kotler and Keller, 2012, p. 444)

Even the same consumer, though, may choose different channels for different functions in a purchase, browsing a catalogue before visiting a store or test driving a car at a dealer before ordering online. Some consumers are willing to “trade up’ to retailers offering higher-end goods and “trade down” to discount retailers for private-label paper towels, detergent, or vitamins. (Kotler and Keller, 2012, p. 444)

ESTABLISHING OBJECTIVES AND CONSTRAINTS

Marketers should state their channel objectives in terms of service output levels and associated cost and support levels. Under competitive conditions, channel members should arrange their functional tasks to minimize costs and still provide desired levels of service. Usually, planners can identify several market segments based on desired service and choose the best channels for each. (Kotler and Keller, 2012, p. 444)

Channel objectives vary with product characteristics. Bulky products, such as building materials, require channels that minimize the shipping distance and the amount of handling. Nonstandard products such as custom-built machinery are sold directly by sales representatives. Products requiring installation or maintenance services, such as heating and cooling systems, are usually sold and maintained by the company or by franchised dealers. High-unit-value products such as generators and turbines are often sold through a company sales force rather than intermediaries. (Kotler and Keller, 2012, p. 444)

IDENTIFYING MAJOR CHANNEL ALTERNATIVES

Each channel - from sales forces to agents, distributors, dealers, direct mail, telemarketing, and the Internet – has unique strengths and weaknesses. Sales forces can handle complex products and transactions, but they are expensive. The Internet is inexpensive but may not be as effective with complex products. Distributors can create sales, but the company loses direct contact with customers. Several clients can share the cost of manufacturers’ reps, buts selling effort is less intense than company reps provide. Channel alternatives differ in three ways: thy types of intermediaries (See 10.3), the number needed (See 9.6), and the terms and responsibilities of each. (Kotler and Keller, 2012, p. 446)

BASIC DISTRIBUTION STRATEGIES

After deciding how to design a distribution channel three major strategies typically occurs:

- **Intensive** – Intensive distribution strategy aims to provide whole market coverage by using as many as possible stores to deliver mass physical availability. For example, carbonated soft drinks and many other FMCG (fast moving consumer goods) products are offered at every supermarket in the country. High availability is needed because if one brand is not available, a customer will simply choose another.
- **Selective -** Selective distribution involves a company using a limited number of stores in a geographical area to sell products. An advantage of this strategy is that the producer can choose the best-performing stores and invest there. It usually is the case for brands and products where consumers are willing to travel and find a shop for particular brand.
- **Exclusive -** Exclusive distribution is an intense form of selective distribution in which only one distributor is appointed in each territory. It is used when control is important to maintain luxury brand image, brand integrity, and often higher pricing points.

10.3 RETAILING

Retailing includes all the activities in selling goods or services directly to final consumers for personal, non-business use. A retailer or retail store is any business enterprise whose sales volume comer primarily from retailing. Any organisation selling to final consumers – whether it is a manufacturer, wholesaler, or retailer – is doing retailing. It does not matter how the goods and services are sold (in person, by mail, telephone, vending machine, or on the Internet) or where (in a store, on the street, or in the consumers home). (Kotler and Keller, 2012, p. 469)

10.3.1 KINDS OF RETAILERS

In twenty-first century there is a wide range of retailers, and it is important for marketers to be familiar with how they function. The following is an overview of the make-up of the retail industry (Sharp, 2013, p. 281 - 282):

- Department store – here, we find product lines laid out in separate departments, such as women's and men's clothing, home furnishings, cosmetics, and so on. Companies may operate as *shops within shops* and pay rent as percentage of takings to the host store.
- Supermarkets – these are large, self-service stores carrying a very wide range of consumer goods. They are typically located in suburban shopping strips or centres, or out-of-town retail parks, although many supermarket chains have recently opened smaller city-centre sites. The supermarket chains are often first with new customer initiatives, such as loyalty cards or in-store bakeries. Low prices based on large-scale efficiency are hard for smaller independent stores to match.
- Discount sheds (or category killer) – these stores often stock bulky items such as furniture and electrical goods. The *category killer* terminology results from the tendency of some very large specialist stores to put competing independent retailers out of business.
- Speciality shops – these are typically found in central business districts of cities or prime retail sites in towns. Increasingly these stores are part of a branded chain.
- Convenience stores – geographically, and also in terms of range of product on offer, these stores fill the gap between supermarkets and traditional corner shops. While independently owned convenience stores have tended to decline in number in recent years, the major supermarket operators have expanded into this area.
- Cash and carry warehouses – these usually offer cheaper groceries and durable goods to customers or cater to traders and small retailers.
- Market traders – these remain significant outlets for many low-value products. Although they have generally declined in importance in recent years, some types of market, such as farmers markets, have expanded.
- Online retailers – some online retailers, such as Amazon, have no physical shops that interface with public. However, most online retailing is in fact accounted for by *brick and mortar* retailers.

10.3.2 DISTRIBUTION STRATEGIES

Given the various types of middlemen available, many writers have suggested that producers have to decide which of these intermediaries are the most appropriate route for them to use in distributing their products. This approach looks at distribution channels solely from the producer's standpoint. From this perspective, a producer has to decide on the optimal number of customers it wishes to reach, and then has to employ one of three different distribution strategies. (Drummond and Ensor, 2005, p. 167)

Intensive distribution uses all available outlets for distributing a product. Intensive distribution is appropriate for products that have a high replacement rate, require almost no service, and are often bought based on price cues. Most convenience products like bread, chewing gum, soft drinks, and newspapers are marketed through intensive distribution. Multiple channels may be used to sell through all possible outlets. For example, goods such as soft drinks, snacks, laundry detergent, and pain relievers are available at convenience stores, service stations, supermarkets, discount stores, and other types of retailers. To satisfy consumers seeking to buy these products, they must be available at a store nearby and be obtained with minimal search time. For these products, consumers want speed in obtaining them while receiving a reliable level of quality and flexibility to buy the product wherever it is most convenient to them at the lowest price possible. For example, Fage yogurt, featured in the advertisement, faces strong competition from other brands of Greek-style yogurt. To maintain market share and an acceptable level of profit, consumers can find Fage, which is marketed as a more authentic and higher-quality Greek yogurt, in a range of supermarkets, specialty shops, gourmet shops, and convenience stores. As you can see in the ad, Fage emphasizes the purity of its ingredients and flavours, such as the blueberries shown here, and stresses that it is a healthier snack than other yogurts. (Pride and Ferrell, 2015, p.373)

Exclusive distribution uses only one outlet in a relatively large geographic area. This method is suitable for products purchased infrequently, consumed over a long period of time, or requiring a high level of customer service or information. It is used for expensive, high-quality products with high profit margins, such as Porsche, BMW, and other luxury automobiles. It is not appropriate for convenience products and most shopping products because an insufficient number of units would be sold to generate an acceptable level of profits on account of those products' lower profit margins. Exclusive distribution is often used as an incentive to sellers when only a limited market is available for products. Consider Patek Philippe watches that may sell for \$ 10,000 or more. These watches, like luxury automobiles, are available in only a few select locations. A producer using exclusive distribution expects dealers to carry a complete inventory, train personnel to ensure a high level of product knowledge and quality customer service, and participate in promotional programs. (Pride and Ferrell, 2015, p.374)

Selective distribution: this strategy lies somewhere between the two strategies previously covered. In this situation producers are faced by consumers who would be prepared to do some shopping around to gain their preferred product. However, if their search has to become extensive, they will choose a substitute product instead. An example of a product that may be affected by this type of consumer behaviour would be good quality, rather than status symbol, watches. A producer of these watches would wish to have them in several outlets in a city. At the same time the producer would endeavour to ensure that these outlets reflected and reinforced the quality of the product. (Drummond and Ensor, 2005, p. 167)

10.4 WHOLESALING

Wholesaling includes all the activities in selling goods or services to those who buy for resale or business use. In excludes manufacturers and farmers because they are engaged primarily in production, and it excludes retailers. Wholesalers (also called distributors) differ from retailers in a number of ways. First, wholesalers pay less attention to promotion, atmosphere, and location because they are dealing with business customers rather than final consumers. Second, wholesale transactions are usually larger than retail transactions, and wholesalers usually cover a larger trade area than retailers. Third, the government deals with wholesalers and retailers differently in terms of legal regulations and taxes. Wholesalers are more efficient than retailers at performing one or more of the following functions: selling and promoting, buying and assortment building, bulk breaking, warehousing, transportation, financing, risk bearing, market information. (Kotler and Keller, 2012, p. 483-484)

A wholesaler performs many tasks for the companies:[20]

- **Assembling**: wholesaler buys the goods in bulk from different manufacturers and keeps them at one place. Wholesaler collects goods from several places much in advance of demand. He also imports good from foreign countries.
- **Warehousing or storage**: there is usually a large time gap between production and consumption of goods, which must therefore be stored for a long time. Wholesaler stored goods in his warehouse and makes them available to retailers as and when they need them. This storing also has an additional function, which is stabilization of the price through time.
- **Dispersion**: wholesaler distributes the assembled goods among a large number of retailers scattered at different places. He sells goods in small quantities according to the choice of retailers. This is known as 'breaking of bulk'.
- **Transportation**: wholesaler arranges for the transport of goods from producers to his warehouse and from the warehouse to retailers. He carries goods in bulk thereby saving costs of transport. Many wholesalers maintain their own trucks to carry goods far and wide quickly. Thus, a wholesaler adds place utility to the goods.
- **Financing**: wholesaler often provides advance money with orders to manufacturers. He purchases goods in bulk on cash basis from them. In addition, he often sells goods on credit basis to retailers. In this way, he provides finance to both producers and retailers.
- **Risk-bearing**: wholesaler assumes the risk of damage to goods in transit and in storage. He also bears the risks arising from changes in demand and bad debts. He serves as the shock absorber in the distribution of goods.
- **Grading and Packing**: many wholesalers classify the assembled goods into different grades, pack them into small lots and put their own trademarks or brand names on it. In this way, they perform the functions of grading, packing and branding.
- **Pricing**: wholesaler anticipates demand and market conditions. He helps to determine the resale price of goods.

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 10. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. **Which strategy producer uses when promoting product to the final customer?**
   a) Push strategy
   b) Pull strategy
   c) Place strategy

[20] SINGH, S., 2013. What are the functions of a wholesaler. [online] [cit. 2014-05-04] Available at: http://www.preservearticles.com/2012022923850/what-are-the-functions-of-a-wholesaler.html

2. **Which distribution strategy is suitable for products purchased infrequently, consumed over a long period of time, or requiring a high level of customer service or information?**
   a) Selective
   b) Exclusive
   c) Intensive

3. **What is the name for large, self-service stores carrying a very wide range of consumer goods.**
   a) Supermarket
   b) Speciality shop
   c) Market trader

4. How do we call systems of vertically integrated channel members that are organized to induce cooperation and control into the channel?
   a) Grid systems
   b) Horizontal systems
   c) Vertical systems

5. **How we can call** all the activities in selling goods or services to those who buy for resale or business use.
   a) Retail
   b) Supermarket
   c) Wholesale

CORRECT ANSWERS

1b, 2b, 3a, 4c, 5c

11 MARKETING COMMUNICATION

Marketing communication is closely related to marketing and makes the customer the final decision maker of which products are selling. This also means that there needs to be a meaningful communication between the customer and the firm. Marketing communication can be viewed as the application of information collected during marketing research. At the end of the process, the company should be prepared to communicate its commercial message to its current and potential customers in an informative and persuasive way. Before any decision is made on the choice of the most suitable forms of promotion, the basic questions of communication have to be answered: (1) Who are the receivers? (2) What is to be told? (3) By what means should the message be transmitted? (Kaftan, 2001, p. 227-228)

There are several general objectives of marketing communication: (1) to create demand, (2) to support the product differentiation (positioning), (3) to point out the product value and benefit for customers.

It is also necessary to mention the term **"marketing smog"** as a negative aspect of contemporary marketing communication. It means that marketing communications annoy, disturb and even reduce the quality of people´s life living in developed markets. (Karlíček et al., 2013)

11.1 MARKETING COMMUNICATION PROCESS

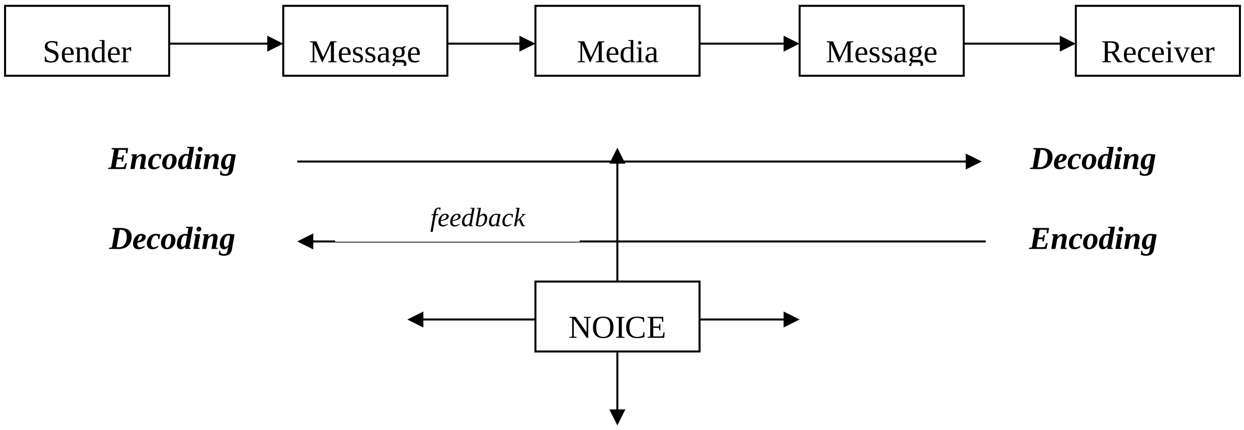
The communication is one of the most human of activities. The exchange of thoughts which characterises communication is carried out by conversation, by the written word and by pictures. *"Communication has been defined as a transactional process between two or more parties whereby meaning is exchanged through the intentional use of symbols."* (Blythe, 2003, p. 2)

The key elements here are that the communication is **intentional** (a deliberate effort is made to bring about a response), it is a **transaction** (the participants are all involved in the process), it is **symbolic** (words, pictures, music, and other sensory stimulants are used to convey thoughts). (Blythe, 2003, p. 2)

The communication process is the mechanism available to communicate with a target audience. Communication is more than simply sending a message. Communication is a two-way process, in as much as the message also needs to be received, understood and possibly acted on. There is the universal scheme of communication process (H. D. Lasswell – Power and Personality, 1948) that means **Who says What to Whom through Which channel with What effect?**

Communication is the sharing of meaning and requires five central elements: a sender, a message, a receiver, and the processes of encoding and decoding (see Figure 11-1). **The sender** may be a company or salesperson who has information to convey. This information, such as the particulars on a new weight reduction drink, forms **the message.** Consumers who read, hear, or see the message are **the receivers.** The message is communicated by means of a **media** (TV, radio, outdoor, Internet, salesperson, etc.). (Berkowitz et al., 1989, p. 435 – 436)

Figure 11-1: The marketing communication process



Source: own formation according to (Berkowitz et al., 1989, p. 435)

Encoding and decoding are essential to communication **Encoding** is the process of having the sender transform an abstract idea into a set of symbols. **Decoding** is the reverse process of having the receiver take a set of symbols, the message, and transform them back to an abstract idea.

Figure 11.1 also shows a feedback and noise. **Feedback** closes the communication flow from receiver back to sender and indicates whether the message was decoded and understood as intended. **Noise** includes extraneous factors that can work against effective communications, such as distorting message or the feedback received. Noise can be a simple error, such as a printing mistake that affects the meaning of a newspaper advertisement, or using words or pictures that fail to communicate the message clearly.

The process of communication is not always a successful one. Errors in communication can happen in several ways. The sender may not adequately transform the abstract idea into an effective set of symbols. Or a properly encoded message may be sent through the wrong channel and never make it to the receiver. Or the receiver may not properly transform the set of symbols into the correct abstract idea. Finally, feedback may be so delayed or distorted perform, truly effective communication can be very difficult. For the message to be communicated effectively, the sender and receiver must have a mutually shared field of experience – similar understanding and knowledge.

OPINION LEADERS AND WOM

In the context of marketing communication process, it is necessary to mention two crucial terms such as **opinion leaders and Word of Mouth.**

It is opportunity to use the very topical word-of-mouth communications (in general way with support of electronic means we can say viral marketing). Word-of-mouth communications are characterized as informal, unplanned, unsolicited, interactive and bidirectional conversations. These recommendations provide information and purchasing support and serve to reinforce and individual´s purchasing decisions. Personal influence is important and can enrich the communication process (Fill, 2011, p. 42-43).

Informal non-profit sources (friends, family, neighbours, etc.) are credible because they don´t have any profits from the products they talk about. Therefore, oral communication is the most effective communication way. Informal non-profit communications resources are called opinion leaders. **Formal non-profit sources** have generally higher credibility than commercial formal sources. Formal non-profit resources are considered as "neutral" and are objective in evaluating the product. In this context we talk about opinion former. These are often journalists, critics, judges, government officials, analysts, specialists in a particular field, etc. (Foret, 2006)

MODELLING CONSUMER BEHAVIOUR – AIDA

There are some basic questions that have to be answered in conjunction with advertising planning and research. No surprise that some authors have started to theorize about the effectiveness of various messages and their psychological impact on consumers. The theories have offered various models for this kind of work. For example, by using AIDA model and its modifications. (Kaftan, 2001, p. 234)

AIDA is an acronym used in marketing communication (advertising) that describes a common list of events that may occur when a consumer engages with a marketing communication (advertising).

- **A - Attention (Awareness):** attract the attention of the customer.
- **I - Interest:** raise customer interest by focusing on and demonstrating advantages and benefits (instead of focusing on features, as in traditional advertising).
- **D - Desire:** convince customers that they want and desire the product or service and that it will satisfy their needs.
- **A - Action:** lead customers towards taking action and/or purchasing.

Using a system like this gives one a general understanding of how to target a market effectively. Moving from step to step, one loses some percent of prospects.

Later versions of the theory have edited the AIDA steps. New phases such as satisfaction - satisfy the customer so they become a repeat customer and give referrals to a product (**AIDAS**) and confidence (**AIDCAS**) have been added.

One significant modification of the model was its reduction to three steps (CAB):

- **Cognition** (Awareness or learning)
- **Affect** (Feeling, interest or desire)
- **Behavior** (Action).

Along with these developments came a more flexible view of the order in which the steps are taken, suggesting that different arrangements of the model might prove more effective for different consumer-to-product relationships.

Additionally, as experts have examined this theory more defined practices and theories have been developed including the **T.I.R.E.A**. scale that focuses on breaking down the decision making process into more defined components. Each step focuses on a progressive journey through the decision making process.

- **T - Thought**
- **I - Interest (Desire)**
- **R - Risk (Evaluation)**
- **E - Engagement**
- **A - Action**

The Thought portion of the decision making process can occur randomly and be stimulated by a variety of stimuli but generates little of no attention by an individual. It simply creates an awareness of something but generate little or no interest. Similar to seeing food after one has become full after a meal... one may be aware of the food that is there but there is little need or interest in obtaining it. Interest occurs when one wants or needs something - hunger is an example. The level of interest (or desire) increases as hunger and or the wants and desires increase. Risk and it´s evaluation occur as interest increases. One may desire steak but withhold obtaining it due to cost, or other reasons (such as health related issues, etc.) Engagement - an emotional response when Interest and Desires exceed Risks. Action - a physical response to obtain what one wants and desires and is willing to assume the risks and/or costs in obtaining it.

The basic aim of marketing communications is to attract attention. That is the reason that many various original ideas come into existence. In practice, so-called **Teasing** (tease - irritating, misbehaving, provoking) is implemented in marketing communication campaigns. The aim of this concept is to draw customer´s attention in the longer term. It's actually a continuing communication, which is based on the story. The aim is to stimulate curiosity and desire to know what happens next.

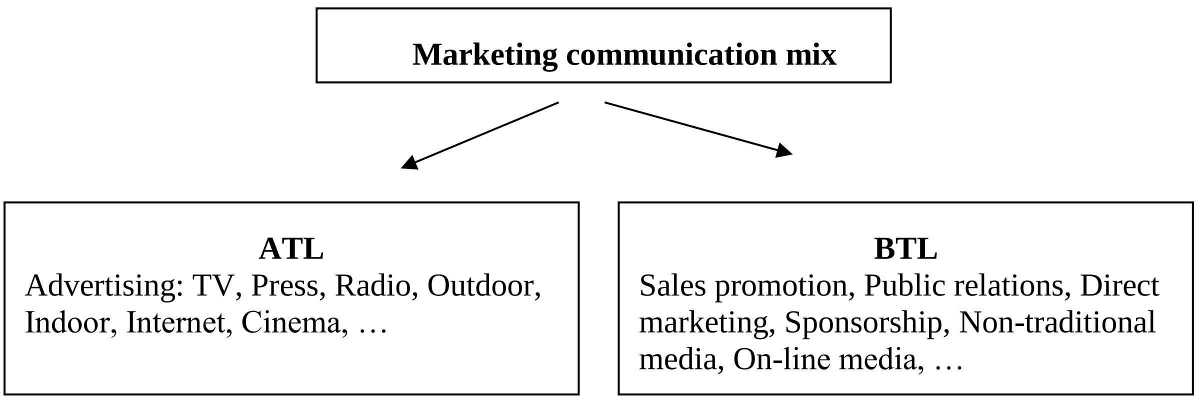
11.2 THE MARKETING COMMUNICATIONS MIX

The term of marketing communication can be defined from two points of view. Broader sense means all planned and unplanned communications at all points of firm´s contact with current and potential customers (product packaging, brand image, price, point of sale, advertising, employee behaviour, traditions, logo, colours, etc.). It is therefore appropriate in this context to use the concept of integrated marketing communications. Narrow sense can be understood as elements of the marketing communication mix.

The marketing communication mix represents the fourth element in the marketing mix according to the concept 4Ps. The communication mix is the term for a summarization of the main means of commercial communications by which companies try to get their messages across to the potential audiences. It is also the term for the way these means are mixed (combined) and applied to ensure the best possible effect. The decision on the best combination depends on the kind of product (ordinary, special, luxury, long-term or short-term consumption), the stage of the product life cycle (introduction, growth, saturation, decline), market character (B2C x B2B), company market position and its financial resources (large x small company), marketing communication strategy and the decisions on the customer´s side. (Kaftan, 2001, p. 228-229)

Figure 11-2 lists some of the elements of the communication mix and the Table 11-1 illustrates the basic characteristics of the mentioned elements of the communication mix.

Figure 11-2: Elements of the marketing communication mix



Source: author´s work

Marketing communications were divided into above the line (ATL) and below the line (BTL). Above the line means advertising uses independent media (primarily TV, radio, and the press) where the advertisements can be seen, heard or read by any viewer, listener or reader. This method accounts for nearly 60 % of all advertising. Below the line advertising is directed at people in certain places or jobs and uses sales promotion, direct mail, sales literature and special events such as displays, trade fairs and exhibitions, or closer contacts with potential buyers etc. In practice there is the most common use of the communication through the line (TTL) which is the combination of communication above and below the line. (Kaftan, 2001, p. 229-230)

Table 11-1: The basic characteristics of the marketing communication mix elements

Element	Explanation
Advertising	A paid insertion of a message in a medium.
Sales promotion	Activity designed to give a temporary boost to sales, such as money-off coupons, free samples, two-for-the price-of one promotions, free gifts, piggy-backing with another product, lottery, multi-packing etc.
Personal selling	Face-to-face communications between buyers and sellers designed to ascertain and meet customer´s needs on a one-to-one basis.
Public relations	The planned and sustained effort to establish and maintain goodwill and mutual understanding between an organisation and its publics.
Direct marketing	An interactive system of marketing which uses one or more advertising media to create a measurable response and/or transaction at any location.
Sponsorship	Funding of arts events, sporting events etc. In exchange for publicity and prestige.
On-line marketing communication	The use of websites and social medial for commercial communication purposes.

Source: own formation according to Blythe (2003, p. 33-34)

11.2.1 ADVERTISING

The role of advertising in the life of a modern society may be questioned, but cannot be ignored. No matter whether advertising is defined nobly as "the art" of determining the right message and delivering it to the right target audience, or simply a *"**paid form of non-personal presentation** of ideas and products by an identified sponsor*", the fact remain that advertising has assumed, among other things, the role of a major information service. There are the three basic features of advertising: **mass, paid, impersonal.** (Kaftan, 2001, p. 229) "Advertising is one of the most fundamental ways to sort out information. And that´s the gift of advertising: to connect with people in a human way, to make the kind of emotional connections that are at the core of storytelling." (Smith and Zook, 2012, p. 282)

Advertising is also associated with a phenomenon of **false fame effect.** This term refers to the fact that advertising increases the level of perceived popularity of brands. It seems that people perceive advertised products as more popular than those that are not advertised. (Karlíček and Král, 2011, s. 49)

The style and form of an advertisement should adequately reflect its contents, which in turn have to focus on the usefulness of a product or service, and give it credibility as well as distinction by which it can be easily recognized and differentiated from competition. The definite format is thus matter of creativity, text, humour, style and tone which can evoke mood or fantasy, show the use of the product in daily life - **emotional appeals** and present a well-known, popular personality – **message source** (and all this can be underscored by a catchy tune, adapted song or musical theme).

Advertising has three primary objectives – **to inform, to persuade, and to remind**. (Levens, 2012, p. 228) **Informative advertising** is used to provide consumers with information on the product or service, as well as to build awareness and initial demand of a new product. It can also be used to explain the features and functions of a product or to correct false impressions. **Persuasive advertising** is used to develop brand preferences and is also effective at increasing customer loyalty. Marketers often use comparative advertising to persuade consumers to switch brands. **Reminder advertising** is used by well-established brands to maintain brand awareness and remind customers to buy. The brand´s stage in the product life cycle will influence the objectives. For example, in the introductory stage of the product life cycle the objective will use informative advertising to establish or increase awareness among the target market. In the maturity stage, the objective may be to encourage brand switching by consumers, which calls for the use of persuasive advertising.

Some **principal media types**, serving as independent channels for above the line advertising are (see Table 11-2): (Kaftan, 2001, p. 231)

- **The press** (the news press, magazines) where the messages can appear in the form of bordered advertisements or as classified line ads, financial reports and other economic or technical information in national and regional newspapers and periodicals or in "trade and technical" journals. Advertisements are sometimes printed loosely and special leaflets (flyers, inserts) are enclosed inside a publication.
- **Television** which presents TV commercials in an informative and entertaining manner, full of catch-phrases, catchy tunes etc. Advertisements can also appear on teletexts or cable and satellite TV.
- **Out-of-door** posters which appear in the form of roadside stationary billboards or on means of transport (painted posters on trams and buses).
- **In-door advertising** located in public covered territory (trains, planes, public transport, shopping centers, consulting rooms, …)
- **Cinema** advertising which has for some time been on the decline due to competition from TV and video. However, this type of advertising is now being revitalized at multiscreen complexes which have started offering a variety of film packages and use other attractions to lure back cinemagoers.
- **Radio** which only provides sound, but some audiences can be better reached throughout the day by this means of advertising.
- **Internet** as the latest cry in advertising.

Table 11-2: Basic advertising media (advantages versus disadvantages)

Medium	+ Reasons for using	Reasons for not using
Televison	Realism – sight, sound, movement, repetition, regional zoning, entertaining	Poor selectivity, detail often missed, high costs long lead times, highly regulated content, inflexible
Radio	Widespread use, active, local targeting, relatively inexpensive, can involve listeners	No visual content, often used only as background, small audiences, low prestige
Out-door	Low cost, localized, easily changed	Low-attention capacity, limited segmentation possible, vulnerable to vandalism, poor image
News press	Relatively inexpensive, short lead time, wide reach, good for technical detail	Passive, reproduction of photos may be poor, no dynamics
Magazines	Quality of reproduction provides high impact, longevity, can associate a brand with cultural icons among a mass audience	Visual only, long lead times, does not foster a relationship
Internet	Inexpensive presence, active, allows movement, sound and colour to attract, fast information provision, can have a sales facility	No national coverage, limited access and not relevant for goods as perfume and food
Cinema	High impact, captive audience	Expensive, lacks detail
Word-of-mouth (opinion leaders)	Doesn´t cost anything (usually because it is not invested in)	A failure can be very costly to reputation and purchases
Non-traditional (Ambient media)	Ability to draw attention, it doesn´t annoy customers for the present (it is something new)	It could be unethical and illegal in some cases.

Source: own formation according to Blythe (2003, p. 33-34)

11.2.2 SALES PROMOTION

Sales promotion covers a wide range of activities intended to provide a **short-term increase in sales.** Some sales promotions are aimed at **customers, some are aimed at retailers, others are aimed at sellers – staff,** but in all cases the intention is to provide an extra incentive to buy (or stock) a specific brand or product range.

Sales promotion are a range of tactical marketing techniques designed within a strategic marketing framework to add value, usually monetary, to a product or service in order to achieve specific sales and marketing objectives. (Copley, 2004, p. 186)

Sales promotion will often be useful for low-value items and is particularly good for encouraging first-time purchase. It is also most effective when used as part of an integrated promotion campaign. (Blythe, 2003, p. 189)

While advertising offers a reason to buy, sales promotion is the incentive to purchase. Sales promotion offers buyers additional value, an inducement to generate an immediate sale. It cannot also change the long-term trends. The theory of **small impulse** explains that a short exposure may cause growing interest in using more of the product. Marketers use this effect offering free samples to motivate customers to buy and consume products. (Pelsmacker, Geuens and Bergh, 2003) On the other hand, sales promotion is often a threat of the long-term image because too frequent use of sales promotion tools may lead to the fact that the product (brand) can be considered as cheap and unwanted and it can also undermine a longer-term brand strategy.

Among the basic **advantages of** sales promotion (SP) belongs for example: (1) SP is flexible and variable, (2) SP supports brand (product) loyalty, (3) SP can change purchase habits in case of the convenience goods, (4) SP is accepted by customers – it is understood as increase in product value, (5) SP can support effectively other parts of marketing communications mix, (6) SP can encourage trial ⇨ attract new customer and etc.

And there are also, of course, some **disadvantages** of sales promotion (SP) as for example: (1) SP is short-dated, (2) SP can be imitated by competitors very easily (3) SP can damage reputation (image) of brand. (Blythe, 2003, p. 189-202)

Sales promotion techniques – customers: (Blythe, 2003, p. 190-192)

- Discounts (seasonal, multibuys, banded packs, reduced shelf price, extra-fill packs)
- Tasting, product sampling - inhome sampling (sending to the households), instore sampling (in the place of purchase), out-of-home sampling (in the street), point-of-use sampling (free sample of sauce when you buy a meat)
- Free gift with each purchase
- Money-off vouchers (couponing)
- Two for the price of one
- Loyalty programmes (clubs)
- Competitions, lotteries
- Trade fairs
- Events
- Road shows
- 3D advertising - customers enjoy 3D advertising because of extra product value (they can get something useful and without paying for it) such as pencils, t-shirts, caps, umbrellas, cups, flash disks, calendars, …
- Etc.

Sales promotion techniques – retailers: (Blythe, 2003, p. 190-192)

- Purchasing discounts
- Goods free of charge
- Promotional materials
- Cooperative advertising
- Events

Sales promotion techniques – staff:

- Various types of motivation programmes

Display at the POP/POS

POP is an abbreviation for “point of purchase” (sometimes POS as point of sale) which literally means the place where a product can be purchased, and usually serves as a synonym for a retail outlet. The selection of suitable means of promotion for specific products (signs, posters, leaflets, video shows) is often made with regard to windows, shelves or at shop counters. One of the devices is a Q-TV, where suitable programmes are shown to queuing people e.g. in post offices, banks or supermarkets. (Kaftan, 2001, p. 237)

POP displays influence the consumers at the place of purchase where it is not necessary to activate their memory functions. In many consumer markets the consumer´s final decision to buy is often made inside, and not outside, the store. It is said that about 75 % of all purchase decisions are realized at the point of sale. The percentage of impulse purchases are about 60 – 75 %, but it depends on the product category. An important source of further POP displays functionality increasing is their cooperation with other communication tools used in communication campaign. (Boček et al., 2009, p. 16)

MERCHANDISING

Merchandising is a specific area of sales promotion, the purpose of which is to achieve maximum persuasion at the point of sale. It concentrates on attracting consumers to specific shops in order to satisfy specific needs through specific products. Sometimes the term is used for the planning and supervision involved in the marketing of products. It concerns factors (time, place, volume, price) influencing the marketing objective. (Kaftan, 2001, p. 237)

Shortly, **Merchandising or „5R**“: (Matušínská, 2007, p. 88)

- Right product
- In right place
- In right time
- For right price
- Supported with right presentation

Merchandising is a comprehensive care of goods and POP displays at the point of sale, including the care of the visual aspect of the store. (Jurášková, Horňák et al., 2012, p. 134) The aim of merchandising is to change the passive offer to the active offer.

Not only clear and concise information are transfer through merchandising, but it is created the type of shop environment that must be “friendly and inviting”. The seller, of course, pays attention to sales maximize. This can be achieved by a proper distribution of goods at the point of sale to navigate customers and stimulate them to buy in complex way. In this context, **cross-merchandising (trade compatibility)** as the specific sales technique can be mentioned. It reminds the customer of related end-use products, which are carefully positioned beside each other (tea – mugs, shoes – socks, toys – sweets, pasta – pasta sauce, shirts – ties, etc.).

Merchandising techniques such as display and store design are therefore vital communications tools that can guide a buyer towards making a purchase. They are often the last chance to communicate with the buyer. Merchandising does not apply just to the traditional retail outlets of supermarkets, garages and department stores, but also to DIY stores, brown-goods retailers (stereos and TVs), corner shops, office-equipment showrooms and cash-and-carry wholesalers. (Smith and Zook, 2012)

SENSORY MARKETING

The human senses have long been ignored in marketing, despite our awareness of their great significance. The five human senses are of crucial importance for an individual’s experience of different purchase and consumption processes. Growing interest in sensory marketing among practitioners, consultants, and researchers means that all five human senses (smell, sound, taste, touch and sight) are today receiving increased attention. Today **aroma marketing** (scent marketing) requires more and more popularity in marketing practice.

At a time when the entire marketing world is talking about customer experience, and the focus is on making an emotional connection between brands and customers, sensory marketing is a strategy the business units should consider.

The application of sensory marketing is typical exactly at the point of sale, this is called as sensory merchandising, which represents a new form of in-store marketing. It uses factors which create an atmosphere in the store (music, smell, colour, taste and tactile elements) and give the consumers a positive response for the purchase of certain kinds of goods. Psychological studies have shown that the environment can affect mood, emotional reactions, thoughts and physical reactions of individuals. Sensory merchandising examines the way how the customer responds to the physical retail environment. While the visual and auditory cues are widely used in this respect, the importance of olfactory, gustatory and tactile perception is increasingly explored and understood. As with all marketing strategies, sensory branding has its limits. Indeed, each consumer, according to his or her experience or culture, has their own reference system and perception. For this reason, sensory branding has to have a localized approach and can't be universal.

SENSORY MARKETING

Starbucks

As a pioneer in employing multi-sensory marketing, Starbucks' philosophy is to satisfy its customers' senses of taste, sight, touch, and hearing. The Starbucks brand serves up this comprehensive package of sensual gratification through the use of consistent flavours, aromas, music, and printing that is known to appeal to its customers. All music played in Starbucks stores worldwide is selected from about 100 to 9,000 songs on CDs sent to the stores every month by the company's main office. Through this approach, consumers in all countries and cultures are able to share much more than a good cup of coffee, but the entire "Starbucks experience."

Singapore Airlines

Singapore Airlines is in the sensory marketing hall of fame for its patented scent called Stefan Floridian Waters. Now a registered trademark of the airline, Stefan Floridian Waters is used in the perfume worn by flight attendants, blended into the hotel towels served before takeoff, and diffused throughout the cabins of all Singapore Airlines planes.

Cinnabon

Cinnabon Uses Scent as a Marketing Tool -An article released by the Wall Street Journal informed consumers of how brands such as Cinnabon use scent as a marketing tool. By placing ovens near the front of their store, the aroma of fresh baked cinnamon rolls fills the store front and spills out into surrounding locations. The scent is so successful in bringing in consumers, that some locations heat sheets of brown sugar and cinnamon to keep the scent fresh and long lasting.

Spotify House at Cannes

Introduced in 2013, Spotify House functions as the premier venue for client meetings at the Cannes Lions International Festival. The strategy – Spotify is everywhere. The activation included a number of high-tech touchpoints, illuminated statistics, listening stations, and one-hour daily content panels. The brand also hosted a co-branded house party with live DJ. Utilizing audible, visual, and touch experience, Spotify offered consumers a glimpse of sensory marketing at its best.

Source: Sensory marketing [online]. [cit. 2019-01-28]. Available at: https://www.thoughtco.com/sensory-marketing-4153908; https://promotion1.com/blog/sensory-marketing-appeal-customers-5-senses/

11.2.3 PERSONAL SELLING

People do not buy products, but benefits. They do not buy cars but the facility to move faster. Therefore, a salesperson should be able not only to demonstrate the physical features of a product, but explain its benefits to its potential consumers or users and give professional advice. Bearing this in mind, the following definition of personal selling sounds appropriate: **it is an oral presentation of a product for the purpose of selling it. Personal selling is the form of a face-to-face communication between the salesperson and the customers.** Salespeople influence clients, exchange information with them and offer them services.

Personal selling is useful especially when detailed or expert information is needed. Personal selling is the most applied element of communication mix in the B2B market in comparison with others elements. (Kaftan, 2001, p. 240)

Among the basic **advantages** of personal selling belongs for example: (1) face-to-face activity (= two-way form of communication) → high degree of personal attention, (2) sales message could be customised → meet the customer´s needs, (3) possibility to answer immediately the customer questions (including feedback), (4) way how to get across the large amount of technical or other complex product information, (5) gives the chance to demonstrate the product, (6) opportunity to build good long-term relationships.

And there are also, of course, some **disadvantages** of personal selling as for example: (1) costs of employing a sales force, (good) sales people are expensive, (2) commission, bonus arrangements, equipment to make sales (car, travel and subsistence costs, mobile phone etc.), (3) seller can only (usually) talk to one customer at a time, (4) possibly the biggest disadvantage is the degree to which the personal selling is misunderstood, (5) most people have had some bad experiences with sellers who they perceived in aggressive or annoying way. (Matušínská, 2007, p. 94-102)

Personal selling is used for: (Matušínská, 2007, p. 94-102)

- **Building Product Awareness:** to educate customers on new product offerings.
- **Creating Interest:** communication is a natural method to get the first experience with product.
- **Providing Information:** large part of conversation focuses on product information.
- **Stimulating Demand:** convince customer to make a purchase.
- **Reinforcing the Brand:** long-term relationships, regular communication etc.

Six main activities of sales force: (Matušínská, 2007, p. 94-102)

- **Prospecting:** aim to find new customers.
- **Communicating:** with existing or potential customers about the products range.
- **Selling:** answering questions and trying to close the sale.
- **Servicing:** providing support and service before delivery and also post-sale.
- **Information gathering:** as a feedback into the marketing planning process.
- **Allocating:** power to decide how available stocks are allocated.

Structuring of seller: (Matušínská, 2007, p. 94-102)

- **Geographically:** based on geographical division. Each seller has the area where he offers all products of the company.
- **Product orientation:** based on allocation of the seller to exact product or produce range - the advantage: specialization
- **Orientation to customer:** based on the contact with selected customers. Seller offers them the whole range of products.

- **Functional specialization:** based on functions/activities - the sales are divided into several activities, the sellers are specialized to some activity.

The process of personal selling is a set of steps in set order that the retailer must perform to achieve his goal to sell. **The aim is to establish, maintain, deepen and enlarge lasting, mutually beneficial relationships.** (Matušínská, 2007, p. 95) Different authors define the sales process differently. One possible approach is to use the AIDA model applied to personal selling, see Table 11-3.

Table 11-3: Stages of a sales process

Customer reactions	Steps	Seller activity
Attention	1	Identification and estimation of potential customers
	2	The first contact with the customer Schedule preliminary testing
Interest	3	Presentation - description of product properties and their relation to customer needs
Demand	4	Product demonstration / services on site
	5	Resolve customer objections
Action/behavior	6	Closing of the transaction, the customer's statement of intent to purchase a product
	7	Aftersales activity of the seller to ensure repeat purchases, early customer loyalty, enhancing satisfaction with the purchase

Source: Přikrylová and Jahodová (2010, s. 129)

11.2.4 PUBLIC RELATIONS (PR)

“PR is purposeful and planned long-term effort towards mutual understanding and harmony between organizations and the public. At the same time it is a management function that establishes and maintains mutually beneficial relationships between organizations and various groups of the public, whose attitudes and behavior determine the success or failure of an organization.” (Pelsmacker, Geuens and Bergh, 2003, p. 301)

It is the planned and sustained effort to establish and maintain goodwill and mutual understanding between an organisation and its publics: customers, employees, shareholders, trade bodies, suppliers, government officials, and society in general. Public relations help to build a positive image, can counter bad publicity (an unpaid place in media which paid attention to some company) and can improve employee motivation. Public relations will not directly increase sales. (Blythe, 2003, p. 111) The PR managers have the task of co-ordinating all the activities that make up the public face of the organisation.

Among the basic **advantages** of public relations belongs for example: (1) good resident, (2) higher fair-mindedness, (3) communication in critical period.

And there are also, of course, some **disadvantages** of personal selling as for example: (1) poor checking, (2) influence of media, (3) difficulty of effectiveness measurement. (Matušínská, 2007, p. 105-114)

Public relations can be divided into two basic groups: internal and external PR. Usually, **external PR activities** target the external public (customers, suppliers, competition, financial institutions, media, local autonomy, professional corporations, ecological associations, general public, etc.) and use the basic tools (see Table 11-4). The purpose of **internal PR** activities is to encourage employees to take a greater interest in their own work and in the organisation´s goals. Internal PR activities use staff newsletters, training programmes and social events to convey a positive image. (Blythe, 2003, p. 108, 112)

Table 11-4: Basic tools of public relations

P	Publications	Promotional materials, firm journal, annual report, etc.
E	Events	Roadshow, fairs, ...
N	News	Press conference, press release, …
C	Community involvement activities	Sponsorship of local school, sponsorship of local football team, etc.
I	Identity media	Firm letters, staff clothing, business cards, …
L	Lobbying activity	Affecting of legislative and political decisions, …
S	Social responsibility activities	Activities of social accounting, etc.

Source: Public relations tools [online]. [cit. 2014-05-17] Available at: http://www.krcmic.cz/pencils/

CORPORATE IDENTITY AND IMAGE

Corporate identity is the outward manifestation of the organisation, a visual means of identification. It includes the corporate logo (the symbol that the organisation uses on all its points of public contact), but it also includes the style used on its letterheads and corporate publications, interior and exterior design of buildings, staff uniforms and fleet, and packaging and products.

Corporate image is the rating of the company by external and internal public. Corporate image can arise in these four sections:

- Quality of products and other services.
- Social accounting, participation in public life etc.
- Physical evidence (factories, shops, offices).
- Marketing communication (advertising, events, annual reports, promotional materials).

PUBLICITY

The concepts of PR and publicity are often seen as synonymous, but it is not true, because publicity is only a part of PR, it is the way how the company is presented in the form of unpaid reports in the mass media. Generally, publicity includes any spontaneous, unaffected attention of journalists and media enterprise, of course, even the unwanted (especially in the period of crisis communication).

Publicity can be obtained through written press releases and articles for newspapers or in the form of video and digital printed packages. Another option is getting publicity through press conferences, receptions and tours for journalists, media events, public utterances, interviews and conferences, lectures, seminars and TV debates. Other tools that can be used to raise the profile of the company are for example: sponsorship, exhibitions, corporate identity, advertising, sales promotion, and personal letters. Positive editorial comments are usually the result of carefully maintained relations with the media. It is also important to focus on what the media and journalists really need and give them this information. An interesting observation is that most of the articles or advertising spots, which were aired in TV, were not written by the journalists themselves, but many of them have been created by experts in the field of PR. The work of editors depends on a constant influx of professionally presented press releases and reports from the organizations, as the editors do not have time to search for all events, from which their news feed is composed. (Smith, 2000)

LOBBYING

Lobbying is currently very topical method of public relations, which has a long tradition. Use of lobbying does not impact only the sphere of public affairs, but is increasingly becoming a part of economic life. The essence of lobbying is that through communication, with the use of social - psychological methods, it deals with the interests of subjects, where both parties come to a conclusion of harmony and mutual understanding of the subject of lobbying. Lobbying is characterized mainly by the technique of individual action. Lobbying is done by the lobbyists. They are trying to communicate (lobbying) with people who through their competence may influence the development or decision of public interest. (Svoboda, 2009)

EVENT MARKETING

The inclusion of event marketing to new trends in marketing communications is questionable, because various authors often rank it as part of advertising or public relations. In recent years, however, we can observe a shift in the understanding of event marketing to a completely new stage, sometimes referred to as event marketing 2.0. Event marketing makes customers see brand, company or product in touch with their interests and lives. The company is able to acquire new customers and build mutual relationship with the existing customers thanks to emotions. The target groups can be customers B2C, customers B2B, employees. Concerts, sports events, roadshows, the open-doors etc. - it is the right way how to do it. (Matušínská, 2007, p. 197)

New trends penetrate this type of marketing primarily thanks to the development of new technologies, such as smart phones, mobile phones equipped with cameras, text and Internet messages. Through these technologies, consumers can participate actively and involve themselves in the program, have the option of different polls, or be photographed and then contacted via email with the photo. We can notice the increasing popularity of roadshows in the parking lots of supermarkets, or on the occasion of the opening of new shopping centres, etc. (Frey, 2011)

CORPORATE SOCIAL RESPONSIBILITY (CSR)

It is the way how to build reputation without resorting to image-based advertising – to publicise the good things the firm is doing. Many firms chose to support a worthwhile cause, often a charitable cause, so that the organisation is perceived as a good corporate citizen and or socially responsible. This can take the form of sponsorship or a simple philanthropic donation. If this is communicated in an altruistic way, consumers are less likely to be sceptical about the firm´s motives. According to Ang (2015, p. 245) such initiatives form a domain known as "corporate social responsibility", and examples if CSR include:

- Community services (support for health programs and education).
- Social inclusion program (support of people with disabilities).
- Employee help (support for the personal development of employees).
- Environmental responsibility (enforcing pollution controls).
- Quality-enhancement activities (ensuring safety in products).

- Ethical overseas operations (support for fair labour practice).

11.2.5 DIRECT MARKETING (DM)

Direct marketing is a decision by a company´s marketers to select a marketing channel that avoids dependence on marketing channel intermediaries, and to focus marketing communications activity on promotional mix ingredients that contact directly targeted customers. Direct marketing especially relies on accurate, detailed information about individuals. (Dibb and Simkin, 2004, p. 137,186) *"Direct marketing is an interactive system of marketing which uses one or more advertising media to create a measurable response and/or transaction at any location."* (American Direct Marketing Association) (Dibb and Simkin, 2004, p. 166)

Among the basic **advantages** of direct marketing belongs for example: (1) it does not use mass media. It uses especially addressable media, (2) it communicates with consumers as individuals, (3) it is interactive, meaning, that consumers respond directly (and measurably) to direct communications, (4) it is effective because the communications are targeted only to those individuals who are likely to be interested in the offering, (5) it helps creating of database of customers ⇨ CRM (Database marketing). (Matušínská, 2007, p. 115-116)

And there are also, of course, some **disadvantages** of direct marketing as for example: (1) junk mails - SPAM, (2) invasion of privacy, (3) abuse of confidence, (4) the companies must respect legal rules. (Matušínská, 2007, p. 115-116)

Direct marketing is efficient in the market B2B (very effective) as well as in the market B2C (typical application in: financial and telecommunication services, tourism, cosmetic products, car producers etc.)

We can distinguish two basic forms of DM: active and passive. **Active DM:** the marketer (company) addresses the commercial message to customers as the first. **Passive DM:** customers ask for the product or information as the first. (Matušínská, 2007, p. 115)

MEDIA AND TOOLS OF DIRECT MARKETING

The media used for direct marketing fall into two main categories: **addressable media,** which can be directed to the individuals (Personal selling, Telemarketing, Direct mail, Catalogues and New interactive media) and **unaddressable media**, which require a response from the prospective customer (Teletext, Direct response radio, Direct response television, direct response press and unaddressable distribution).

MOBILE MARKETING

It is the one of the direct marketing methods. Mobile marketing can refer to one of two categories of interest. First, and relatively new, is meant to describe marketing on or with a mobile device, such as a cell phone using SMS, MMs or WEB Marketing. Typical characteristics of this type of mobile marketing are mobile, anytime, globally, integrated and customized (MAGIC). Second, and a more traditional definition, is meant to describe marketing in a moving fashion - for example - technology road shows or moving billboards.

Although there are various definitions for the concept of mobile marketing, no commonly accepted definition exists. "Mobile marketing is broadly defined as the use of the mobile medium as a means of marketing communication or distribution of any kind of promotional or advertising messages to customer through wireless networks." More specific definition is the following: "using interactive wireless media to provide customers with time and location sensitive, personalized information that promotes goods, services and ideas, thereby generating value for all stakeholders".

Rapidly evolving mobile marketing uses many different tools (Přikrylová and Jahodová 2010, p. 261-262) as for example: advergaming, cell broadcasting, location-based marketing, two-way SMS communication, SMS advertising, advertising MMS, SMS competitions and QR codes.

11.2.6 SPONSORSHIP

Sponsorship is used by many businesses to increase awareness of their brands or to persuade the target audience to think more positively about the organization and/or its products. There are examples of organizations that are truly philanthropic, expecting no benefits from donations or sponsorship arrangements, but in general sponsorship is a commercial arrangement.

"Sponsorship is a commercial relationship between the provider of finance - resources, or services, and individual - events or organizations that in turn provide opportunities that can be commercially exploited. It is a thematic communication tool, when sponsor helps the sponsored subject to carry out his/her project and the sponsored subject helps to fulfill sponsor´s communication objectives." (Přikrylová and Jahodová, 2010, p. 130)

When selecting a sponsorship partnership, it is essential that both parties are at ease with each other´s standing and that the target audience would not be surprised or alienated by the choice of partner. This relation is known as the **sponsorship fit.** Therefore the company should carefully analyze the common association of the brand and the sponsored event or institution. (Karlíček and Král, 2011, p. 143) For example, a product for the higher income demographic group will be supported by the sponsorship of tennis, golf or art, while sponsorship of popular music festivals is typical of products for young people.

The arts, sports television programmes, medical services and education facilities are sponsored. Sponsorships is a spin-off own specialist consultants and advisers.

It is essential when selecting a sponsorship partner that a marketer identifies a recipient with which his or her target market customers have a positive affinity. Reputable partnerships are crucial: if the image of one partner is tarnished, the fall out will impact detrimentally on the other partner(s).

Sponsors seek the benefits of media coverage and exposure for the activity being sponsored. In some cases, this overcomes advertising restrictions and ensures the target audience is still exposed to the brand. The second principal benefit is internal: marketers and senior managers hope external sponsorship and image boosting will improve employee morale. (Dibb and Simkin, 2007)

AMBUSH MARKETING (GUERRILLA SPONSORSHIP)

Occasionally a competitor will try to divert the audience´s attention to itself by implying that it is sponsoring the event. It is called ambushing. Ambush marketing, a term first coined by marketing guru Jerry Welsh, has not really been rigorously defined. However, it broadly refers to a situation in which a company or product seeks to ride on the publicity value of a major event without having contributed to the financing of the event through sponsorship. It is typically targeted at major sporting events - like the Olympic Games or the world cups in various games - and is a strategy adopted by rivals of the official sponsors. What forms does ambush marketing typically take? In its more crude forms, ambush marketing could involve unauthorised use of logos or designs associated with the event. More often, however, ambush marketing involves more subtle forms of confusing or misleading the public about who are actually sponsoring the event.[21] For example, during the 1998 soccer World Cup it was common

[21] Ambush marketing [online]. [cit. 2014-04-25]. Available at: http://economictimes.indiatimes.com/definition/ambush-marketing

for firms to use World Cup events in their advertising or sales promotions without actually sponsoring anything to do with the event itself. (Blythe, 2003, p. 122) An example can be also the classic 1984 ambush by Kodak when it sponsored the ABC TV coverage despite Fuji being the official Olympics sponsor. In 1988 Kodak was the official Olympics sponsor while Fuji sponsored the US swimming team. (Smith and Zook, 2012)

11.2.7 ON-LINE MARKETING COMMUNICATION

Online marketing communication refers to a set of powerful tools and methodologies used for promoting products and services through the Internet. Online marketing communication includes a wider range of marketing elements than traditional business marketing due to the extra channels and marketing mechanisms available on the Internet. Online marketing has outsold traditional advertising in recent years and continues to be a high-growth industry. Online marketing communication is also known as Internet marketing, Web marketing, digital marketing and search engine marketing (SEM).[22]

- Online marketing communication can deliver several benefits such as:
- Growth in potential.
- Reduced expenses.
- Elegant communications.
- Better control.
- Improved customer service.
- Competitive advantage.

The broad online marketing spectrum varies according to business requirements. Effective online marketing programs leverage consumer data and customer relationship management systems. Online marketing communication has several advantages, including:[23]

- **Low costs:** Large audiences are reachable at a fraction of traditional advertising budgets, allowing businesses to create appealing consumer ads.
- **Flexibility and convenience:** Consumers may research and purchase products and services at their leisure.
- **Analytics:** Efficient statistical results are facilitated without extra costs.
- **Multiple options:** Advertising tools include pay-per-click advertising, email marketing and local search integration (like Google Maps).
- **Demographic targeting:** Consumers can be demographically targeted much more effectively in an online rather than an offline process.

Communication on the Internet can have various forms – forms such as websites, electronic advertising letters, banners, PR articles, paid links and other formats. Many of the above mentioned issues can be included into other elements of the marketing communication mix. Therefore, for our purposes, we will include into this marketing communication element **websites and social media.**

[22] Online marketing [online]. [cit. 2019-01-28]. Available at http://www.techopedia.com/definition/26363/online-marketing

[23] Online marketing [online]. [cit. 2019-01-28]. Available at http://www.techopedia.com/definition/26363/online-marketing

WEBSITES

The websites of the company could be considered as a tool of direct marketing because they allow direct sales, they are interactive, they can customize the content and form according to the individual needs and because there is a very good measuring of their effectiveness. It is also possible to identify the websites as a tool of public relations because they enable communication with key groups, such as employees, potential employees, journalists, partners or customers. Websites, however, are also an advertising tool because they are used primarily to enhance the brand image. Indeed, they are also an instrument of sales promotion, because it is possible through websites to hand out online coupons, organize marketing competitions, etc. (Král and Karlíček, 2011)

Among the principles of website presentation according to Král and Karlíček (2011, p. 182) belong these instructions:

- Before creating websites is necessary to determine their primary function and target group.
- Websites must offer attractive and actual content to the target group.
- The content of the websites should be convincing and meet the stated objective.
- The websites should be optimized for Internet search engines.
- The websites should be user-friendly, i.e. clear, logical, accessible and intuitive.
- The websites should have aesthetic graphic design that matches the brand positioning.

The **microsites** are a special type of company presentation on the Internet. This is a website focused on smaller-scale presentation of selected, usually narrow category of products, promotions or events. They usually have a different goal, graphics and Internet address than the company overall websites. The microsites often represent the support of complex communication campaigns. It is highly effective in practice to connect microsites with the contest or interactive game (advergaming).

SOCIAL MEDIA

The social media is the biggest change since the industrial revolution. Online social media can be defined as an open interactive online applications that support the formation of informal user networks. Users create and share in these networks, a variety of content, such as personal experience, innovations sharing, experiences, opinions, videos, music or photos. (Karlíček and Král, 2011, p. 182)

Social media are a group of Internet based applications that build on the ideological and technological foundations of Web 2.0 and that allow the creation and exchange of User Generated Content. In other words social media refer to a broad range of web based applications and social networking sites are one of the many applications that are available. Others include weblogs, content communities (e.g. You Tube), collaborative projects (e.g. Wikipedia), virtual game worlds (e.g. World of Warcraft) and virtual social worlds (e.g. Second Life). (Fill, 2011, p. 364)

Terminology and division of online social media is very confusing and inconsistent. According to Karlíček and Král (2011, p. 182) the following groups of social media can be defined:

- Social networks (Facebook, My Space, LinkedIn, etc.).
- Blogs (significant source of online WoM).
- Discussion forums (discussion of certain product categories - travel or automotive).

- Other online community (e.g. community focused on videos sharing - YouTube, photo sharing - Tomato, games sharing - FarmVille, etc.). Online communities are mainly used by companies to spread viral marketing messages.

Principles of online social media (Karlíček and Král, 2011, p. 189):

- Attractive content.
- Content must be in accordance with the communication objectives of the company.
- Content should cause viral spread.
- Content should always be "nourished".
- The company should communicate with the users in active, interactive and credible way.

11.3 SELECTED ALTERNATIVE FORMS OF MARKETING COMMUNICATION

New trends are shaping marketing communications in the twenty-first century. Advances in communications technology, increased interaction between buyer and producer and increasing integration of marketing communications will all lead to changes in both the level and the impact of communications.

11.3.1 GUERRILLA MARKETING

Guerrilla marketing focuses on low cost creative strategies of marketing. Basic requirements are time, energy, and imagination and not money. Profits, not sales, are the primary measure of success. Emphasis is on retaining existing customers then acquiring new ones. (Matušínská and Stoklasa, 2014)

Guerrilla marketing involves unusual approaches such as intercept encounters in public places, street giveaways of products, PR stunts, or any unconventional marketing intended to get maximum results from minimal resources. More innovative approaches to Guerrilla marketing now utilize mobile digital technologies to engage the consumer and create a memorable brand experience.

The best known and most widely used definition is the definition by Jay Conrad Levinson (2011, p. 6): guerrilla marketing is an unconventional marketing campaign designed to achieve maximum effect with minimum resources. As a main principle Levinson argues that the biggest investment is not money, but time, energy and imagination. In practice, this means that the ultimate cost of the campaign is the time spent on the idea how to impress or attract customers. Therefore, we can say that guerrilla marketing is not about money, but about the idea.

Ambient marketing uses to promote a company so-called ambient media, which are everyday objects from around the consumer used in a new and interesting way to communicate a message. It aims to promote products in an unconventional way, in order to shock and attract the immediate attention of a random person, the potential consumer. The target group is mainly the younger age groups, which are more likely to spread the advertising message further among their peers. Therefore, it occurs most often in discos, bars, toilets, universities, theatres, etc. The basic ingredients of this format include humour and fun. (Patalas, 2009)

Ambush marketing is a form of communication utilizing mass social events and actions to parasitize on competition. One firm is the main sponsor of the event and spends hundreds of millions of crowns on the promotion, the competitive company is trying to promote its name for the same event without paying any sponsorship fees. Most often we meet with this form of marketing for major events that attract millions of people from all over the world such as the World Championships or Olympic Games. (Patalas, 2009)

Astroturfing is marketing, respectively PR activity, which aims to persuade opinion leaders about public attitudes to a particular topic, so for example, the editors of periodicals inundate letters and emails from "readers", which are in actuality written by only a few PR experts who create fictitious names and accounts. The concept of astroturfing, referred to as the guerrilla PR, originated from the name of artificial turf, which is used in sports arenas and gives the impression of a real thick grass. Astroturfing specialists are also trying to promote services, products, etc., by means of commercial communication, posing as a natural response of customers – positive or negative customer comments in the discussion forums, false assessment in web surveys, etc., and thus influence the opinion of ordinary readers.

Mosquito marketing is GM performed purely by small firms, which are with all the marketing tools trying to be annoying for large firms (as annoying as mosquito).

Sensation marketing is a form of GM, which is trying to create a sensation for the customers. It tries to use crazy resources (broken car in the middle of a busy road, appointed crowd of demonstrators, etc.) to produce a large media response and subsequent acknowledgment that the event was recorded and it is to promote a particular product or company.

Undercover marketing is a hidden form of marketing in which the information recipient may not recognize that this is a promotion and it influenced him. The carriers of advertising are mostly celebrities paid to use the product in public. The customer is affected by this and spreads the information to his friends, because this form is natural for him and sees it as a fact. Most important thing is, however, that this marketing action remains undetected. If this happens, companies usually face a negative advertising because of the feeling of deception and manipulation of the consumer. (Patalas, 2009)

Wild posting is characterized by the placement of a large number of posters at a single concreting place, which aims to attract maximum attention. Wild posting is a relatively inexpensive form of guerrilla marketing. (Rajčák, 2013)

11.3.2 VIRAL MARKETING

Viral marketing, viral advertising, or marketing buzz are buzzwords referring to marketing techniques that use pre-existing social networks to produce increases in brand awareness or to achieve other marketing objectives (such as product sales) through self-replicating viral processes, analogous to the spread of viruses or computer viruses. It can be delivered by word of mouth or enhanced by the network effects of the Internet. Viral marketing may take the form of video clips, interactive Flash games, advergames, ebooks, brandable software, images, or text messages.

The ultimate goal of marketers interested in creating successful viral marketing programs is to create viral messages that appeal to individuals with high social networking potential (SNP) and that have a high probability of being presented and spread by these individuals and their competitors in their communications with others in a short period of time.

Advantages of viral marketing are low costs, quick spread of information, high efficiency of targeting. And on the other hand, there is a crucial disadvantage such as loss of information control which are spread among people. (Matušínská and Stoklasa, 2012)

11.3.3 PRODUCT PLACEMENT

Product placement is a form of advertisement, where branded goods or services are placed in a context usually devoid of ads, such as movies, music videos, the story line of television shows, or news programs. Quality product placement puts the product in a positive context and shows that the use of a product is a normal part of life of the hero of the film. Although in our film distribution product placement picks up slowly, we expect the significant development of a stronger interconnection with other promotional activities. (Frey, 2008, p. 123)

Product placement has been applied for decades in the foreign film industry. It was first implemented with greater success in the film ET the Extra-Terrestrial, where the main character (alien) promoted candies Reese's, which sales increased by 65 % after the film was aired. For some industries, product placement is particularly successful, such as the automotive industry (film series with an agent James Bond - Aston Martin, BMW, and Ford), the beverage industry (Coca Cola products in TV talent shows) and high-tech electronics (Apple products in many films and TV series, and newly competitive products with Microsoft's introduction of Windows 8). (Frey, 2011, p. 131)

11.3.4 CONTENT MARKETING

Content marketing is the process of using different types of content, such as commentary, reports, blogs, videos, slides, and methodologies in different formats, either to build the brand or to attract, acquire, or engage target audiences. Content marketing is often described as pull marketing – the opposite of push marketing. It is based on the principle that buyers will ultimately reward companies for sharing relevant content with them in a timely and accurate way without interruption or annoyance and with their permission. Engagement of the target audience is usually the first stage of the process of content marketing. The sharing and endorsing of content within an organization´s own networks is a further advantage. The ultimate stage of the process is if the target becomes a lead as a result of engagement with the content. (Doyle, 2016, p. 1333-134)

Content marketing can be used by small organizations and large companies. With so many different tactics, businesses of all sizes can tailor a mix that works for their product, their audience and the resources they have available. For example, creating high-quality blog content is an excellent way to provide resources for audience and make them more intelligent. But just publishing the post on website won't get the ROI company is looking for. That content can featured in a monthly newsletter, promoted on social media pages, or perhaps be repurposed into an infographic to be more visual and encourage more social shares.

Content marketing comes in three basic forms – long-form, short-form, and conversations. The forms of content marketing are constantly changing as new tools to create, publish and share that content are launched and others are shut down. Enhancements and new functionality are added to content publishing tools every day, which means the tools company is using to create, publish, and share content today might not be the tools company is using tomorrow. (U.S. Chamber of Commerce, 2016, p. 238-245)

Long-form content marketing includes all published content that is longer than a few sentences and that offers deep value, such as blog posts, articles, ebooks, press releases, white papers, presentations, videos, podcasts, webinars, and so on. **Short-form content marketing** includes all published content with no more than a few sentences and that communicates useful information, such as Twitter updates, Facebook updates, LinkedIn updates, images, and so on. **Conversations and sharing content marketing** can happen through conversations about published content ad through the sharing of published content, such as blog comments, forum comments, Twitter updates, link sharing via social bookmarking, comments on videos and images, and so on.

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 11. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. **AIDA is acronym used in marketing communication (advertising) which represents:**
   a) Attention, interest, desire, action
   b) Advertising, interest, desire, action
   c) Attention, interest, demand, action

2. **WoM (Word of Mouth) is usually used in marketing communication practice describing the situation when:**
   a) People are paid to create and to spread positive communication about products, brands, firms, etc.
   b) People are ready to buy the products thanks to the advertising.
   c) People generally create informal, unplanned, unsolicited, interactive and bidirectional conversations about products, brands, firms, etc.

3. **Among elements of marketing communication mix does not belong:**
   a) Sales promotion
   b) Merchandising
   c) Direct marketing

4. **ATL marketing communication includes:**
   a) Sales promotion, sponsorship, direct marketing, new trends
   b) Advertising
   c) Online marketing communication, logistics

5. **Marketing smog can be interpreted as:**
   a) A negative aspect of contemporary marketing communication - too many annoying commercial messages in various media and places.
   b) A negative aspect of contemporary marketing communication – too many sexual symbols in advertising.
   c) A negative aspect of contemporary marketing communication – too many investments into advertising by companies while the money could be used for social purposes.

CORRECT ANSWERS

1a, 2c, 3b, 4a, 5a

12 MARKETING APPLICATIONS

Last chapter of this study material belongs to two marketing concept applications. First is Rolex case study adapted from Jobber and Fahy (2015) and the second is the case of Dilmah Tea from Sharp (2013). We highly recommend to all who are interested in marketing to further read both studies presented here as well as the books from the list of literature. Throughout both case studies you will encounter all the terms, strategies and thinking presented in the previous chapters, ranging from premium pricing to conducting market analysis.

12.1 ROLEX: THE SYMBOL OF PERSONAL ACHIEVEMENT

Luxury brands are often associated with the core competences of creativity, exclusivity, craftsmanship, precision, high quality, innovation and premium pricing. Rolex, the leading name in luxury wristwatches, has been viewed as a symbol for prestige and performance for over a century. The crown logo of the Rolex brand symbolizes the superiority of the product and the sense of personal achievement associated with wearing a Rolex. Rolex was placed top on the list of Super brands in 2013 for a second consecutive year. This consumer survey rates leading products based on reputation, quality, reliability and distinction of offerings, based on the emotional and functional benefits they provide when compared with competitors. Rolex has maintained its position as a market leader in the luxury watch market by engaging in a very successful segmentation, target marketing and positioning strategy. However, this strategy presents a new challenge to Rolex, as it faces the difficult task of becoming the watch choice of a generation of younger consumers.

HISTORY

Rolex was founded in 1905 by German, Hans Wilsdorf and Alfred Davis. Wilsdorf and Davis was the original name of what later became the Rolex Watch Company. Hans Wilsdorf registered the trademark name 'Rolex' in Switzerland in 1908. The name Rolex was conceived as it was easy to pronounce in every language and short enough to figure on the dial of the watch. At that time, Swiss workshops produced mostly pocket watches as it was Still difficult to manufacture small enough movements that could be used in a wristwatch. In 1910, a Rolex watch was the first wristwatch in the world to receive the Swiss Certificate of Precision, granted by the Official Watch Rating Centre in Bienne. In 1914, Kew Observatory in Great Britain awarded a Rolex wristwatch a class 'A' precision certificate which until that point had been reserved exclusively for marine chronometers. This led to Rolex watches becoming synonymous with precision. Wilsdorf later relocated Rolex to Geneva in 1919. In 1926, Rolex took a major step towards developing the world’s first waterproof wristwatch named the Oyster. The Oyster watch featured a sealed case providing optimal protection. The following year the Oyster was worn by Mercedes Gleitze, a young English swimmer Who swam the English Channel. The watch remained in perfect working order after the 10-hour swim. This gave rise to the use of testimonials by Rolex to convey the superiority of the brand In 1931, Rolex invented the world’s first winding mechanism with a perpetual rotor. This system remains at the origin of every modern automatic watch In the early 1950s, Rolex developed professional watches whose function went beyond that of simply telling time The Submariner, launched in 1953, was the first watch guaranteed waterproof to a depth of 100 meters. In the same year, the expedition led by Sir Edmund Hillary, equipped with the Oyster Perpetual, become the first to reach the summit of Mount Everest.

Before his death in 1960, Hans Wiĺsdorf created a private Trust run by the board of directors to ensure the company could Never be sold. Today, Rolex is the largest single luxury watch with revenues of around billion in 2013 production of between 650,000 and 800,000 watches. Rolex has reminded independent even as many major competitors have sought the shelter of conglomerates. Rolex currently has 28 affiliates worldwide and maintains a network of 4 000 watchmakers in over 100 countries. _According to Forbes (2013), Rolex has an estimated brand value of $7.11 billion.

THE WATCH INDUSTRY

The world of luxury is not just exclusive, it is highly secretive too, Several of the large luxury brands are privately held, like Rolex, and therefore are not required to report annual or quarterly results. Many publicly listed companies (e.g. Louis Vuitton and Gucci) are part of much bigger companies which makes assessing the individual performance of these brands difficult to do with any accuracy. Many brands have responded to competition by merging into conglomerates focused on vertical integration. LVMH Moët Hennessy Louis Vuitton, the world's largest luxury goods company, includes watch brands such as Tag Heuer, Zenith and Dior Watches. Compagnie Financiére Richemont, the world's third largest luxury goods maker, owns watch brands such as Cartier, Baume and Mercier, Piaget, Jaeger-LeCoultre, and Officine Panerai. Well-known brands Movado, Patek Philippe and Breitling remain essentially independent, In terms of watches, Switzerland possesses Close to 100 per cent of the luxury market value which represents 1-18 per cent of the watch market value.

RECENT TRENDS IN THE LUXURY MARKET

Exports of Swiss watches dropped 22 per cent in 2009 which represents the biggest drop since the Great Depression. However, the 2009 crisis proved short-lived. As early as the following year, the watch industry returned to its growth trajectory at lightning speed. Double-digit growth rates were recorded in 2010,2011 and 2012 (+22.2 percent, 19.4 percent and 11.0 percent respectively) despite the strength of Swiss franc and the Euro crisis. In 2012, watch exports reached a record value of CHF 21.4 billion. Global interest for luxury watches grew +3.3 per cent. Led by BRIC markets (+33.0 per cent). The three largest markets were China (25.6 per cent market share), the United States (19.5 per cent market share) and the United Kingdom (8.6 per cent market share). Global demand growth was fueled by BRIC markets with the highest year-to-year increases in China (+36 per cent), Brazil (+29.4 per cent), Russia (+28.5 per cent) and India (+19.7 per cent). Early signs of demand decline were seen mostly in developed, mature, Western markets. The United States decreased by -116 per cent and Europe by —8.3 per cent, Rolex continues to lead the global ranking thanks to number one spots in mostly developed, mature markets (the USA, India, Europe and the Middle East). Omega's continuing leadership in large, strongly developing markets (China, Brazil, Russia, Japan, Asia Pacific, Latin America) has helped it slowly but surely gain ground on industry leader Rolex, with the gap between the two expected to Close further.

IMPORTANCE OF EMERGING MARKETS

In particular, the Swiss watch industry owes its success to its foresight in actively targeting growth in the emerging markets. By far the biggest contribution to the growth of Swiss watch exports over the past decade has come from Asia. In overall terms, the Asian countries were responsible for around 70 per cent of the rise in exports from 2000-12. In 2000, Swiss exports of small watches to China amounted to just CHF 16.8 million. Since then, the value of annual exports has multiplied by a factor of 97 and totaled CHF I.6 billion in 2012. After many years of spectacular growth, Swiss exports of small watches to China began to fall abruptly in the middle of 2012. Reasons include anti-corruption measures and restrictions on advertising, as well as slower economic growth in China. On account of further improvements in people's living standards and the dismantling of trade barriers (under the free trade agreement), China is likely to continue growing as an export destination. Similarly, due to rising incomes and growing prosperity, Other emerging markets such as Vietnam, India, Russia, Ukraine, Malaysia, South Korea and Mexico Will offer substantial growth opportunities for the watch industry over the next few years. Brazil, South Africa and Turkey also offer opportunities. Whether Rolex can indeed exploit the potential that exists in these emerging markets remains to be seen due to a number of potential challenges.

CHALLENGES FOR ROLEX

Rolex faces a number of significant challenges, in the luxury market which will be outlined below

Over-dependence on current target market

This represents the greatest challenge for Rolex. Rolex is faced with building relevance among a younger audience, A new generation of affluent consumers is needed to generate a vital source of business in both established and emerging markets. Unfortunately, many younger consumers see Rolex as an older status symbol and not a contemporary icon of achievement. A large majority view Rolex as the watch choice of their predecessors and parents. The average Rolex customer is 45+ and Rolex now needs to build interest, relevance and aspiration among consumers in their 30s and younger, in order to drive long-term growth. Rolex is in jeopardy of being seen as an older symbol of personal wealth, instead of a crowning symbol of timeless human achievement. Similarly, Rolex has been characterized as having a more 'male' identity and the brand still sells the majority of its watches to men. The opportunity of increasing its presence in the female segment has been identified as an area for development, but the company still appears to have difficulty in attracting new female customers. The positioning strategy that has been so successful for Rolex is in danger of isolating o new generation of consumers. Rolex faces o similar challenge of exploiting its target market in new emerging markets.

Counterfeit

Like many high-priced, brand-name accessories, Rolex watches are among the most counterfeited brands of watches, illegally sold on the street and on the Internet. According to the FH Federation of the Swiss watch industry - counterfeit causes damage of CHF 800 billion to Swiss watchmakers. These fake watches are mainly produced in China due to the ease in copying the general design (EU figures show that 54 per cent of fakes seized in 2004 originated in China) and retail anywhere from $5 upwards to $1000 for high end replicas fabricated in gold. It is estimated that over 75 per cent of all replica watches produced annually are copies of Rolex Oyster Perpetual designs. It is widely accepted that the number of counterfeits on the market is larger than the number of original pieces. This figure serves as proof of the brands aspirational quality.

ROLEX POSITIONING

Distribution

Rolex maintains its positioning strategy by limiting production, even as demand increases. For luxury goods, scarcity in the marketplace can influence value, spur demand and contribute to long-term appreciation. Rolex also ensures that its watches are sold only in designated stores. The Crystal prism that indicates a store is an Official Rolex Dealer is highly prized. Rolex seeks dealers with a high-end image, relatively large Stores, and attractive locations that can provide outstanding service. Maintaining this standard is not always easy. Rolex previously had a dispute with Tiffany because the retailer was imprinting its name on the Rolex watches it sold. When Tiffany refused to stop, Rolex dropped Tiffany as an official retailer. Similarly, in the 1990s, as port of on effort to control sales of their goods in the grey market, Rolex cancelled agreements with 100 dealers. More recently Rolex fought o lengthy court battle with online retailer eBay seeking an injunction to prevent the sale of Rolex- branded watches by the online auctioneer. The Supreme Court stated in its decision that eBay must take preventative measures to ensure that no counterfeit goods are sold under the pretence of being authentic Rolex watches.

Branding

Rolex has also focused on maintaining the purity of its brand image. Many luxury-goods makers have used their original product as a springboard for brand extensions (e,g. Cartier and Mont Blanc) while Others have licensed their brand to other manufacturers. Rolex has, so far, not diversified into the production of parallel products. However, Rolex did launch the Tudor brand, aimed at competing with Tag Heuer and other competitors within the accessible luxury market. For example, the price tag on a typical Rolex started at $2,000 and could go as high as $180,000 whereas a Tudor watch ranges from $850 to 9-1,000. There is no direct reference to the Tudor brand on the official Rolex website and as it is owned by Rolex, no financial information is made available to the public. The clear distinction between both brands has prevented any dilution of the value of the Rolex brand in the luxury market. However, the launch of Tudor in this market segment has contributed to Rolex being ineffective at reaching a younger market.

Communications

Rolex uses a number of marketing communication tools to effectively convey its positioning strategy. Print advertising in upmarket publications such as the Financial Times and Vogue remain popular. Sponsorship and testimonials remain central to Rolex marketing communications. Rolex aims to select people who have achieved something so that Rolex can reinforce the similar values of the brand. Rolex has links to the arts (Michael Bublé), motor sports (Jackie Stewart), equestrian, exploration, skiing and yachting. Rolex has had a long association with golf since 1967, when Arnold Palmer became a testimonee. Today it sponsors major events such as the US Open, Augusta Masters and the Ryder Cup and in a bid to attract a younger generation of consumers, Rolex has sponsored current players such as Ricky Fowler, Adam Scott and Martin Kaymer. Rolex remains a partner of the Wimbledon tennis tournament since 1978, with the Rolex clock synonymous with the scoreboard on Centre Court. Similarly, Rolex is robustly involved in philanthropy. It is the initiator of a mentoring programme, the Rolex Mentor and Protégé Arts Initiative, launched in 2002, as well as the Rolex Awards for Enterprise launched in 1978. Rolex also boasts almost 2.7 million Facebook users. These carefully selected methods of communication all reinforce the positioning of Rolex as a luxury brand.

CONCLUSION

In the future Rolex Will face greater competition, particularly in Asia and other emerging markets, as competitors search for new ways to gain market share. The large luxury goods conglomerates enjoy certain advantages over an independent firm like Rolex. Many have restructured operations to take advantage of Size and significantly reduce cost, enjoying synergies in advertising and marketing. The conglomerates may also be more willing to source from Asia, where labour costs are considerably lower than Switzerland. Crucially, these conglomerates also have successful brands targeted at a younger market. With an ageing target market and difficulty in attracting a younger consumer base Rolex could become a prisoner of its own strategy. The strategy has been so well defined that it would be difficult for the company to change radically or become more innovative. It might be difficult t communicate any new strategy to customers without confusing them, leaving some market opportunities unattained in the future.

12.2 DILMAH CEYLON TEA: MARKET DEVELOPMENT IN AUSTRALIA

Dilmah Pure Ceylon Tea is a popular brand in the quality end of the Australian tea market. The brand was first introduced in 1984, at a time when the Australian market was dominated by multinational and major national brands such as Lipton, Bushells, Lanchoo, Tetleys, Harris and Twinings, and the barriers to new entry were very high. Sri Lanka was formerly called Ceylon, the country's name was changed to Sri Lanka in 1972, when it became a republic and tea from Sri Lanka has continued to be called 'Ceylon tea' to leverage on the high consumer awareness of the quality of the tea. The launch of Dilmah Ceylon tea was a logical undertaking, but it was challenging to revitalize the Ceylon tea market position in Australia. Ceylon tea exports from Sri Lanka to Australia were at their highest peak in the 1960s and 1970s, accounting for nearly 70 per cent of all teas imported to the country. However, the Ceylon tea market share started to decline in the early 1980s, both in terms of volume and value, and an overhaul of the Ceylon tea marketing strategy was therefore considered necessary to arrest this decline. Following extensive marketing research and market analysis, a new strategy was developed to consolidate all marketing and promotional efforts on pre-packed pure Ceylon teas imported directly from Sri Lanka. This was to ensure a clear identity for Ceylon tea as single country origin tea compared to other products, which were of mixed origins. The outcome was the launch of Dilmah Pure Ceylon Tea in Australia.

AUSTRALIAN TEA MARKET

Australia is among the largest tea-consuming countries in the world, with a per capita consumption of around 0.55 kilograms per year. Tea consumption was much higher in the 1960s, 1970s and 1980s: demographic and lifestyle changes over the years have had a major impact on tea consumption habits and consumer preferences continue to change. The greatest threat to tea came from coffee and carbonated beverages, as consumers looked for variety and convenience. The advent of teabags, green tea and herbal tea products was a direct result of the trends towards convenience and healthy lifestyles, which have had a major impact on the marketing of tea in Australia. As Table 12-1 indicates, the Australian tea market is currently dominated by two large multinational companies—Unilever and AB Food and Beverage (a subsidiary of Europe's largest food marketing companies) with a combined share of 56 per cent of the market, followed by numerous products and labels competing with each Other for the balance 44 per cent share, indicating a fragmented market. In 2010, the grocery value of tea was estimated at $294.5 million, while the total volume stood at 11,184 tons. The value of the market increased by 23 per cent, while the volume decreased by 2.1 per cent. Despite the resourceful competition from multinational companies, Dilmah was able to carve out nearly a 14 per cent share of the market in terms of value and 12 per cent in terms of volume, demonstrating a higher value for its products than most of its competitors.

Table 12-1: Australian Tea Market

Company/Brand	Value (%)	Volume (%)
Unilever	34.9	35.5
AB Food & Beverage	20.8	21.0
Dilmah	13.9	11.7
Tata global	11.5	11.5
Nerada	5.7	7.1
Madura	4.5	3.5
Private labels	2.3	3.5
Others	6.4	6.1

Source: Sharp (2013)

MARKET DEVELOPMENT STRATEGY OF DILMAH TEA

Until the late 1990s, most of the teas consumed in Australia were packed locally by major packers such as Lipton and Bushells, although a small quantity of pre-packed teas were Still imported from Sri Lanka, India and Other tea producing countries. The packers imported tea in bulk from different sources for blending and packing under their own brand names. Some of these brands were identified with the country of origin, such as Sri Lanka (Ceylon). Although Ceylon tea had a major share of the Australian market in the 1960s and 1970s, with packers using more Ceylon tea in their blends, price competition from new sources of origin such as Indonesia, Papua New Guinea and East Africa drastically affected the pre-eminent position held by Ceylon tea in the market. Moreover, the growing teabag market called for a quick infusion tea, which could be produced through a different process of manufacture called the 'cut, tear and curl (CTC)' method. At this stage all Sri Lankan tea manufacturing was based on the 'orthodox' or traditional method, which focused on the flavour and aroma of tea, while the new sources of origin specialised in CTC teas destined mainly for teabag production. As the Ceylon tea content in the blends and products of major packers declined, the share of Ceylon origin tea in the market dropped to the very low percentage of 8 per cent in 1983, compared to its 70 per cent share in the 1960s and 1970s. This was a major blow to Sri Lankan tea market in Australia and a complete overhaul of the tea marketing strategy for the Ceylon tea brand was therefore necessary.

Successful marketing strategies begin with identification of an attractive market opportunity. It is also about matching market opportunities to the organisation's resources and its objectives. Ceylon tea products were not new to the Australian market, but the challenge was to identify and develop new markets for Ceylon tea given the changes in the marketing environment. Another key challenge to the Ceylon tea concept was repositioning its image as a quality product, but this was hampered by the absence of any distinctive brand name that could be directly identified with the country of origin. The marketing research indicated that the country of origin effects on Ceylon tea products (typically communicated by the phrase 'Pure Ceylon tea packed in Sri Lanka'), has had a significant influence on the quality perception of the product among Australian consumers, Sri Lanka was considered one of the major tea-producing countries in the world, with a long history and expertise in tea production. While the consumer perception of the quality of Ceylon tea was widespread, the market research also indicated that Australian consumers had little or no access to pure Ceylon tea products, due to the declining Ceylon tea content in products marketed by major packers. This was a major opportunity for Sri Lanka to capitalise on in its future strategic planning to develop brands of its own. So it was not only a case of a pure market development exercise but also of developing a credible identity for Ceylon tea to support market development strategies. There were a number of motivating factors that favoured the entry of a Ceylon tea brand packed in Sri Lanka to be marketed in Australia:

- the cost advantages that Sri Lanka could achieve due to its low cost of production and packaging at the source
- haring the benefits of the profit margins available in the distribution chain
- the absence of any import duties or taxes for tea in Australia. All tea imports to Australia from any country of origin were exempt from import duties or taxes.

The Sri Lanka Tea Promotion Bureau (a Sri Lankan government entity) in Melbourne, Australia, initiated the new market development efforts with the support of the Sri Lanka Export Development Board (an export promotion agency funded by the government of Sri Lanka) and one of the major Ceylon tea exporters, Merrill J Fernando & co., to introduce a Sri Lankan owned brand of tea packed in Sri Lanka. The Sri Lanka Tea Promotion Bureau commissioned a number of marketing research studies supported by consumer focus groups, surveys and product sampling to evaluate the market potential for a new Sri Lankan brand of tea followed by rigorous business analysis. This resulted in the development of marketing and communication mix strategies including branding, packaging, advertising and promotion. Freshness and quality were the key attributes that were promoted to differentiate Dilmah from Other tea products in the market. The price positioning was between the mainstream retail brands such as Lipton and the imported high-priced speciality teas such as Twinings to reflect its value proposition. Dilmah was launched as a teabag product initially, but the product range was expanded on a progressive basis to cater to different segments of the market. Dilmah currently markets a Wide range of tea products, ranging from gourmet black tea, original gardens teas, green tea, decaffeinated tea, real white tea, organic tea and real Chai to a variety of herbal infusions. It has been responsible for rejuvenating the image of Ceylon tea, as well as rebuilding the trust and confidence of consumers and the tea trade that the pure Ceylon tea concept is marketable.

QUESTIONS

Now it is time to test your acquired knowledge from Chapter 12. Keep in mind that only one answer is correct! The correct answers can be found at the end of this chapter.

1. How Rolex competed with Tag Heuer?
   a) Lowering prices in countries where Tag Heuer exists.
   b) Repositioning the Rolex brand.
   c) Launching the separate Tudor brand.

2. What is Rolex doing to testify its luxurious positioning
   a) Using mass media to cover all the news relations.
   b) Portraying brand in day-to-day situations of common people.
   c) Creating the scarcity by limiting production.

3. How much of all replica watches are copies of Rolex Oyster Perpetual?
   a) 18 %
   b) 45 %
   c) 75 %

4. What was the main reason for the decline in tea consumption in Australia?
   a) Change in customer preferences
   b) Import duties
   c) Healthy lifestyle movement

5. What influence had a brand name on the quality perception of the tea products among Australians?
   a) Significant
   b) Only weak
   c) None

CORRECT ANSWERS

1c, 2c, 3c, 4a, 5a

SUMMARY

In our time, marketing is compulsory and compelling. Organizations have an overwhelming need to explain themselves, and what they stand for, to the public, their followers, their customers, and their supporters. Companies and organizations can no longer ignore marketing. In order to thrive and, in some cases, to survive, organizations and individuals simply must be proficient and accomplished in the practice of marketing. (Doyle, 2016)

The issue of marketing is very extensive. The aim of this study text was not to present an exhaustive overview of all the approaches of dynamically evolving marketing but rather to describe the basics of both consumer and business markets.

The study text were dived into well-arranged 12 chapters. The first two chapters dealt with general issues – explaining the substance, concept, functions of marketing and management of the marketing activity. The third chapter dealt with the marketing environment description and analysis. The fourth chapter explained the necessity of marketing research to ensure appropriate information for decision making process in business practice. The three following chapters were focused on the issues connected with consumer and business market. The next part of study text was dedicated to an analysis of the traditional marketing mix – in the context of the four P´s, i.e. product, price, place (distribution) and marketing communication (promotion). The overall summary of the acquired knowledge was provided by the last chapter titled Marketing applications.

Marketing is a rapidly evolving field. It is therefore necessary to update continuously the acquired knowledge from this study material thanks to self-study and search for new knowledge in this area. At the same time, the area of marketing represents a great opinion diversity, when many marketing issues are not clearly or conclusively defined and can be the subject of mutual discussions.

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