



Part 1

Marketing Management

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Marketing Management: An Overview

DEFINITION

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

OBJECTIVES

The overall objective of marketing is to ensure that the company obtains the revenues it needs to achieve its profit targets.

As defined by Kotler,¹ marketing management is: 'The analysis, planning, implementation, and control of programs designed to create, build, and maintain beneficial exchanges and relationships with target markets for the purpose of achieving organisational objectives.' According to Theodore Levitt:² 'The purpose of a business is to get and keep a customer.' Marketing aims to decide what companies should do to achieve that purpose and then to ensure that it is done.

THE MARKETING CONCEPT

‘The marketing concept holds that the key to achieving organisational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors’ (Kotler). The target market is defined as the set of actual and potential buyers of a product.

Kotler distinguishes the marketing concept from the following:

- *The product concept*, which holds that consumers will favour those products that are available and highly affordable, and therefore management should concentrate on improving production and distribution efficiency.
- *The product concept*, which holds that consumers will favour those products that offer the most quality, performance and features, and therefore the organization should devote its energy to making continuous product improvements.
- *The selling concept*, which holds that consumers will not buy enough of the organization’s products unless the organization undertakes a substantial selling and promotional effort.

The limitations of these concepts are obvious. While not dismissing the importance of production quality and product innovation, the danger of being production orientated is that products are handed over to the sales force to sell without any consideration being given to these fundamental truths: ‘Consumption is the sole end purpose of all production; and the interest of the producer ought to be attended to only in so far as it may be necessary for promoting that of the consumer’ (Adam Smith, *The Wealth of Nations*, 1776). ‘The customer is the only arbiter of quality – and an improvement the customer cannot understand or doesn’t want is no kind of improvement at all’ (Willsmer).³ However desirable the merits of the product, they are never desirable at any price (Heller).⁴ The danger of being sales orientated is the pursuit of volume rather than profit. And, as Levitt⁵ wrote: ‘Selling focuses on the needs of the seller: marketing on the needs of the buyer. Selling is preoccupied with the seller’s need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it.’

THE MARKETING MIX

The main elements that a company can manage to its advantage for marketing purposes comprise the ‘marketing mix’. The four Ps in the marketing mix are:

- *Product* – what is sold.
- *Place* – the medium through which goods or services reach customers.
- *Price* – what goods or services are sold for. (See Chapter 4.)
- *Promotion* – how goods and services are promoted to customers through communication and by other means. (See Chapter 8.)

The other key marketing elements associated with the concept of marketing mix are:

- *Target marketing* – the process of aiming marketing efforts to meet more precisely the needs and wants of customers.
- *Segmentation* – the breakdown of customers into segments that will respond to more precisely targeted marketing mixes.
- *Positioning* – distinguishing a brand from its competitors so that it becomes the preferred brand in defined market segments.

These three elements are discussed more fully in Chapters 5, 6 and 7.

ANALYSIS, RESEARCH AND PLANNING

Marketing is an analytical process based on product life cycle analysis (Chapter 3), the use of marketing information (Chapter 10), buyer behaviour analysis (Chapter 11) and various forms of market research (Chapters 12–14), and leading to systematic planning (see Chapters 17–19). The analysis will rely on information from marketing research and also from the data in marketing information systems (see Chapter 10). It will also be concerned generally with the external environment, using techniques such as ‘PEST’ analysis covering:

- *Political* factors that might impinge on the operation of a business. Typical factors are: privatization, international events, trading practices, monopolies and mergers legislation, levels of public spending and controls on advertising. Marketing has to be aware of these macro-environmental factors even though it has little control over them.
- *Economic* factors, including economic growth, income levels, interest rates, exchange rates, balance of payment levels, employment percentages, credit policies, income distribution, savings/debt, personal and corporate taxation and indirect taxation like value added tax. A company must monitor these economic factors at both domestic and international levels so that it can be in a better position to capitalize upon any opportunities and be aware of any threats in sufficient time to take remedial action.
- *Socio-cultural* factors concerning matters like the changing age structure of the population, trends in the size of families, changes in the amount

and nature of leisure time, changes in attitude towards health and lifestyles, improvement in education, changes in attitudes towards family roles, changing patterns of work and equal opportunities. In some countries, the religious environment might also be a source of opportunities or threats to companies doing business there.

- *Technological* factors concerning such matters as the Internet, automation, new methods of travel, computer-assisted telephone interviewing, electronic point of sale, new materials and more powerful computing methods. All of these can have a direct influence on the marketing firm, particularly if its own methods of production, or the products/services that it produces, are directly affected by, or actually form, an integral part of the products that it offers to customers. This may be extended to PESTLE, which also covers legal, environmental and ecological factors.

BENEFITS

The potential benefits of marketing are that the company will:

- adopt a systematic approach to assessing and exploiting marketing opportunities;
- view and organize its marketing activities from the consumer's point of view;
- identify, serve and satisfy a defined set of needs of a defined set of customers;
- continually seek product improvements;
- continually develop and improve the way in which products are presented and distributed to customers;
- operate on the basis of clearly defined plans and targets; and
- exercise control to ensure that the required results are achieved.

REFERENCES

1. Kotler, P, *Marketing Management* (12th edition), Prentice-Hall, Englewood Cliffs, NJ, 2005.
2. Levitt, T, *The Marketing Imagination*, Free Press, New York 1983.
3. Willsmer, R L, *The Basic Arts of Marketing*, Business Books, London 1984.
4. Heller, R, *The Naked Market*, Sidgwick & Jackson, London 1984
5. Levitt, T, 'Marketing myopia', *Harvard Business Review*, July–August 1960.

3

Product Life-cycle Analysis

DEFINITION

The product life cycle is the sales pattern of growth and decline of a product over a period of time. This period may be the whole life of the product from its launch until it is withdrawn because it is no longer profitable or because it has been replaced.

Product life-cycle analysis is the process of describing and forecasting the pattern of sales for a product for a period of time or the whole of its life.

THE PRODUCT LIFE-CYCLE CONCEPT

The typical cycle

The typical product life cycle is S-shaped (Figure 3.1) and consists of four distinct stages:

Stage 1: Introduction. This is the period immediately following the launch when, if all goes according to plan, sales will grow slowly but steadily as the product is progressively introduced to the market. Profits are probably non-existent during this stage because of the costs of introducing the product; promotional costs are high in proportion to sales, and costs per unit of output are high because of low volume.

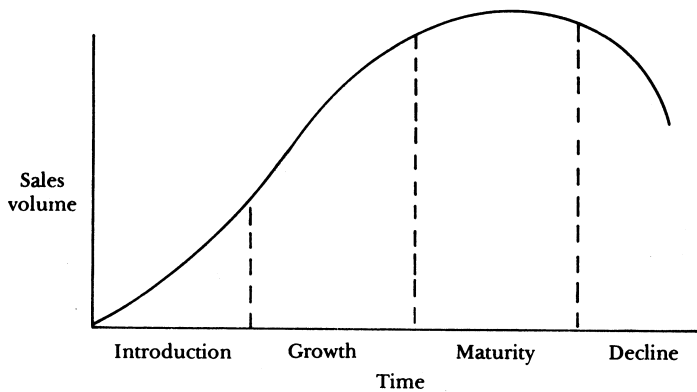


Figure 3.1 A typical S-shaped product life cycle

Stage 2: Growth. This is the period when market penetration increases rapidly. If the new product is successful, the rate of sales growth gains momentum as consumer/user demand expands following increased knowledge and acceptance of the product because of advertising, sales promotion and field sales effort. This growth in customer awareness and satisfaction is exploited progressively during this period by segmentation and differentiation and by expanding into new markets. Profits increase steadily during this period.

Stage 3: Maturity. When this stage is reached, the basic product concept has gained considerable consumer acceptance. However, although the demand for it may continue to rise slightly, the rate of increase has diminished considerably and may eventually 'plateau out' or even decline. The reduced rate of growth is partly caused by increased competition from other companies either entering the market with new versions of the product or attacking the market share achieved by the product through more aggressive advertising, promotion, selling or pricing policies. The slowdown in sales growth may also be caused by the market becoming saturated for the product as it exists. During this stage profits stabilize or decline because of increased marketing outlays to defend the product against competition.

Stage 4: Decline. The sales of most product forms and brands eventually dip because of consumer shifts in tastes, increased competition, technological advances and the availability of substitute products. The market may be saturated and, unless action is taken, sales and profits will decline to zero or petrify at a low level. Purchases will tend to be of the replacement type, but brand loyalties will progressively diminish if nothing is done about it.

Other forms of product life cycle

1. *The recycle* (Figure 3.2). Sales begin to fall off, as in the typical cycle, but are then regenerated as new applications, new product characteristics or new users emerge. This process can be repeated, resulting in a succession of life cycles.
2. *The humpback* (Figure 3.3). After the product life cycle apparently enters the decline stage, sales recover again. This may occur when buyers take some time to test and evaluate the product after their initial purchase. When they approve, they place repeat orders.
3. *The plateau* (Figure 3.4). Sales may plateau out when there is no better alternative available. The product is still in demand until a substitute appears, when sales may decline dramatically. The plateau may incline slightly upwards, however, if sales increase at a rate in line with growth in the economy.

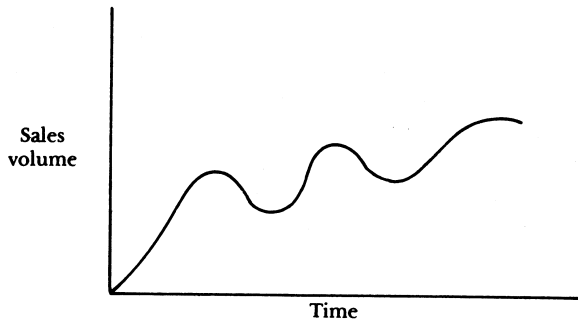


Figure 3.2 *Recycle pattern*

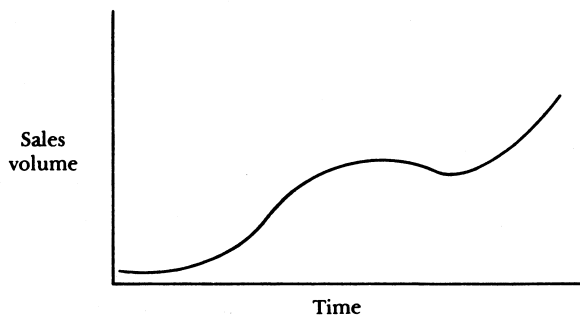


Figure 3.3 *The humpback cycle*

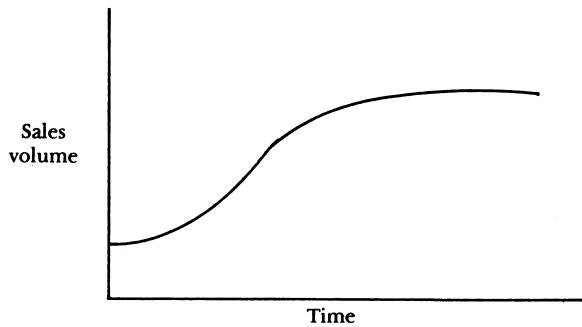


Figure 3.4 *The plateau cycle*

PRODUCT LIFE-CYCLE ANALYSIS

Product life-cycle analysis is the process of assessing the type of life cycle which is applicable to the product, the point in the life cycle where the product is, and the reasons why it is in this position. For existing company products, the analysis provides a basis for forecasts of future sales and for deciding on recycling actions. But the analysis of the stage in the life cycle which products already marketed by other companies have reached helps in decisions on whether to develop and launch new or substitute products.

The analysis of the company's own products covers:

- trends in sales volume;
- trends in profit;
- trends in market share – rate of market penetration;
- economic trends (which may explain a growth or decline in sales);
- the pattern of sales – who buys, where they buy, to what extent they are first-time or repeat buyers;
- consumer opinions about the product derived from consumer surveys, media comment or test-marketing; and
- the features of the product compared with what is available elsewhere or is becoming available.

The analysis of competitive products also measures sales volume, market share and the pattern of sales. In addition, it assesses the reasons why the products are more or less competitive: price, advertising, promotion, sales, distribution and servicing effectiveness, product features which are uniquely attractive or increase the perceived value of the product.

ACTION

As a result of the analysis the following are actions that can be taken to ensure that a favourable trend continues or to arrest a decline by recycling.

Introduction stage

- Increase advertising and promotional expenditure to accelerate growth.
- Adjust prices to increase penetration.
- Adjust promotional message and sales approaches in response to analysis of consumer reactions.
- Improve product features in response to initial consumer reaction.

Growth stage

- Improve quality.
- Modify product characteristics.
- Extend market into new segments.
- Develop new distribution channels.
- Reduce prices to attract the next layer of price-sensitive buyers.

Maturity stage

- Find new market segments and customers.
- Reposition brand to appeal to a larger or faster-growing segment.
- Encourage increased usage among existing customers.
- Modify product characteristics – new features, style improvements.
- Modify marketing mix, eg cut prices, advertise or promote more aggressively, move into higher-volume market channels.

Decline stage

- Maintain brand in the hope that competitors will withdraw their products.
- Harvest brand, ie maximize profits by reducing costs but keeping up sales pressure.
- Terminate and withdraw the product.

BENEFITS

The main benefit of product life-cycle analysis is that it forces the company to recognize what is happening to its product in the marketplace over

time. Forecasts can be made of future trends and the likely impact of competition. The strengths and weaknesses of the company's product are identified so that the former can be exploited and the latter overcome. Life-cycle analysis is a continuous process which enables the company to review its marketing mix on the basis of a better understanding of the performance of its product.

4

Pricing

DEFINITION

Pricing is the method used by a company to fix or change its price with regard to costs, sales and profit targets, the pricing policies of competitors and the perceived value of the product by customers.

APPROACHES TO PRICING

The four basic approaches to pricing are:

- *The economist's*, which suggests that price is the medium through which supply and demand are brought into equilibrium.
- *The accountant's*, commonly used in manufacturing, which states that the aim of pricing is to recover costs and make a profit.
- *Market-based*, which adopts a customer/demand focus.
- *Competitor-related*, which fixes prices by reference to those charged by competitors.

The economist's approach is of purely theoretical interest. In practice it is the accountant's or the market-based approaches as described below that are the ones used.

THE ACCOUNTANT'S APPROACH

The aim of the accountant's approach is to seek a targeted rate of return on investment for a specific level of sales. The main techniques used are:

- cost-plus pricing;
- standard cost pricing;
- marginal pricing;
- break-even analysis.

Cost-plus pricing

Cost-plus pricing (called mark-up pricing in retailing) means adding a standard mark-up to the total cost of the product. Thus, if a retailer pays a manufacturer £10 for a product and marks it up to sell at £15, there is a 50 per cent mark-up on the product and the retailer's gross margin is £5. If the operating costs of the store are £4 per unit sold, the retailer's profit margin will be £1 or 10 per cent.

This is a production-orientated approach commonly used in manufacturing and it is at odds with market-based approaches, which take account of customer preferences and the pricing policies of competitors. However, prices should cover costs, so all pricing systems are, to that degree, cost-related. Cost-plus or mark-up pricing systems do this, and have the additional virtue of being based on ascertainable facts rather than on suppositions about demand. Demand and the perceived value of the product cannot be ignored, however. There is a danger of overpricing if too much attention is paid simply to obtaining an acceptable profit margin over total costs, and of underpricing if the perceived value is underestimated.

Standard cost pricing

Standard cost pricing is based on the cost standards developed in management accounting systems.

The standard variable cost per unit is calculated by adding the total variable costs of production, namely the cost of materials and direct labour, and the cost of bought-in components, and dividing this sum by the number of units produced.

The steps taken to establish a standard cost price are as follows:

1. Calculate the standard variable cost per unit.
2. Calculate the fixed cost per unit (the running expenses, including administration and selling expenses of the business over a period of time divided by the number of units to be sold in that period.

Again, this approach is also used in manufacturing and takes no account of demand.

Marginal pricing

Marginal pricing fixes the selling price of additional units by reference to the marginal cost of manufacturing each unit.

The theory of marginal pricing is that, after a company's total fixed and variable costs have been covered by the existing volume of production, the cost of producing an extra unit – of marginal production – will only be the total variable cost of producing and selling it. In such circumstances, the selling price of additional goods can be reduced, if necessary, to match the total variable cost without any loss to the company. Any amount by which the selling price exceeds the variable cost of marginal outputs is then an extra or marginal contribution to the company's net profits and fixed costs. Again, this is a manufacturing approach.

Break-even analysis

Break-even analysis uses the concept of a break-even chart to develop a system of target pricing in which the company tries to determine the price that will produce the profit it is seeking. Although profit related, this form of pricing is based on an analysis of total costs, upon which is superimposed an assessment of total revenue.

Break-even analysis determines fixed and variable costs and enables the price-setter to investigate the profit implications of alternative price-volume strategies. As illustrated in Figure 4.1, a break-even chart represents the following elements of costs and revenue:

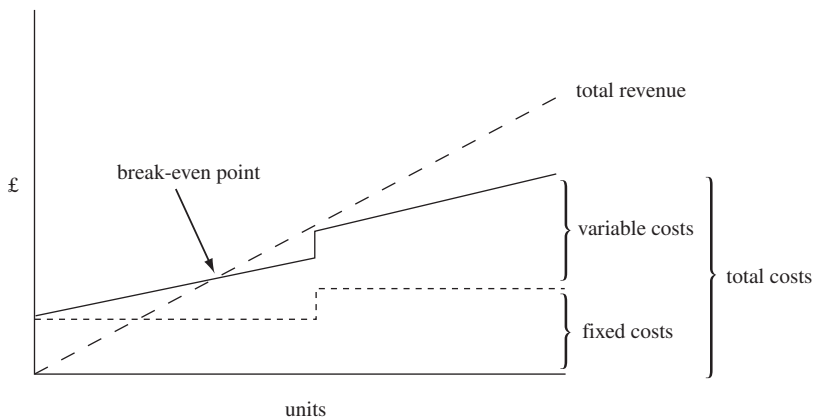


Figure 4.1 Break-even chart

- *Fixed costs* – the costs of production that will not vary in the short term, though at a certain level of output it may be necessary, for example, to install an extra production line, in which case there will be an increase in fixed costs, known as a step cost.
- *Variable costs* of labour and materials, etc, which increase in proportion to volume.
- *Total costs* – the sum of fixed and variable costs.
- *Total revenue* – the sales made to customers, which increase with output, although as output increases, a company may have to trim its margins, and revenue may then decline.
- *Break-even point* – this is reached when total revenue exceeds total costs. Sales above this point will be profitable; below this point a loss will be incurred. Break-even analysis concentrates attention on the likely profit or loss that may be incurred by alternative pricing strategies. It is therefore an essential technique for selecting the best policy, as long as sufficient attention is paid to the demand curve. Unless the elasticity of demand (the impact of price changes on sales) is taken into account, break-even analysis can be misleading.

Target pricing

Target pricing techniques are based on break-even analysis. They involve:

- estimating demand at different price levels;
- drawing up total revenue curves at different price levels;
- referring to the break-even chart and assessing the profit implications of setting different price levels;
- making a final decision on price levels and profit targets by considering the profit implications in relation to estimates of sales volumes and then selecting the optimum alternative.

MARKET-BASED PRICING

Market-based pricing emphasizes price as a variable element of the marketing mix. Its concern is how it can affect the company's position in the marketplace. Value is included in this notion of price, and the underlying marketing theme is to set prices at 'what the market will bear'.

Profit maximization is natural in marketing, but it is not feasible to do this on all products/services amongst all customer groups. Companies can employ many pricing tactics that might promote sales yet reduce margins in the short term. The general objective might be profit maximization, but the company's product mix should be examined in terms of individual items, and price tactics applied individually, rather than

singular pricing decisions applying to the complete range. Prices should adopt a customer focus, and this will determine whether the product is bought or not.

Although the assumption behind market-based pricing techniques is that prices are a major factor in achieving competitiveness, this can also be attained through non-price competition. Market share can be improved through customer care, the delivery of value for money, quality and high levels of service (response, delivery and after-sales service).

The main market-based pricing techniques are described below.

Penetration pricing

Penetration pricing involves setting prices at a sufficiently low level to make them attractive to the mass market. The aim is to achieve high initial sales, which are maintained during the life cycle of the product. An associated aim is to deter competitors. Penetration pricing is particularly appropriate for products where unit cost reductions can be achieved through initial mass production.

Setting-up costs are usually high and initial development costs are recovered over a long period. The task of marketing is to ensure that customers retain interest during the life of the product.

Skimming

A skimming approach adopts a high-price strategy, charging what the market will bear. The aim is to 'skim the cream off the market'. This policy is particularly attractive to a company with a new and unique product. When the cream has been skimmed, prices can be progressively reduced.

Perceived value pricing

Perceived value pricing determines prices from assumptions made about the beliefs that consumers have of the value of the product to them. These assumptions may be founded on market research aimed at establishing in buyers' minds values about the basic product and the various special features in the product that appeal to them.

If the company charges more than the buyer-recognized value, sales will suffer. Revenue may also fall below attainable levels if prices are lower than the perceived value.

Psychological pricing

Many consumers use price as an indicator of quality. Prestige pricing uses higher prices to promote the idea of value and status.

Price levels can be set just below a round figure, for example £9.99 rather than £10.00. These pricing points, as they are called, persuade people to think that the price is in a lower range than they expected.

Value for money can be emphasized by the effective presentation of discounts and free offers. The perceived value of offering one item free if four items are purchased may have a greater impact than a 20 per cent discount offered over the whole five purchases.

Promotional pricing

Promotional pricing is a method of clearing excess stocks or generating high-volume sales by offering large discounts. Retailers buy in special stocks to benefit from extra sales over limited periods.

COMPETITOR-RELATED PRICING SYSTEMS

Competitor-related pricing systems fix prices by reference to the going rate – the level of competitors' prices. Less attention is paid to demand and, while the aim is to cover costs, they are not the main determinant of prices.

The market is divided according to the levels of quality, service or prestige provided by suppliers of the produce or service. Each sector has a price leader who determines the going rate. The price leader is the market leader with, usually, but not always, the highest sales in the sector. The market leader makes the first move on prices, up or down, and his or her competitors tend to follow.

When using this approach, the company has to decide on its pricing policy. It may go for market leadership, bearing in mind John Winkler's¹ advice that 'Market leaders make most money. On average their price is better, their volume is greater and their unit costs are lower... [if] you want to outsell everyone then get your price about 7 per cent above the average.' Or the company may decide to maintain its prices in line with the average or broadly in the middle segment of the range. It may then follow a policy of parallel pricing by aligning its price increases with those of its competitors. If oligopolistic conditions prevail, in other words if the market consists of a few powerful suppliers, prices may be closely aligned throughout the market and parallel pricing will be the general rule. Two variants of this approach are described below – competitive pricing and discount pricing.

Competitive pricing

Competitive pricing means tackling the price leader in the market segment in which the company is operating. Where possible, the aim would be to

set a slightly higher price than the price leader's (say 7 per cent) and then launch a marketing campaign to demonstrate that what Winkler calls a 'discernible product difference' exists. This means demonstrating that the company's product offers a distinct improvement over its competitor's.

If the firm cannot compete on quality it may have to set slightly lower prices or offer higher discounts of at least 10 per cent but not more than 15 per cent or so.

Discount pricing

Discount pricing is a technique that sets artificially high prices but then offers large discounts to attract customers. It is advisable not to offer discounts on a permanent basis. Flexibility is important.

Considerations affecting pricing strategy

Product costs set a floor to the price but are not the only consideration. A ceiling may be set by the unique features that the company offers, although this level will also be influenced by the company's strength and prestige in the marketplace. Competitors' prices and the prices of substitutes provide an intermediate point that the company has to consider in setting its price. Finally, demand has to be taken into account. The relative elasticity of demand will influence the extent to which the company can maintain the volume of unit sales after a price increase, or can increase sales by means of a cut in prices.

REFERENCE

1. Winkler, J, *Pricing for Results*, Heinemann, London 1983.

5

Positioning

DEFINITION

Positioning is the process of reaching market segments. It distinguishes a branded product or service from its competitors so that it becomes the preferred brand in defined segments of the market. Positioning can focus on new brands but may also involve repositioning existing brands.

THE POSITIONING PROCESS

The five sequential steps in the process of positioning are:

- Carry out market research to gain understanding of consumer wants and needs and to identify gaps (gap analysis) which existing, modified or new company products or services could fill.
- Develop segmentation and targeting strategies.
- Establish the relevant attributes that are used by customers in the segment evaluating and choosing between brands in this market.
- Analyse these attributes by 'brand mapping' to assess the current perceived position of existing brands in the market.
- Determine the positioning strategy.

Relevant attributes

The initial step is to establish the attributes – the characteristics and features of the product or service that are relevant to customers in each

market segment. Attributes can be objective (for example colour or taste) or subjective (for example brand name, 'value for money'). The aim is to establish key differentiating attributes that will attract customers to the particular product or service. This is sometimes referred to as the unique sales proposition (USP).

Brand mapping

Brand mapping, sometimes called perceptual mapping, is a method of identifying market gaps (gap analysis) and thereby developing a positioning strategy. The process involves:

- identifying criteria, for example price and other attributes such as colour and taste;
- identifying existing brands and analysing them by reference to the criteria;
- mapping the brands;
- identifying any area in which existing brands are not placed – the market gap.

Positioning strategy

The positioning strategy will be derived from the processes described above: research, the segmentation and targeting strategies, attribute analysis and brand mapping. The strategy will determine where and how the product or service will be positioned and leads to the development of an overall marketing mix strategy. The latter would concentrate on ensuring that the various elements of the marketing mix integrate successfully to produce the right kind of product suggested by appropriate policies relating to the other three Ps, namely price, promotion and place.

BENEFITS

Positioning is a means of achieving marketing objectives by ensuring that the right product is developed at the right price in the right segment of the market.

6

Segmentation

DEFINITION

A market segment is a group of customers sharing particular wants or needs. Market segmentation divides the total market available to the company into segments that can be targeted with specially developed and marketed products and that can form the basis for positioning the product in the market.

BASES FOR SEGMENTATION

The main bases for segmentation are as follows:

- *Consumer preferences* – for specific product attributes.
- *Benefits sought by customers* – for example, quality, prestige, durability and economy.
- *Demographic variables* – the market can be segmented according to demographic variables such as age, sex or social class. The following socio-economic group classification system is often used:
 - A Upper middle class – higher managerial, administrative or professional people.
 - B Middle class – intermediate managerial, administrative or professional people.
 - C1 Lower middle class – supervising, clerical and lower managerial administrative or professional people.
 - C2 Skilled working class – skilled manual workers.

- D Working class – service and unskilled manual workers.
- E Pensioners, widows and casual or lowest-grade workers.
- *Buying behaviour* – where people buy, their readiness to buy (degree of awareness of the product), the amount they buy (light, medium and heavy users) and their loyalty to the brand (hard core, shifting, switchers).
- *Lifestyle* – a person's lifestyle is his or her pattern of living in the world. Lifestyles are assessed by psychographics, which list variables under three dimensions: activities, interests and opinions. These are analysed to reveal lifestyle groups.

SEGMENTATION BASES IN ORGANIZATIONAL MARKETS

The term 'organizational markets' refers principally to organizational buying behaviour. It covers the following subdivisions:

- *Industrial markets* – where the major criterion is keeping production satisfied in order that materials and components are available for incorporation in production processes. The ultimate objective is to satisfy the needs of the company's customers, be they intermediate manufacturers further down the production chain or end customers.
- *Institutional markets* – relates to purchasing for public institutions like the police force, the fire service, local and central government establishments and educational establishments. Here, the principal criterion is to keep spending within predetermined budget limits that have been set as part of previously agreed operational spending limits.
- *Resale markets* – where the main criterion is the mark-up percentage that can be added to goods purchased from manufacturers and wholesalers in bulk and then resold to individual customers.

BENEFITS

Segmentation concentrates the minds of those responsible for marketing policies and plans to look for specific marketing opportunities and to develop an appropriate marketing mix that fits in with the requirements of identified market segments and the resources and skills of the company.

7

Target Marketing

DEFINITION

Target marketing is the process of formulating market coverage policies – which segments of the market provide the best opportunities for the company.

PROCESS

The process of target marketing (note that the terms ‘target marketing’ and ‘market targeting’ are interchangeable) is the manipulation of the marketing mix such that a distinctive product is made available for each chosen market segment. It involves formulating market coverage policies that determine the segments of the market that present the best opportunities.

When the segmentation process has taken place, each identified segment must be assessed in order to decide whether or not it is worth while serving as a profitable target market with its own distinctive marketing mix. If a company decides *not* to operate a ‘blanket’ strategy (no segmentation), then it is engaging in what is called a ‘concentrated’ or ‘differentiated’ market targeting strategy. The company then has to decide which potential segments to serve.

Favourable attributes of a target market will include segments where there is good sales and profit potential, where competition is not too intense and where the segment might have some previously unidentified requirements that the company is able to serve. It is this latter notion that we explore in the next section.

Method

A decision is required about which of the following market coverage strategies will produce the best results:

- Undifferentiated marketing – ignoring segments and attacking the whole market, aiming to satisfy the common needs of customers.
- Differentiated marketing – operating in several segments of the market and designing separate offers for each.
- Concentrated marketing – aiming for a large share in one or a few segments.

The decision will be influenced by the following factors:

- Company resources, which will determine the extent of coverage that is achievable.
- Product and market homogeneity – the more homogeneous the product or market, the greater the pressure for undifferentiated targeting.
- Product stage in the lifestyle – it might be appropriate to go for wide coverage in the initial stages and to target specific segments as the product matures.
- Competitors' segmentation strategies – the company may wish to target market segments neglected by competitors.

Target marketing strategies

The following strategies can be adopted for target marketing:

- *Differentiated*, where there are multiple marketing mixes for different market segments.
- *Undifferentiated*, where there is a single marketing mix for all customers.
- *Concentrated*, which has one marketing mix for a segment of the entire market.
- *Custom*, which attempts to satisfy each customer's needs with an individual marketing mix.

BENEFITS

Target marketing processes identify the particular direction the company wants to follow in accordance with its understanding of market segmentation. It leads to the development of market positioning strategies.

8

Promotion

DEFINITION

Promotion activities are a key component of the marketing mix. Their aim is to present products and services in an attractive light to customers to encourage them to buy. They consist of:

- *Selling*, which is concerned with direct contact with customers.
- *Advertising*, which is non-personal mass communication, paid for by a sponsor. It is sometimes referred to as *above the line*, which is an advertising term that refers to the line above which the agency receives a commission for placing the sponsor's advertising.
- *Sales promotion*, which refers to short-term activities like free samples and competitions that encourage quick action by buyers. This is referred to as *below the line*, as agencies do not receive commission here, and a direct charge is made to the sponsor for the work performed.
- *Public relations (PR)*, which also covers publicity, and is not promotion that is paid for directly by a company to the media. It relies for its coverage on news or editorial about a company's products/services and obtaining such coverage is the province of PR.

SELLING

The role of selling is to gain new customers, but also, importantly, to retain existing customers (customer care).

Selling involves identifying customers (proprietors) and then going through a sales sequence to obtain an order. The sequence is illustrated below.

1. Prospecting.
2. Preparation.
3. Opening.
4. Requirement identification.
5. Presentation/demonstration.
6. Handling objectives.
7. Negotiation.
8. Close.
9. Follow-up.

ADVERTISING (ABOVE-THE-LINE PROMOTION)

Media advertising to potential or existing customers is about the products or services on offer to them. The aims are to impart information, to develop favourable attitudes to the product or service, and to generate sales.

Media scheduling

Media scheduling is the process of deciding what type of media to adopt (TV, radio, cinema advertising, press, internet). When deciding on the optimum media schedule, four factors should be considered:

- Coverage (or reach), which is the percentage of the target market that will see the campaign at least once.
- Frequency, which is the number of times each person will have an opportunity to see (OTS) or opportunity to hear (OTH).
- Cost per thousand (CTH), which is the cost of reaching 1,000 of the target audience whether these be men, housewives with children, homeowners, and so forth.
- Television rating points (TVRs), which is the percentage of the target viewing (or at least having the set on during a particular spot).

When considering these factors, the aim is to obtain as high a coverage as the media budget allows. Budgets for media plans are prepared on the basis of next year's expectations of sales turnover as a result of the implementation of the marketing plan. The budget is expressed as a percentage of potential sales and the amount allocated will depend on the market position and the results of product life-cycle analysis (for example, developing a new product or boosting a declining one). Budgeting procedures will be very different in the case of direct-response advertising, where sales of the product depend entirely on a response directly from the

consumer to advertisements (termed 'off the page') or direct mail shots. A key ratio in such instances will be cost per order (CPO).

Media planning

The media planning process consists of the following steps:

1. *Appraisal of:*
 - sales trend data;
 - brand share data;
 - market seasonality;
 - competitive advertising patterns;
 - purchasing or usage profile by demographic group; and
 - results achieved from other campaigns.
2. *Budgeting*, which will take into account the appraisal and other factors mentioned earlier.
3. *Planning*, which may follow the budgeting process and simply be concerned with deciding on the best method of allocating funds. But the planning process may indicate changes in direction or emphasis that could result in modifications to the budget. The plan will take into account answers to the following questions:
 - Is national coverage required or can a regional policy be adopted?
 - Does advertising need to be more or less continuous, or can a burst strategy be effective within the peak sales seasons?
 - Which target group or groups need to be covered?
 - Is heavyweight activity required at the beginning of the campaign to either launch or relaunch the product or the advertising idea?
 - Which medium or media mix is required to ensure optimum communication of the advertising?
 - What is the weight of advertising required in each medium from both a communication and a competitive point of view?
4. *Buying* – using negotiating skill, research backup and 'muscle' to negotiate the best terms with the media.
5. *Evaluating*. There is no simple method of measuring the effectiveness of an advertising campaign except, of course, indirect response where coupons and orders can be counted. In this field, 'split-run' tests can be run in certain media where different offers or styles are tested in alternate (A or B) copies and the results can be compared directly.

In more conventional advertising the most commonly used methods include market research and sales analysis. *Market research* involves general research into consumer attitudes and responses, or particular research into the reaction to an advertisement (reactions to proposed campaigns can be pre-tested by qualitative research). *Sales analysis* is used especially when area tests are conducted for new products or new

advertising treatments. The problem is to isolate those factors other than advertising that have affected sales. The area marketing test evaluation system (AMTES) developed by Beecham attempts to do this by isolating the measurable factors that affect sales.

The media planner's task is to assess the results of the evaluations and, in so far as he or she considers them valid and reliable, to adjust the media mix.

SALES PROMOTION (BELOW-THE-LINE PROMOTION)

Sales promotion involves providing customers with an incentive to purchase expressed in cash or in kind. The promotion is usually over a limited period not normally lasting longer than six months, with the majority lasting for a much shorter period.

Competitive advantage can be gained by companies through creating an unusual and innovative promotion, of which there are many varieties. Using the same type too frequently can diminish its impact.

PUBLIC RELATIONS (PR)

Public relations is defined by the Institute of Public Relations as 'The deliberate, planned and sustained effort to establish and maintain mutual understanding between the organization and its public'. Public relations relies on editorial for its coverage, and this is based on press releases. Public relations activity also aims to establish and promote the corporate identity – through visible signs such as logos, which indicate how the company wants to present itself to its public.

BENEFITS

Promotion is a key element in the marketing mix. Products do not sell themselves; they have to be promoted.

9

Distribution

DEFINITION

Distribution is the 'P for place' in the 'four Ps' of the marketing mix. It covers the channels through which goods are sold – wholesalers, retailers, agents and so forth – as well as physical distribution (logistics).

DISTRIBUTION STRATEGY

The amount of market exposure required by companies formulates channel policy and the choice of channel strategy will depend on:

- the nature of the product or service;
- the technical complexity of the product;
- its servicing arrangements;
- the image the company wishes to portray to consumers.

Three distribution strategies can be identified:

- *Intensive distribution* is used by fast-moving consumer goods (FMCG) manufacturers and convenience goods manufacturers, some raw materials producers and sometimes 'white' (for example, refrigerators) and 'brown' (for example, furniture) goods manufacturers, whose aim is to stock their products in the maximum number of outlets. The idea is that maximum exposure at point of sale is the most important criterion.
- *Selective distribution* comes next and instead of spreading marketing effort over a wide range of outlets, manufacturers concentrate on the

most promising of profitable outlets. It is also used where retail facilities, resources or image might have an impact on consumer impressions (for example, expensive perfumes being sold in higher-class stores). Certain products may require special storage and facilities like refrigeration or regular servicing, so retailers will have to be adequately equipped.

- *Exclusive distribution* to a limited number of retailers might be designed to enhance the brand image of a product (for example, motor car distribution, whereby the retailer only distributes a single brand).

SELECTING AND COORDINATING CHANNELS

It is necessary to take the following steps to select and coordinate channels:

1. Determine the service output levels needed by customers.
2. Look at the duties that channel members must perform to ensure adequate delivery to end customers.
3. Use economic or other measures to motivate channel members to carry out their duties.
4. Look for mechanisms for dealing with conflicts that might arise between channel members.

The choice includes obvious channels such as retail outlets and wholesalers, but it may also include such approaches as business format franchising and mail order, as summarized below. The internet is being increasingly used.

Business format franchising

Business format franchising is a system of selling and distribution organized through a contract between a principal seller (franchiser) and distributive outlets (owned by franchisees). This depends on the franchiser having an idea, a powerful brand name, and a 'secret process' or specialized equipment or goodwill that can attract customers. If this is the case, then the franchiser can grant the franchisee a licence, for a commercial consideration. The franchisee then exploits that name, idea or product and the commercial process is beneficial to both parties.

Mail order

Mail order relies on catalogues to obtain sales, often using agents to administer orders and collect payment for a commission. There are also

specialist mail-order houses that deal with a limited range of lines that are difficult to access in shops (such as specialist garden care materials). Non-catalogue mail order depends on magazine and television advertising and is normally used to sell a restricted or specialist range of products.

LOGISTICS MANAGEMENT

Logistics management, also known as physical distribution management, is concerned with obtaining materials from suppliers and storing, processing, retrieving and delivering products to the customer.

Elements

The main elements of 'total business logistics' are:

- order processing;
- stock levels/inventory;
- warehousing;
- transportation;
- service levels.

This is sometimes termed 'the systems approach' to distribution management.

Aim

The aim is to ensure that goods ordered are made available in the right place at the right time. The period of time between the placing of the order and receipt of the goods is known as the 'lead time', and this varies for different types of products and types of markets and industry. The lean manufacturing/JIT concept aims to eliminate lead time.

BENEFITS

It is not enough to have the right product or to promote it effectively. Effective distribution in the form of getting the product to customers in good time and in good shape is a vital component of the marketing mix.

10

Marketing Information Systems

DEFINITION

A marketing information system provides the basis for marketing planning. It includes data on economic and business trends, consumer-buying behaviour, market developments, competitive products and prices as well as data generated by market research.

THE MARKETING INFORMATION SYSTEM

A marketing information system collects and analyses information to assist marketing decision makers. It is an integral part of the company's overall management information system.

The marketing information system operates as a decision support system to the following four systems:

- The *internal accounting system*, which generates data as part of the process of everyday business. This includes not only financial and cost-accounting information but all information received and generated by the firm. This information can be used to measure efficiency ratios like sales to selling expenses. It can also provide information on seasonal and cyclical demand patterns for planning, monitoring and control purposes. If this system is to be of use in planning, monitoring and control, marketing management needs to know how to use it effectively.

- The *marketing intelligence system*, which produces internal information through the process of managing and administering the business. The type of information to which this refers is collected less formally than marketing research, often in an ad hoc fashion. It can be described as procedures and information sources used by managers to obtain daily information about developments in the marketing environment. Marketing and other company staff come across information that may seem inconsequential but that might be of use in marketing planning. This includes reports of sales visits from members of the field sales force, which can include such matters as market developments, competitive products, prices and concessions and future customer purchasing plans. Marketing intelligence is the formal process that marshals such information together and feeds it into the information system. Sales personnel attend conferences, conventions and trade exhibitions, as well as courses and sponsored events, and assist with hospitality. It is their business to network effectively with people within the industry, be they customers or competitors. The use of sales personnel in gathering marketing intelligence is invaluable.
- The *marketing research system*, which makes use of both secondary data (already in existence) and primary data (collected for a specific research purpose) through desk and field research.
- The *analytical marketing system*, which is the final part of the overall marketing information system. It does not produce new data, but takes data from the other three component parts and enhances its value. Users of the system do this by applying 'management science' to the data, thereby transforming it into a more easily understood form for the marketing decision maker. The techniques applied to the data are usually statistical in nature. It is from this that marketing plans are made.

Information collected from marketing research, marketing intelligence and internally generated data can be used as inputs to sales forecasting. An external marketing audit, described below, also provides general information on the marketing environment.

THE EXTERNAL MARKETING AUDIT

The external marketing audit is conducted by a process called environmental scanning. This assesses the external/environmental factors that are affecting or may affect in the future the company's marketing efforts. The basic approach is known as 'PEST', which covers political, economic, socio-cultural and technological factors. The addition of legal and environmental factors produces the acronym PESTLE, the components of which were defined in Chapter 2.

BENEFITS

A marketing information system provides invaluable inputs to the marketing planning process. It acts as a control mechanism as customer reactions are also fed into it from market intelligence, the field sales force or marketing research. Information on sales analysis is fed into the system so decisions can be made as to whether or not forecast sales are being achieved.

11

Buying Behaviour Analysis

DEFINITION

Buying behaviour analysis aims to determine the factors affecting the behaviour of customers with regard to the purchase of existing or proposed products or services. The analysis has to be based on an understanding of the influences on buyer behaviour (individual or organizational) and uses various models.

INFLUENCES ON INDIVIDUAL BUYING BEHAVIOUR

The psychological concepts explaining individual buying behaviour are:

- *Motivation* – goal-directed behaviour: the emotional and rational motives that affect buying decisions and involve a reaction to a stimulus.
- *Self-concept* – consumers tend to make purchases that confirm their self-image so that they can safeguard and boost it.
- *Personality* – this strongly influences buying behaviour and an aim of buyer behaviour analysis will be to identify what sort of products or services might appeal to different personality types.
- *Perception* – the analysis that identifies the meanings that buyers attach to stimuli, how they distinguish between products and services, and how these satisfy their needs.
- *Attitudes* – the set of perceptions that an individual has, leading to beliefs that a buyer might have regarding a possible purchase. Potential

positive or negative attitudes need to be identified so that marketing action such as repositioning can be taken.

MODELS OF CONSUMER BUYING BEHAVIOUR

The simplest model means responding to immediate needs in the following 'AIDA' sequence: awareness, interest, desire, action.

An alternative model is the buyer/decision sequence:

- problem recognition – establishing a need;
- information search – seeking ways of satisfying the need that can be influenced by marketing;
- evaluation of alternatives – this can be influenced by promoting the product or service;
- purchase decision – to purchase or not to purchase, based upon the evaluation;
- post-purchase behaviour – the degree of satisfaction or dissatisfaction will affect future purchasing decisions and sales tactics will aim to produce a positive reaction.

ORGANIZATIONAL BUYING BEHAVIOUR

Organizational buying, which includes industrial and institutional (local government, hospitals) buying behaviour involves people carrying out different roles, which need to be understood by marketers. The roles consist of:

- *Users* – people who work with, or use, the product. They include supervisors. In some buying circumstances they help to mould the product specification and in others their input is minimal.
- *Influencers* – those who might influence the product specification or who can affect the buying decision in other ways (for example, accountants might influence purchasing budgets).
- *Deciders* – people with authority to make the purchasing decision. In most cases this will be the buyer, but high-value items might involve a team decision.
- *Gatekeepers* – personnel who control the flow of information to and from buyers (for example, technical staff, secretarial staff who may arrange appointments for buyers, junior purchasing personnel with whom potential suppliers might have to liaise prior to contacting other members of the decision-making unit (DMU)).

- *Buyers* – people with responsibility for signing orders, administering and progressing the order through to its final delivery. They sometimes assist in shaping the specification, but their main role is in supplier liaison and selection.

BENEFITS

Marketing strategies and tactics are more likely to be successful if they are based on a thorough analysis of the factors that will affect buying behaviour.

12

Marketing Research

DEFINITION

Marketing research provides (1) information for management about the company's actual or potential markets and (2) information on the existing or potential users of the goods or services marketed by the company. This information assists in marketing, product and sales planning, and in the planning of advertising and promotional campaigns.

Marketing research provides answers to the following typical questions put by manufacturers, distributors, wholesalers or retailers:

- How many people buy my product?
- How much do they buy?
- Who are my competitors?
- How strong are they?
- Are we/they gaining or losing?
- What sort of people buy our/their products?
- How responsive is my/their brand to promotion?
- Has my product any particular strengths or weaknesses in different regions or outlets or for different socio-economic groups?

This information is used to formulate plans and measure performance.

WHAT IS INVOLVED?

Marketing research deals with the following areas:

Market research

- The size and nature of the market – in terms of the age, sex, income, occupation and social status of consumers (consumer market research).
- The nature, distribution and requirements of the industrial, commercial, government or local government users of the goods, equipment or services markets by the company (industrial market research).
- The geographical location of actual or potential customers and users.
- The market shares of major competitors.
- The nature of the distributive channels serving the market.
- The nature of economic and other environmental trends affecting the market.

Product research

- Product concept testing.
- Product testing.
- Analysis of the competitive strengths or weaknesses of the company's products vis-à-vis those marketed by competitors.
- Investigation of alternative uses for existing products.
- Gap analysis – the identification of any areas in the market which the company can exploit.

Motivational research

- Attitudes and reactions to product attributes.
- The consumer values that influence and motivate customers.

Advertising research

- Media research.
- Measurement of advertising effectiveness.

Marketing research techniques

The basic techniques used in marketing research are:

1. Desk research.
2. Field research.
3. Qualitative research.

A marketing research study will normally contain two or more of these elements.

BENEFITS

Marketing research produces the data essential for strategic and product planning. It will identify opportunities and gaps, reveal weaknesses and provide a basis for effective segmentation and differentiation. It will provide guidelines on where the company should be going and a means of evaluating whether or not the right methods are being used to get there.

FURTHER READING

Birn, R, *The Effective Use of Market Research* (4th edition), Kogan Page, London 2004.

Birn, R, Hague, P and Vangelder, P (eds), *A Handbook of International Market Research Techniques*, Kogan Page, London 2002.

Hague, P and Jackson, P, *Do Your Own Market Research* (3rd edition), Kogan Page, London 1998.

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Desk Research

DEFINITION

Desk research is the assembly, collation and analysis of marketing information which is already published or in existence.

APPLICATIONS

According to Newson-Smith,¹ research has three clear applications:

1. To provide a background for a field study or other marketing activity.
2. As a substitute for a field study.
3. As a technique in its own right.

Background research

Desk research can provide the basic information about a market on which further field studies or a product or market development plan can be based. It will indicate whether it is worthwhile proceeding with a project and, if it is, the broad direction in which it should go. Desk research will also provide the information necessary to decide on the size of the market, rates of growth or decline, the types of product being supplied, who the customers are and where they may be found.

Substitute for a field study

It may seem essential to get in direct touch with consumers to find out about buying motivations and to obtain their reactions to the company's products, but a detailed desk study coupled, perhaps, with re-analysis of existing research data, can provide valid conclusions about the market.

Desk analysis of, for example, the results of a retail audit (ie, analysis of samples of retail outlets to measure the sales of different product brands) or a product test (ie tests of consumer reactions to sample products) can reveal much of what a marketing planner needs to know about the consuming public's reaction to a product.

As a technique in its own right

Desk research can be used without recourse to any fieldwork where the two key questions to be answered are: 'How big is the market?' and 'At what rate is it growing?' This applies particularly in industrial research.

But desk research on its own can also be relevant in consumer marketing where the market is diffuse and difficult to define and an unacceptable level of sampling error may occur in the results obtained from consumer surveys and test panels as in the food market.

'Hard' data about market dimensions and trends can be retrieved from government or trade association statistics, trade periodicals and published market research results.

Input and output analysis can be used to set out purchases and sales between industries so that management can more easily identify markets to be attacked. Input-output tables (as published in the UK by The Stationery Office) present a picture of multi-trading between industries which enables the market analyst to trace indirect demand for a product as well as the more straightforward direct demand.

BENEFITS

Desk research is:

1. a fast and relatively inexpensive method of obtaining basic data about the size of a market and market trends;
2. an essential tool in industrial marketing, where good statistics are usually available and the scope for field research is more limited; and
3. usually a necessary complement to field research in that it can obtain a comprehensive picture of the market, free of sampling error (although desk research will, of course, provide no information on consumer motivation or reactions to the company's products).

REFERENCE

1. Newson-Smith, N, 'Desk Research', in *Consumer Research Handbook*, Worcester, R M and Downham, J (eds), Van Nostrand Reinhold, Wokingham 1978.

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Field Research

DEFINITION

Field research is the conducting of investigations by direct contact or observation to collect fresh information about the attitudes and behaviour of consumers and industrial buyers. It deals especially with:

1. the factors underlying choice and preference;
2. reactions to new product concepts and offerings; and
3. user and non-user profiles.

It also assists in evaluating the effectiveness of alternative channels of distribution. It is to be distinguished from desk research, which simply uses published or otherwise available information.

TECHNIQUES

The principal techniques used in field research are:

1. Sampling.
2. Observation.
3. Questionnaires.
4. Interviewing.
5. Panels.
6. Attitude scaling.

Sampling

Sampling involves the collection of attitudes, opinions and facts from a representative number of people in the total population. It is used in consumer market research because it is impracticable to get information from all existing or potential customers, and even if it were, it would be too costly.

The basic technique is random sampling, which means picking the people from whom information is to be obtained on the basis that every individual has an equal chance of being selected.

But sampling investigations are subject to experimental error and the outcome of a study has to be expressed in terms of probability and the confidence with which its findings can be treated by management in planning a launch or repositioning a product. Confidence limits can be stated in percentage terms, eg a 90 per cent confidence limit indicates a range of values within which there is 90 per cent confidence that the true population lies.

Bias can also creep in if the sampling method does not allow each member of the population an equal chance of contributing to the sample.

Error can be reduced by increasing the size of the random sample, but this could be expensive. The technique most commonly used to overcome the costs of a very large random sample is quota sampling, in which interviewers are given a quota of informants in particular classes, such as socio-economic status (a classification of heads of households into social grades A, B, C, D and E), age or sex.

Observation

Data on customer buying habits and reactions can be collected by observing their behaviour when shopping or looking at promotional displays. Behaviour patterns can be established as a guide to the best way to present or package a product. But the results of observational studies can be difficult to interpret accurately.

Interviewing

Interviewing is the key field-research technique because it establishes direct contact with users or potential users.

The basic approach is the face-to-face interview, usually structured (ie the interviewer has to cover predetermined areas), which collects information on behaviour, attitudes or opinions. Unstructured or depth interviews are sometimes used to obtain impressions of feelings or attitudes.

Other techniques include:

- group interviewing – in which the attitudes and beliefs of a group of people are explored, usually in a fairly unstructured manner;

- telephone interviewing;
- postal interviewing; and
- shop audits to measure sales volume and purchasing rates.

Research based on interviewing has to ensure by planning and control that a representative sample of respondents is seen and that, where a structured interview is used, the subject areas are covered comprehensively.

When questionnaires are used, the questions must be clear and unambiguous. They should not 'lead' respondents by, in effect, answering themselves. And the questionnaire design should facilitate interpretation and data processing.

Panels

Panels measure the consumer behaviour of a representative sample of individuals or households over extended periods. The two basic methods are:

1. *the home audit* – panel members allow an auditor into their homes to check levels of household stocks in a product field; and
2. *diaries* – panel members record in a preprinted diary all purchases made in a product field.

Attitude scaling

Besides measuring behaviour – what consumers actually do – market research also attempts to assess attitudes to the product. Consumer attitudes are clearly important when assessing the likely impact of a new product or the reasons for the success or failure of an existing product.

To measure attitudes it is necessary to have a scale. The most frequently used scales are as follows:

1. *Thurston's comparative judgement technique*. A scale is drawn up of a number of statements about a subject which range from very favourable to very unfavourable expressions of attitude towards it. Respondents are asked to select the statement which most accurately reflects their attitude. A score is given to each statement to produce an overall summary.
2. *Likert scales*. These present respondents with a series of statements and ask them to indicate their degree of agreement/disagreement with each. Respondents are often offered five categories: strongly agree, agree, uncertain, disagree, strongly disagree.
3. *The semantic differential technique*. A concept about a brand or product is set out. Respondents are then asked to rate it by ticking a point on a

five-point scale on which end points are defined by pairs of adjectives, eg strong–weak, good–bad. Numerical values are then assigned to the scale positions so that comparisons can be made between various brands or between users and non-users of a brand. This is one of the most popular methods because the scale is fairly easy to construct and analyse.

BENEFITS

The benefits of a properly conducted field survey are:

1. specific information is obtained about the dynamics of consumer behaviour;
2. attitudes to new and existing products can be measured; and
3. from this factual information on behaviour and attitudes, conclusions can be reached on shaping marketing strategies or solving marketing problems.

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Qualitative Research

DEFINITION

Qualitative research obtains information about attitudes by impressionistic means.

USES

Typical examples of the uses of qualitative research are to:

1. identify relevant or 'salient' (ie significant) consumer behaviour patterns, beliefs, opinions and attitudes;
2. explore consumer motivation, ie the broad consumer values that influence buying habits;
3. obtain background information about consumer attitudes or behaviour patterns;
4. explore attitudes to product or marketing concepts; and
5. conduct post-research investigations to amplify or explain points emerging from a major desk or field study.

TECHNIQUES

The three most commonly used qualitative research techniques are as follows:

1. *The individual interview*, which may take the form of a 'depth' or non-directive interview which is largely unstructured and attempts to get to the heart of an individual's motivation. This approach may be modified a little to allow more structure in the form of a checklist of points to be covered, although respondents will be allowed to reply freely about each topic.
2. *Group discussions*, in which a reference group, ie a group of people with certain common characteristics, is gathered together. The group leader guides the discussion, encouraging members to express their views and exchange them with one another. This interaction between group members is an important feature of the technique.
3. *The Kelly repertory grid*, which obtains the opinions of respondents on competing products and their brand images. The interviewer presents informants with the names of products in groups of three for them to select the product that is different from the other two and to describe how it is different. There is then a final sifting through all the products in the test to check out the characteristics attributed to them.

BENEFITS

Qualitative market research provides information on consumer tastes, preference, attitudes and buying habits which, although subjective, can yield significant insights which complement the more factual data obtained from desk and field research.

16

Sales Forecasting

DEFINITION

Sales forecasting assesses the sales potential and market trends for individual products and product groups. It is used for setting individual sales staff targets at a tactical level, and makes a major contribution to the corporate planning and budgeting system. The operational approach to forecasting and its links to sales forecasting is covered in Chapter 34.

SALES FORECASTING TECHNIQUES

The main techniques are summarized below:

- *Derived demand* includes lead/lag indicators in which an analysis is made of trends or economic indicators that are known to be related to the data being forecast. Sales data are then applied to this, but lagged by a year. Consequently the indicator should predict the future trend. The tied indicator method is where the sales performance of one product is known to be related to the future performance of another product.
- *Time series analysis* is based on extrapolation (the process of projecting a past trend or relationship into the future in the belief that history will repeat itself), the components of which are trends, cycle, seasonality and erratic events.
- *Trend fitting* is a projective technique that is best made from a long series of data. This includes linear trends, exponential trends that increase by the same percentage each year and 'S' shaped curves that illustrate how

sales build up slowly after a product launch, accelerate as the product takes off and then ease off as maturity is achieved. This pattern corresponds broadly with the stages of the product life cycle.

- *Smoothing* is used where sales fluctuate during the year and it may be desirable to smooth out the peaks and troughs to produce a recognizable pattern for projection purposes. The two most commonly used smoothing techniques are:

- moving averages, calculated by taking a period of time (say, one year) and then totalling these quarterly figures and dividing by four to produce the average per quarter. When the next quarter's figures are available they are added to the previous total and the sales for the first quarter are deducted. The residual figure is divided by four to produce the moving average. The process continues until a trend is established;
- exponential smoothing, which is a technique that takes into account the greater significance of recent trends by progressively weighting them more heavily and this produces an exponential curve.

- *Decomposition* analysis smoothes a trend to remove seasonal variations that are not reproduced in the projection. When a company has to take account of such variations in its trading pattern when making sales plans, it is useful to restore them by this technique. It involves:

- taking the seasonal element out of past trends;
- projecting the de-seasonalized trends for the period of the forecast;
- projecting the seasonal variations for the same period;
- adjusting the de-seasonalized projection to take account of forecast seasonal movements.

- *Statistical demand analysis* treats sales as a dependent variable and it is a function of a number of independent variables that can affect sales, namely price, income, promotion and population. Multiple regression analysis is used to investigate the relationships between the dependent and the independent variables and to obtain a regression equation for predicting the former in terms of the latter. This technique takes account of the various factors that are likely to affect sales, rather than relying on relatively crude projections of past sales.

- *Marketing models* can be constructed that provide abstract representations of how markets and consumers behave in different situations. They are used to explain how and why customers buy and gain understanding of the effects of different courses of action. They can thus help in the development of marketing strategies and in predicting the effects of marketing decisions. Marketing models provide answers to what the company needs to do to the product to improve sales, the features of promotion that might affect customers and new brand issues. Such models have a conceptual base that generally comes from the behavioural sciences including:

- consumer motivation;
 - influences on buying intentions;
 - information theory that deals with how consumers think and make purchasing decisions.
- *Subjective methods of forecasting* depend on judgement and intuition using:
- subjective probability assessment that gets managers to rate the likelihood of something happening in percentage terms;
 - the Delphi technique, whereby a panel of experts is assembled and each makes an intuitive forecast. The different forecasts are then analysed and assembled in a combined report that is sent to members of the panel for them to make their separate assessments of the levels of probability of the forecasts;
 - sales force composite forecasts, which are made when field sales staff are asked to assess separately how they believe that sales will move; the distribution of forecasts is analysed and a view is taken on the extent to which predictions need to be modified.

Subjective methods are not normally used exclusively. The usual approach is to combine objective and subjective predictions. They can each then serve as a check on the validity of the forecasts made by the other method.

BENEFITS

Sales forecasting provides the essential input to financial budgeting, manufacturing and distribution planning, and sales planning.

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Marketing Planning

DEFINITION

Marketing planning decides on the basis of marketing analysis and assessment in the context of the overall company plan:

1. The marketing objectives, policies and strategies of the company in terms of its product range, market position and penetration, pricing and distribution systems.
2. The action plans required to implement strategies in terms of research, product development, promotion, advertising, selling and distribution.
3. The results to be achieved in terms of sales revenue and profit targets, and budgeted marketing and selling expenditure.

THE MARKETING PLANNING PROCESS

Marketing planning involves the following:

- *Diagnosis* – where is the company now and why?
- *Prognosis* – where is the company heading?
- *Objectives* – where should the company be heading?
- *Strategy* – what is the best way to get there?
- *Tactics* – what specific actions should be undertaken, by whom and when?
- *Control* – what measures should be watched to indicate whether the company is succeeding?

The process of marketing planning is also described in a model called APACS (Adaptive Planning and Control Sequence) developed by the Marketing Science Institute which sets out the following stages:

- Step 1.* Define problem and set objectives.
- Step 2.* Appraisal using SWOT analysis.
- Step 3.* Determine the tasks to be accomplished and identify the means to achieve these aims.
- Step 4.* Identify alternative plans and mixes.
- Step 5.* Estimate the expected results arising from implementation of the alternative plans.
- Step 6.* Managerial review and decision.
- Step 7.* Feedback of results and post audit.
- Step 8.* Adapt programme if required.

The sequence of activities required by these processes is illustrated in Figure 17.1.

ANALYSIS

The analytical stage of marketing planning requires an appraisal of:

1. the current situation: strengths and weaknesses;
2. marketing threats and opportunities; and
3. future trends.

The current situation

This is analysed under the following headings:

1. *Corporate position:*
 - The business the company is in and the salient features of that business.
 - The company's overall objectives, explicit or implied.
 - The company's resources – productive, technical, financial and marketing, and their strengths and weaknesses.
 - The policies of that company, explicit or otherwise, with regard to the use and development of these resources.
 - The special skills or competences possessed by the company.
2. *Marketing description:*
 - Definition of the market and each of its segments.
 - Current size of the market in units and sales revenue for the whole market and each segment.

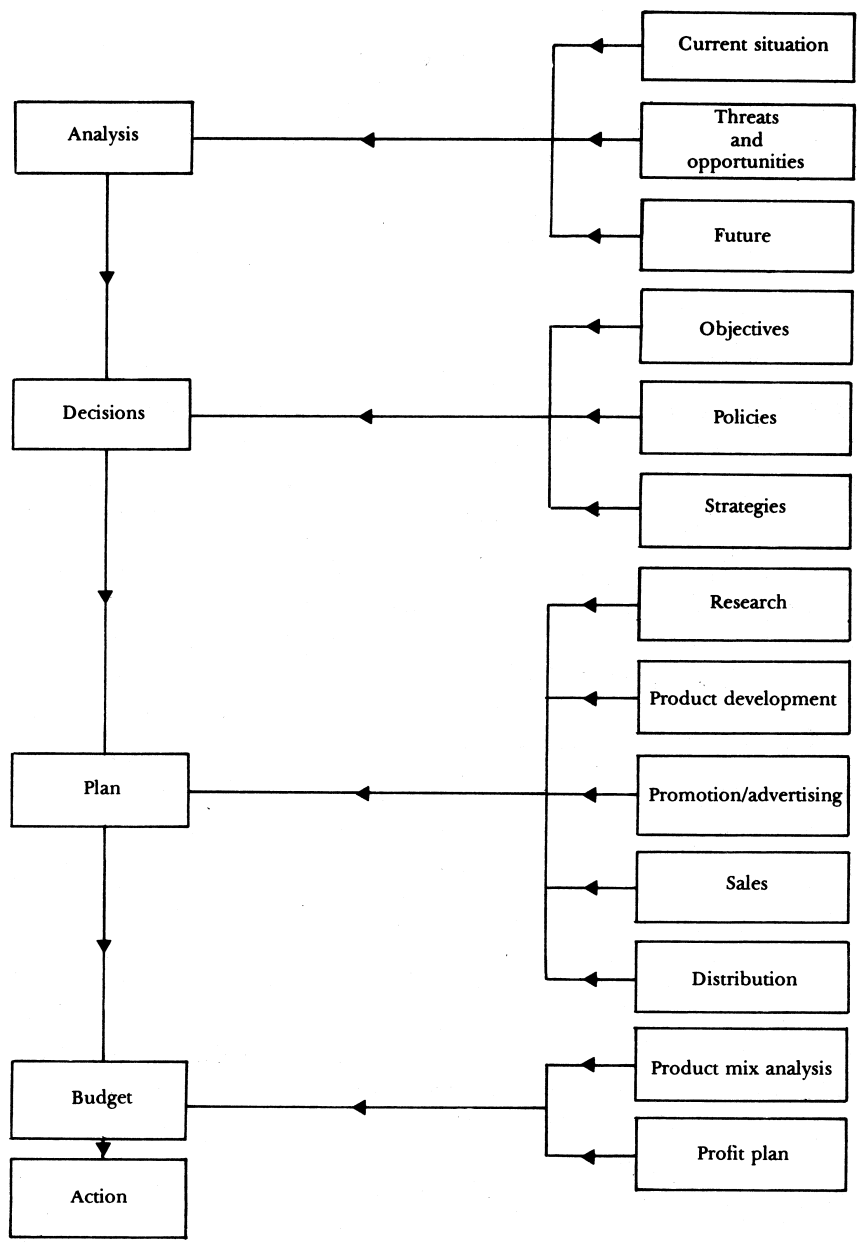


Figure 17.1 *The marketing planning process*

- Sales trends over the past few years for the whole market and each segment.
 - Environmental factors in the market that may affect customer purchasing.
3. *Product review:*
- The sales, prices and gross margins for each product in the product line.
4. *Competition:*
- Market shares held by the company and each competitor.
 - Description of the strategies adopted by major competitors in terms of product range and quality, promotion, pricing and distribution.
5. *Distribution:*
- Analysis of sales trends and developments in the major distribution channels.

Marketing threats and opportunities

An assessment of existing *and* potential threats and opportunities is made. As defined by Kotler:¹

- A *marketing threat* is a challenge posed by an unfavourable trend or specific event that would lead, in the absence of purposeful marketing action, to product stagnation or demise.
- A *marketing opportunity* is an attractive arena for company marketing action in which the particular company would enjoy a competitive advantage. The assessment of marketing opportunities includes gap analysis, ie the identification of gaps in the product range or segments of the market not covered by the company or its competitors and which can profitably be developed or penetrated by the company using its existing or potential resources.

Threats and opportunities can be categorized by using the grids in Figure 17.2. Immediate action is required for any threat or opportunity which is placed in the top left-hand high/high cell. No immediate action is needed for one placed in the low/low cell. Any threats or opportunities put into the high/low category will need to be monitored and outline longer-term or contingency plans will have to be prepared.

Future trends

The analysis of future trends takes the form of a summary of the results of market and sales forecasts and market research activity as follows:

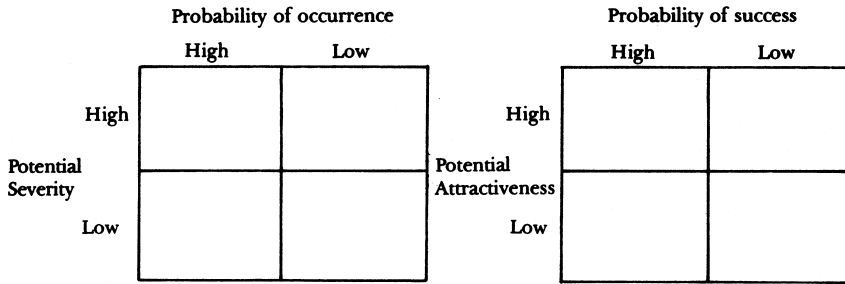


Figure 17.2 *Threat and opportunity grids*

- Economic data and forecasts.
- Industry data and forecasts.
- Competitor data – trends in market share.
- Factors influencing purchasing/using decisions such as quality, price, design, image, perceived market position, after-sales service.
- Objective forecasts of sales in the market generally, for product groups and for specific products.
- Subjective forecasts of likely trends in the market giving most optimistic, pessimistic and best estimate values.

MARKETING PLAN DECISIONS

The decisions incorporated into the marketing plan cover:

1. objectives;
2. policies;
3. strategies.

Marketing objectives

Marketing objectives are set out under the following headings:

- Market share – the degree to which the market is saturated.
- Market penetration – increase in sales to existing customers.
- Sales revenue for period of the plan.
- Contribution or profit on sales for the period of the plan. (Contribution is the difference between the sales revenue for a product and the marginal or variable costs directly attributed to it, which include variable manufacturing, selling and administrative costs. It thus indicates the contribution made by the product to profit and to covering fixed costs.)

Marketing policies

Marketing policies provide guidelines on the approach the company will adopt to market its products. The headings to be covered are as follows:

- *Market position.* Does the company want to maintain its position as market leader? Or does it want to become market leader?
- *Product development.* Is the company interested in achieving technological breakthroughs and introducing radically different products to the market or is it content to maintain and develop the present product range without making substantial changes?
- *Product quality.* What is the level of quality of the product or service that the company wishes to provide and what image does it want to present to its customers?
- *Pricing.* What price levels should be adopted for each product?
- *Promotional/advertising.* How much promotional or advertising effort will be put behind the product?
- *Packaging.* To what extent is the company going to rely on improved packaging to increase sales?

Marketing strategies

Marketing strategies are the broad approaches the company intends to adopt in the longer term to achieve its marketing objectives in accordance with its marketing policies. Strategies are developed for the following:

- *Target markets* – the market segments in which the company will concentrate and the marketing position it proposes to adopt in each segment (ie the extent to which it positions itself close to a competitor but establishes differentiation through product features and price/quality difference, or the extent to which it attacks holes in the market established by gap analysis).
- *Marketing mix* – the blend of controllable marketing variables required to produce the response wanted in the target market. The mix includes new products, prices, promotion, packaging, advertising, field sales and distribution.
- *Marketing expenditure* – how much will have to be spent to implement the various marketing strategies.

PLANS

Plans deal with the specific areas, as set out below, where action has to be taken to implement strategies and thus achieve objectives. They specify

not only what has to be done but also who does it and when it has to be accomplished:

1. *Research* – programmes of marketing research to obtain data on consumer behaviour and reactions.
2. *Product development* – plans to develop and launch new products or to reposition existing products.
3. *Sales promotion and advertising* – details of the promotional and advertising campaigns required to assist product launches or to increase market penetration.
4. *Sales* – plans for redeploying or expanding the sales force and for increasing its effectiveness.
5. *Distribution* – plans for improving the effectiveness of existing distribution channels or for opening up new channels.

MARKETING BUDGET

The marketing budget sets out for the whole company and each product group and product:

1. the targets for sales volume, sales revenue, gross margin (the amount by which sales revenue exceeds the factory cost of goods sold) or contribution (sales revenue less variable costs), and net profit; and
2. the marketing expenditure budgets for advertising promotion, research, field sales, distribution and the costs of the marketing department itself.

The budget will be strongly influenced by the processes of product-mix analysis and profit planning.

Product-mix analysis

Product-mix analysis aims to optimize profits by selling products in the most profitable ratio to one another.

Profit planning

Profit planning is carried out as follows:

1. Preliminary profit targets are set in line with corporate planning objectives.
2. Projections are made of sales revenue on the basis of the sales plans and the pricing policies which it is believed will achieve the desired profit target.

3. Estimates are made of fixed and variable costs in relation to projected activity levels.
4. The projected contribution to profits and fixed costs (sales revenue minus variable costs) is calculated.
5. Estimated fixed costs are deducted from the contribution to show the residual profit level.
6. Adjustments are then made as required and as possible either:
 - to sales plans, pricing policies or cost budgets to achieve the profit target – these adjustments may increase marketing expenditure if it is felt that the consequential increase in the 'bottom-line' profit figure would provide an acceptable return on that expenditure; or
 - to the profit target, on the basis of the assessment of what can realistically be achieved in terms of an increase in sales revenue or a reduction in costs.

REFERENCE

1. Kotler, P, *Marketing Management* (12th edition), Prentice-Hall, Englewood Cliffs, NJ 2005.

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- Baker, M, *Marketing Strategic Management* (2nd edition), Macmillan, London 1992.
- Westwood, J, *The Marketing Plan* (3rd edition), Kogan Page, London 2002.

18

Product Planning

DEFINITION

Product planning is the process of developing and maintaining a portfolio of products which will satisfy defined customer needs and wants, maximize profitability and make the best use of the skills and resources of the company. In this chapter, product planning is examined from the viewpoint of marketing. The operational aspects of product planning are covered in Chapters 29 and 30.

REASONS FOR PRODUCT PLANNING

- The best consumer marketers have long known that safety lies not in products but in portfolios of products (Robert Heller).¹
- A truly marketing-minded firm tries to create value-satisfying goods and services that customers will want to buy. What it offers for sale includes not only the genetic product or service but also how it is made available to the customer, in what form, when, under what conditions and what terms of trade. Most important, what it offers for sale is determined not by the seller but by the buyer. The seller takes his or her cues from the buyer in such a way that the product becomes a consequence of the marketing effort, not vice versa (Theodore Levitt).²
- (1) The form of a product is a variable, not given in developing market strategy. Products are planned and developed to serve markets. (2) The 'product' is what the product does; it is the total package of benefits the customer receives where he or she buys... Even though a product

might, in its narrow sense, be indifferentiable, an individual supplier may differentiate his or her product from competitive offerings through service, product availability, and brand image, and differentiation in one respect or another is the basis for developing a market franchise (E Raymond Corey).³

- The main job of distribution is not to get rid of what production makes; it is to tell production what it ought to make (Lyndall F Urwick).⁴
- A product is, to the potential buyer, a complex cluster of value satisfactions... a product has meaning only from the viewpoint of the buyer or the ultimate user. Only the buyer or user can assign value, because value can reside only in the benefits he or she wants or perceives (Theodore Levitt).⁵

THE COMPONENTS OF PRODUCT PLANNING

Product planning requires decisions followed by action on:

1. the product line;
2. the product mix;
3. branding;
4. packaging;
5. new product development.

PRODUCT LINE ANALYSIS

A product line is a group of products that are closely related, either because they have similar characteristics or because they are sold to the same type of customer. Cars would be one product line in a vehicle manufacturing company.

Product line analysis involves looking at, first, the viability of each individual product using *product life-cycle analysis* techniques. Second, product line analysis considers the length of the line. The line is too short if profits can be increased by lengthening it; too long if profits can be increased by shortening it.

Product line analysis will lead to decisions on the extent to which the company wants to:

- extend the product line into the higher or lower end of the market; or
- concentrate in the higher, middle or lower end of the market.

It will also determine policy on the extent to which it is necessary to increase the differentiation of products in the line to increase or maintain sales.

PRODUCT-MIX ANALYSIS

The product mix is the set of all product lines and the numbers of models, sizes and other significant product variations within each line that a company offers for sale.

Product-mix analysis leads to decisions on whether the company should add new product lines to the mix or remove existing ones. The decisions will be affected by market research on potential demand, gap analysis and by obtaining answers to the basic corporate planning questions, namely:

1. What business is the company in?
2. What are the strengths and weaknesses of the company?
3. What are the opportunities and threats facing the company?

The product mix will be widened if the analysis shows that the new line is potentially profitable, not only because it meets consumer needs but also because it capitalizes on the company's reputation in its other lines and uses the skills and resources available to the company.

Decisions to remove non-profitable lines will be influenced by variety reduction techniques, as described in Chapter 128.

BRANDING

A brand is the name or design which identifies the products or services of a manufacturer and distinguishes them from those of competitors. Brand names may be given to individual products or to a complete product line. Branding is the process of deciding what brands the company should offer.

Branding differentiates the product, thus bringing it to the attention of buyers. It provides information on quality and can be used to attract a loyal and profitable set of customers, thus creating brand loyalty. Branding also helps to segment the market – a basic product can be differentiated into several brands, each appealing to a different group of buyers.

Branding decisions are based on market assessment and research. They will be affected by the answers obtained to such questions as the following:

1. Is a brand name necessary?
2. How much quality should be built into the brand?
3. Should products be individually or family branded?
4. Should other products be given the same brand name?
5. To what extent can or should the market be segmented?
6. Should additional brands be developed in existing product categories to exploit different market segments?

7. Should the brand be repositioned to increase market share or to re-establish itself?

PACKAGING

Packaging is the process of designing the container or wrapper for a product and is an essential element in product and brand development. The packaging concept is what the package should basically be or do for a product. The basic purposes of the package are to protect the goods in storage or in transit and to help the customer use the product. But packages also sell the product by conveying brand image – ie the benefits promised by the brand to the consumer – and by facilitating the instant recognition of the brand in shops and advertisements.

NEW PRODUCT DEVELOPMENT

New product development is the process of:

1. identifying and evaluating new product opportunities and developing them to meet market and consumer wants and needs; and
2. testing the marketability of new products.

Identifying new product opportunities

The process of identifying new product opportunities starts by establishing search criteria. These are as follows:

- The special skills or competences of the company.
- Its experience in particular fields of development, marketing and selling.
- The experience available to it in the shape of research, development and manufacturing facilities, finance for development, the availability of means of access to customers through retail outlets, wholesalers, distributors or dealer networks, agents, mailing lists, and the number or quality of people required in each of the areas of research and development, manufacturing, marketing, sales and distribution.

Ideas for new products are generated from research and development projects, market research activities and *technological forecasting*.

Evaluation and screening

New product ideas are evaluated and screened by obtaining answers to the following questions:

1. Does it meet a well-defined consumer need?
2. In which segment(s) of the market can this product be sold?
3. Can it be differentiated adequately from alternative products in the appropriate segment(s)?
4. How well does it fit in with the existing product range?
5. Does it exploit the company's existing skills and resources?
6. What investment is required in developing and introducing the new product?
7. What is the likely return on that investment?

Concept development and testing

Following screening, new product ideas are developed into product concepts which define the potential market for the product, the benefits the product will provide to consumers and its positioning, ie how it stands in relation to alternatives and how its distinctiveness can be established and maintained in the minds of purchasers.

Concepts are tested by means of consumer research, for example, by presenting members of the public with a prototype and getting them to answer questions which will assess their reactions to what is being offered.

Test marketing

New products can be tested by launching them on a limited scale in a representative market. The aims are to obtain information on consumer reaction, to provide a basis for forecasting future sales and to pre-test advertising, promotional and merchandising approaches.

In a typical market test, the company selects a small number of representative towns in which the sales force will persuade shops to carry the product and give it good shelf exposure. An advertising and promotional campaign will be mounted in these markets similar to the one planned for use in national marketing.

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2. Levitt, T, 'Marketing Myopia', *Harvard Business Review*, July–August 1960.

3. Corey, E R, *Industrial Marketing: Cases and Concepts*, Prentice-Hall, Englewood Cliffs, NJ 1976.
4. Urwick, L, *The Elements of Administration*, Pitman, London 1947.
5. Levitt, T, *The Marketing Imagination*, Free Press, New York 1983.

19

Sales Planning

DEFINITION

Sales planning decides how sales targets are to be reached and sets standards for their achievement. It ensures that the objectives set in the marketing planning process are achieved.

THE SALES PLANNING PROCESS

Sales planning is related to the marketing plans and uses research and control data on potential and actual sales. It is carried out in the following stages:

1. Set overall sales targets – for the year and for each sales period or month.
2. Decide on an acceptable level of selling costs in relation to sales, prepare cost budgets and set an overall target for the ratio of selling costs to sales. Sales costs include not only the cost of the sales force but also the cost of price concessions, service to accounts and the adjustment of complaints.
3. Evaluate existing sales resources by region and area to establish from recent performance what sales results can be achieved, given effective training and motivation.
4. Analyse the sales results achieved in each region and area to decide whether additional sales resources or effort will produce better results.

5. Analyse product profitability so that effort can be directed through call planning or incentives to where the best return will be obtained on selling costs, thus achieving a more profitable product mix.
6. Analyse the sales obtained from individual accounts to establish where the best results can be obtained in relation to sales effort.
7. On the basis of the evaluation and analysis carried out by stages (2) to (5) above:
 - decide how many sales staff are ideally required;
 - calculate the total cost of the field sales force and assume that these costs are within budget and that the target ratio of costs to sales will be achieved, if necessary modifying the number of sales staff and, therefore, sales costs to the required level;
 - decide how the field sales force is to be deployed by region and area; and
 - ensure through sales management that call schedules are prepared for each sales representative so that the best use is made of his or her time and important accounts are handled properly.
8. Set sales targets for each region, area and territory.
9. Set targets for the acquisition of new accounts and the sales to be achieved from those accounts.
10. Set quantitative standards for:
 - call rates – the number of calls made by a sales representative per day, week or month;
 - the proportion of calls that result in an order; and
 - the average sales per call – these targets will be varied according to the classification of accounts within the sales representative's territory into, say, large, medium or small.
11. Set qualitative standards for sales calls in terms of:
 - the information content of the call – the extent to which the sales representative is aware of the qualities of the products sold and of the customer's needs;
 - the effectiveness of the call as an act of communication – the extent to which the message is delivered in an understandable and convincing manner; and
 - the interpersonal aspects of the call – the extent to which the sales representative establishes and maintains a good relationship with the customer.
12. Devise training programmes for sales management and sales representatives to improve performance.
13. Design incentive schemes which will channel greater effort in the right direction.
14. Set up programmes for communicating to the sales force through sales management in order to inspire greater effort and to ensure that

everyone is aware of the targets and standards they have to meet and how they are expected to achieve them.

BENEFITS

Sales planning along the lines described above ensures that:

- the resources needed are deployed properly;
- the targets and standards required at all levels are set and communicated clearly;
- sales effort is directed where it will achieve the most profitable results;
- the return on sales effort and the costs thereof are maximized; and
- a sound basis is provided for the control of sales performance.

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Web Marketing

DEFINITION

Web marketing is the process of promoting business and selling to customers through the use of the internet. It is commonly referred to as e-commerce.

THE WEB MARKETING PROCESS

The internet marketing process, as described by Judy Davis,¹ is summarized in Figure 20.1.

OBJECTIVES

The marketing objectives of using the internet are defined by Davis as follows:

- *Increasing brand and/or company awareness* – the web can raise awareness but its reach may still be smaller than traditional media. The web can supplement or complement other campaigns; it is unlikely to replace them.
- *Build brand image* – the web can extend brand definition. It is particularly appropriate, by association, for creating and monitoring the credibility of high-tech companies and their products or services.

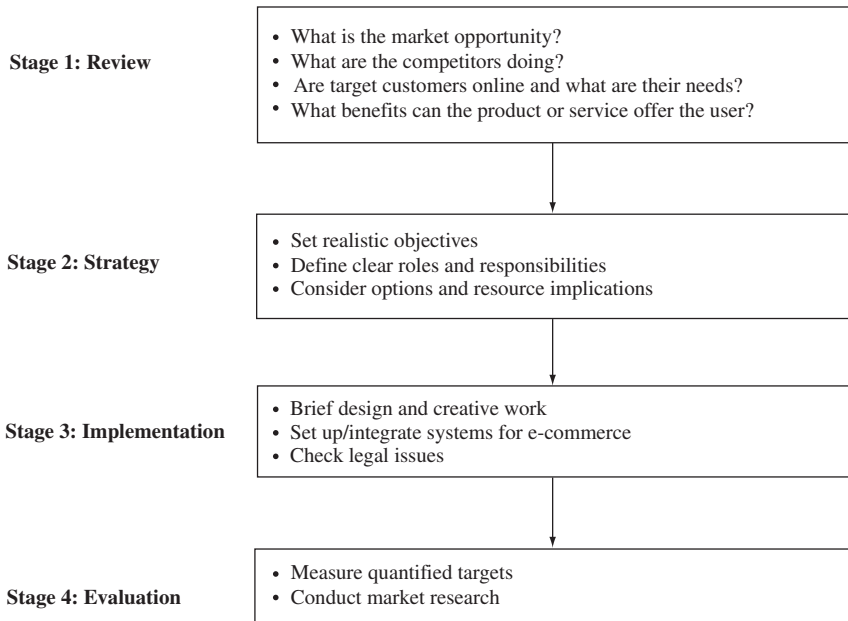


Figure 20.1 *Summary of the internet marketing process*

- *Increase sales* – the web can provide extensive and vivid information about a product. It can be used to attract sales enquiries (which may be followed up by traditional means) and to link potential buyers to a site where products can be bought online. The site provides the basis for ‘one-to-one’ marketing and corporate promotional offers.
- *Generate loyalty* – customers who actively decide to visit a website are likely to be attracted by the brand offer. Many of them will have bought the product already and can be rewarded accordingly with special offers.
- *Reduce costs* – websites provide automatic ordering, invoicing and customer services and cut down on time and paperwork. A web catalogue is cheaper to update and distribute than a printed one.

SPECIFIC AIMS OF A WEBSITE

To achieve the objectives described above, the specific aims of a website are to:

- attract interest – providing a reason to visit the site (the ‘hook’);
- generate traffic (hits);
- encourage return visits.

DEVELOPING A WEBSITE

The stages of developing a website are:

1. *Create interest* – the aim is to attract interest (to provide a ‘hook’) that will generate visits and sales.
2. *Design* – the design of the site should be attractive, but it is equally, if not more, important to ensure that it is easy to navigate. Users must be able to register easily, to find what they want to know quickly, and to place orders or ask for information without getting lost in a complex sequence of actions. Care should be taken over the design of site maps that guide users from one part of the site to another.
3. *Develop content* – the language should be informal and the text needs to be broken down into easily assimilated chunks. The patience of website visitors is limited and if there is too much indigestible prose, they will move on.
4. *Programme* – the site needs to be programmed to enable a web browser to use animation, video and, possibly, audio files. Multimedia effects can be added and web pages can be programmed to be interactive. It is important to minimize downloading time in order to be user-friendly, however, and the simplest approach may sometimes be the best. Systems need to be set up for handling transactions.
5. *Maximize traffic* – the site should be indexed and cross-referenced so that it is flagged up by the major search engines used by potential customers.
6. *Financing* – finance has to be obtained to fund the development of the website. Static pages (with no interactive elements) are cheaper. The costs will include the design of the site, expenses incurred in inputting material and agency fees.

BENEFITS

The benefits of web marketing are clearly the ability to gain access to many more customers, to enhance brand or company image and to generate interest and sales.

REFERENCE

1. Davis, J, *A Guide to Web Marketing*, Kogan Page, London 2000.

21

Relationship Marketing

DEFINITION

Relationship marketing is an approach to marketing which emphasizes the continuing relationships which should exist between the organization and its customers, with the emphasis on customer service and quality. Relationship marketing is therefore primarily a concept which adds customer service and quality to the traditional marketing mix of product, price, promotion and place.

DEFINITION OF THE CONCEPT

The term 'relationship marketing' was first formulated by Theodore Levitt in *The Marketing Imagination*.¹ He suggested that the relationship between a seller and a buyer seldom ends when the sale is made: 'In a great and increasing proportion of transactions, the relationship actually intensifies subsequent to the sale. This becomes the central factor in the buyer's choice of the seller the next time around.' According to Levitt the relationship between the buyer and the seller is 'inextricable, inescapable and profound'.

OBJECTIVES

The objectives of relationship marketing are to:

- achieve competitive advantage by creating value for the firm's customers;
- ensure that enough value is created in the sale to bring customers back for more; and
- build and maintain mutually satisfying relationships with customers.

ESSENCE OF RELATIONSHIP MARKETING

The essence of relationship marketing is contained within the concepts of:

- the value chain;
- the basic dimensions of quality and service support;
- specific quality solutions; and
- service support activities.

The value chain

The concept of the value chain was developed by Michael Porter² as a tool to identify those of the firm's activities which are strategically relevant. Service and the value provided to the customer are integral and key parts of this chain, leading to competitive advantage.

Quality solutions

The basic dimensions for the provision of quality solutions in relationship marketing as set out by Berry *et al*³ are as follows:

- *Reliability* – the ability to perform the promised service dependably, accurately and consistently. This means doing it right, over a period of time.
- *Responsiveness* – prompt service and willingness to help customers, which requires both speed and flexibility.
- *Assurance* – knowledge and courtesy of staff and their ability to inspire trust and confidence.
- *Empathy* – caring and individualized attention to customers.
- *Tangibles* – physical facilities, equipment and staff appearance.

Service support activities

Service support activities as defined by Christopher *et al*⁴ are designed to be perceived by customers as being of unique value, thus extending the offer beyond the customer's expectations and contributing to a shift in the

customer's perceptions of the firm and its products. Service support includes such activities as pre-sale information, objective advice, care and attention during the sales negotiation, financing options, and after-sales support in the form of warranties, accessories and repair services.

DEVELOPING A RELATIONSHIP MARKETING APPROACH

The development of a relationship marketing approach requires the alignment of the three functions of marketing, customer service and quality. This involves the following:

- Charting the service delivery system and setting standards for each part of the system, especially the 'encounter points' – the critical events in the system when the customer comes face to face with the service process.
- Identifying critical service issues by research and analysis of customer needs and reactions.
- Setting service standards for all aspects of service delivery.
- Developing customer communication systems which define service standards and how the company is achieving them.
- Developing programmes for contacting and maintaining good and continuing relationships with customers with the aim of retaining their loyalty.
- Instituting intensive training courses for staff on their responsibility for building and maintaining good relationships with customers.
- Monitoring service standards and rewarding staff for exceeding service levels while taking corrective action if service levels are persistently substandard.
- Ensuring that all staff in all functions (operations, distribution and support services as well as sales and marketing) are fully aware at all times that customer service and qualities are key elements in the marketing mix, and that it is their responsibility to achieve the high levels of performance required.

BENEFITS

The benefits of relationship marketing are:

- focus on providing value to customers;
- emphasis on customer retention;

- the integrated approach to marketing, service and quality provides a firmer basis for achieving sustainable competitive advantage; and
- the importance of quality and service support is made absolutely clear to *all* staff.

REFERENCES

1. Levitt, T, *The Marketing Imagination*, Free Press, New York 1983.
2. Porter, M E, *Competitive Advantage*, Free Press, New York 1984.
3. Berry, L, Shostack, G and Upah, G, *Emerging Perspectives in Services Marketing*, American Marketing Association, Chicago 1983.
4. Christopher, M, Payne, A and Ballantyne, D, *Relationship Marketing*, Butterworth-Heinemann, Oxford 1991.

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Database Marketing

DEFINITION

Database marketing uses information held on a computer database about existing or potential customers in such a way as to improve the effectiveness of the marketing and selling activities of the business.

A database is a set of data entries which is held on a computer and organized by a software package. It enables users to relate, collate, summarize and reproduce the data entries in accordance with defined parameters and criteria.

OBJECTIVE

The objective of database marketing is to exploit information held about customers in a way which maximizes the value of such information as a means of targeting them in accordance with their needs and buying habits.

APPLICATIONS

Database marketing is associated primarily with direct mail, which is a method of selling goods or services by means of communication to individuals through the post. Database techniques also offer a means of defining and refining markets.

More specifically, database marketing enables business to:

- target advertising and mail shots on the basis of a better understanding of the buying habits and wants of individual customers;
- plan the deployment of sales representatives to concentrate their efforts on more likely prospects;
- manage telesales by providing the telesales team with immediate access to customer information;
- plan the location of retail outlets in accordance with an understanding of potential demand;
- handle queries and complaints more easily, especially if an online database exists (ie if information from the database is instantly available);
- enhance loyalty by providing a personalized service; and
- obtain direct customer feedback on the degree to which they are satisfied and why.

DEVELOPING A DATABASE

The steps required to set up a database are to:

1. decide on the information required;
2. decide on the sources of that information; and
3. set up the software systems required to operate the database.

Information requirements

Information requirements will depend entirely on the type of business, its marketing strategies, how it carries out marketing and selling activities and the target population of existing customers or prospects (the 'audience' in mail-order operations). The headings under which information may be gathered or stored comprise the following:

- *Customer data* – names and addresses and information on all sales transactions: products bought, number of purchases, total and average value of payments, date of last order, response to promotions, method of payment and speed of payment.
- *Demographic data* – statistical information about population groups covering such areas as numbers by age and marital status, type of housing and socio-economic conditions such as numbers in certain types of occupation, levels of car ownership, etc. The aim is to obtain information which describes groups of people so that it is possible to differentiate one group from another. The assumption is then made that differences in the demographic make-up of groups will be reflected in differences in purchasing behaviour. The demographic profile is then

attached to individual households in the district and sales can be targeted to those who, on the balance of probabilities, are potentially the most responsive customers.

- *Psychographic data* – information about the personal characteristics of customers covering such items as their household, their possessions, their interests and their buying behaviour.

Information sources

The main information sources are as follows:

- *Customer data*. Obviously, this is collected from records of sales transactions. When designing the database it will be necessary to specify precisely what data is required and modify the data-processing systems accordingly. It will be essential to provide precise postcodes (this can be done through a specialized computer bureau).
- *Demographic data*. This can be obtained from the census. It is necessary to analyse each enumeration district (the smallest available building block of census data) to establish its demographic profile – the characteristics of residents in the district. This profile will not accurately describe every household but will probably apply to a sufficiently large proportion of them to justify targeting sales to all residents in accordance with the overall profile. Organizations such as Acorn can provide demographic profiles of their clients' customers.
- *Psychographic data*. This can be provided by organizations such as Behaviour Bank and Lifestyle Selector. They obtain their information through surveys which involve the completion of questionnaires by people and their subsequent analysis.

Setting up software systems

A database marketing system is often founded on some form of DBMS (database management system) upon which is built whatever application software is required. This software can be obtained from a software house as a package, or it can be custom-built by a software consultancy.

BENEFITS

The benefits of database marketing are:

- the ability to generate business at a lower cost per order;
- an increase in the productivity of sales representatives and assistants; and
- the capacity to respond more accurately to customer needs and wants.

FURTHER READING

Fairlie, R, *The Marketing Person's Guide to Database Marketing*, Exley Publications, Watford 1990.

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Marketing Control

DEFINITION

Marketing control measures performance against plans so that swift action can be taken to correct adverse variances and amendments can be made as required to marketing plans.

THE CONTROL PROCESS

The basis of control is measurement, so that what has been achieved can be compared with what should have been achieved. The control process consists of:

1. planning what is to be achieved;
2. measuring regularly what has been achieved;
3. comparing actual achievements with the plan; and
4. taking action to exploit opportunities revealed by this information or to correct deviations from the plan.

THE ELEMENTS OF MARKETING CONTROL

The headings under which marketing control is exercised are the same as those used for setting targets and budgets in the marketing plan:

- sales volume and revenue;
- gross margin or contribution;
- net profits;
- market share;
- marketing expense.

Under each heading, any variances between the plan and performance are identified. The reasons for the variance are then established, which should indicate the corrective action to be taken.

SALES ANALYSIS

Performance data

Total sales and sales by product or product group are measured in unit and revenue terms for each month or four-week period. These results are compared with the forecast and the positive or negative variance recorded.

Sales are also measured on a cumulative year-to-date basis and compared with the forecast. Information is recorded for comparative purposes on the sales achieved in the corresponding period in the previous year and for the corresponding year-to-date figure for the previous year. An example of this type of analysis is given in Table 23.1.

Table 23.1 *Marketing control data*

	This month			Year-to-date		
	<i>Actual</i>	<i>Forecast</i>	<i>Previous year</i>	<i>Actual</i>	<i>Forecast</i>	<i>Previous year</i>
<i>Sales</i> <i>£000</i>	2,856	2,888	2,710	18,414	17,310	16,500

Charting sales data

Actual sales are displayed and compared with the forecast by use of the Z chart (see Figure 23.1). The name arises because the pattern on such a graph forms a rough letter Z. The chart records four items of information:

1. Actual sales for the month or period.
2. Cumulative total actual sales for the year to date.
3. The moving annual average of actual sales.
4. The forecast cumulative sales.

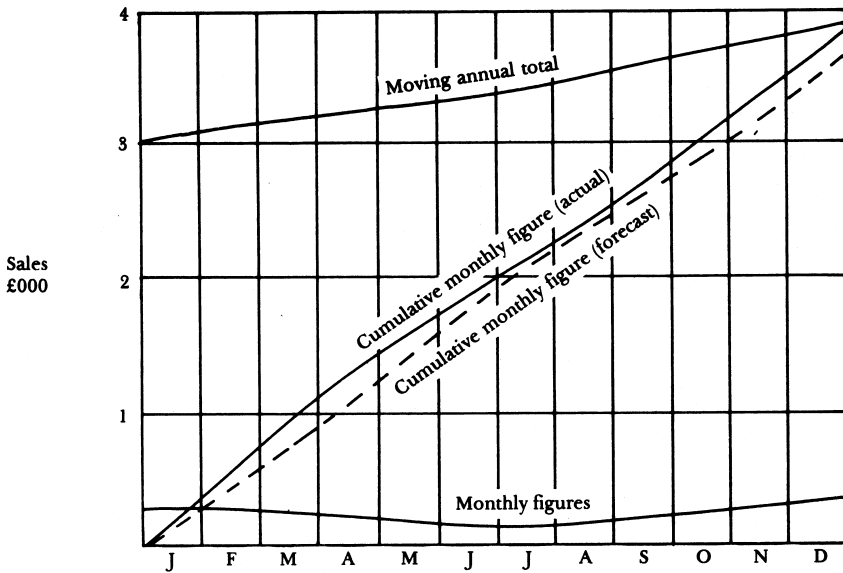


Figure 23.1 Z chart used for marketing control

Variance analysis

Variances are analysed to find out why they have happened. Corrective action should follow where necessary. Variances can be caused by one or a combination of any of the following three factors and should be assessed accordingly:

1. *Sales price variance* – differences between the budget price and actual price.
2. *Sales volume variance* – differences between forecast and actual sales.
3. *Product mix variance* – variations in the mix of products where the pattern of products actually sold differs from the pattern upon which the forecast was based.

Variance analysis may reveal inadequacies in performance, but it could indicate unrealistic (ie over-optimistic or unduly pessimistic targets or budgets).

CONTRIBUTION ANALYSIS

The analysis of contribution is made on the same lines as for sales, ie actuals are compared with budget and with the previous year on a monthly or period and year-to-date basis.

Variances in contribution are attributable to differences between forecast and actual sales or between budgeted and actual variable costs. As sales variances will have been separately analysed, the assessment of contribution variances concentrates on variable costs, ie the unit cost of the product sold plus the variable selling costs specifically incurred in selling more of the product. Variances can be caused by differences between actual and budgeted costs or by variations in the product mix.

MARKETING COSTS

Marketing costs are those directly incurred by the marketing and sales departments, ie market research, sales promotion, advertising, distribution and the costs of running the marketing department and the field sales organization.

Marketing costs are analysed in the same way as sales and contribution – the analysis of variances should not only establish why they have happened but also what results have been obtained from any extra expenditure incurred, eg an estimate of the impact on sales of spending more on promotion or advertising.

NET PROFITS

Net profit is sales revenue minus marginal costs (equals contribution) minus fixed costs (fixed factory overheads, marketing, distribution, research and development, financial and administrative costs) and minus tax. This is the 'bottom line' from the marketing point of view. The only additional factor subject to marketing control which may contribute to variances is that of marketing and distribution costs, which are analysed separately. But the marketing function has a key responsibility for achieving the net profit budget and must regard this as the ultimate measure of its performance.

MARKET SHARE

The forecast and actual market shares are compared under two headings:

1. *Market saturation* – the relationship between actual market volume of sales and market potential. A market segment is saturated when actual volume equals market potential (100 per cent) and degrees of saturation are expressed as percentages. The degree of saturation achieved against

budget indicates the extent to which marketing opportunities have been seized or are still available for further exploitation.

2. *Market penetration* – the relationship between actual market share in terms of sales and the actual market volume. Degrees of market penetration are expressed as percentages, and the overall effectiveness of marketing strategies and plans are assessed by comparing targets for increasing market penetration with the results achieved.

BENEFITS

Monitoring control information is the best way to ensure that what was intended has been done. More importantly, the analysis of variances points the way to future action. In addition, this analysis highlights any faults in the forecasting and budgeting process which can be corrected in the future.

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Sales Control

DEFINITION

Sales control monitors sales performance in the field against the plan and initiates corrective action where targets or standards are not being achieved.

THE PROCESS OF SALES CONTROL

Sales control is exercised by comparing the results achieved with the targets, standards and budgets contained in the plan. It is directed towards the inputs and outputs of the sales force (field or internal) and the overall result they achieved.

This section concentrates on field sales control as the most important element in most companies. The process of field sales control is illustrated in Figure 24.1.

CONTROLLING SALES EFFORT IN THE FIELD

The control of sales effort in the field is effected by measuring achievements under the three input variables shown in Figure 24.1:

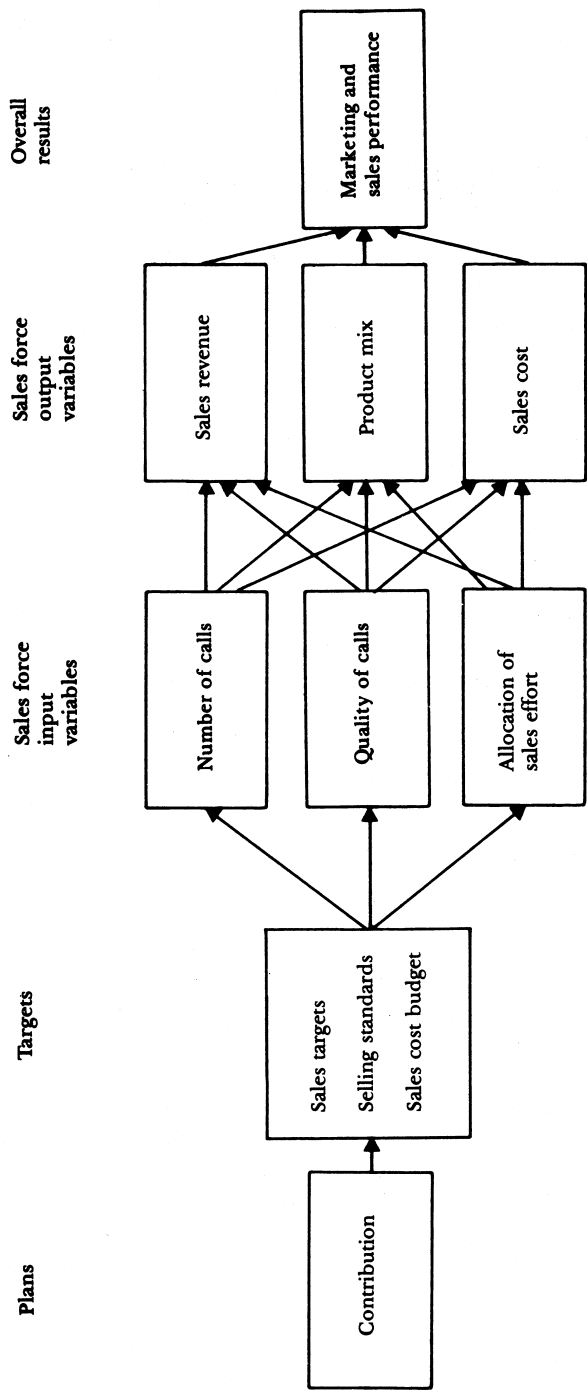


Figure 24.1 The field sales control process

1. The number of calls made by representatives against targets.
2. The quality of those calls against the quantitative targets for success and sales per call and the qualitative standards for the effectiveness of the sales representative during the calls.
3. The allocation of sales effort by sales management to achieve economy and effectiveness in the deployment of sales representatives. The objective is to obtain the optimum frequency of calls on large, medium and small customers, and on large, medium and small prospects, that will maximize the profit return per unit of sales effort expended.

The quantitative information is obtained by returns and reports originally from the individual sales representatives for their territories and analysed by area and region. The qualitative information is obtained by regular performance reports on sales representatives from sales management.

CONTROLLING SALES PERFORMANCE IN THE FIELD

Sales performance in the field is controlled under three headings:

1. Sales revenue against targets, for the company as a whole, for each region, area, territory and major outlet, and for each product line.
2. Product mix – the extent to which sales effort is being directed to the products producing higher profits, so that a more profitable product mix is achieved (the tendency for sales representatives to sell volume rather than optimize profitability must be controlled).
3. Selling costs expressed as actual against budget and as an actual ratio of costs to sales against the target ratio.

OVERALL CONTROL

The best overall measure of sales performance in the field is the contribution. The sales force sells the products at a margin, and this margin, minus all costs of the selling operation – sales representatives' salaries and commission, sales management and supervision costs, travel expenses, special discounts and interest on accounts receivable – represents the contribution of the sales department to corporate net profits and fixed costs.

BENEFITS

Managing a sales force consisting of independent-minded people scattered far and wide is never easy. It becomes impossible if the systems for monitoring sales performance are inadequate. Information not only on sales but also on what the sales force is actually doing and how well they are doing it is essential to maintain a sense of direction towards achieving corporate sales targets.

FURTHER READING

Henry, P, 'Manage your sales force as a system', *Harvard Business Review*, March–April 1975.

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