## **MARKETING**

# Ádám Novotny



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# Ádám Novotny



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### 1. Introduction

### 1.1 OBJECTIVES, COMPETENCES, REQUIREMENTS

### 1.1.1 Objectives

The objective of the Marketing course is to introduce students to the fundamental concepts and tools of marketing, as well as to help them in acquiring a customer-centred way of thinking. The course aims at reaching its goals by giving a clear and brief presentation of the most important marketing theories and activities, while also showing real life examples to illustrate how the presented marketing tools and concepts can be applied in practice.

Within this course students will learn about:

- The basic concepts and tools of marketing that make them realize the importance of marketing in the successful operation of organizations.
- The process and steps of marketing and marketing management.
- The creative use of marketing tools in strategy formulation and in devising marketing programs that facilitate the implementation of strategies.
- The decisions company managers and marketing managers have to face regularly.

The main goal of the course is to make students realize that marketing is not only an organizational function, but a comprehensive business approach that has an impact on all areas of organizational behaviour and activities including finance, human resources, information technology, etc., in order to create effective relationships with consumers and other business partners.

This course book equips students with up-to-date and standard marketing knowledge that meets the requirements of international higher education. Its primary sources are textbooks written by one of the best-known marketing gurus, Philip Kotler, including **Kotler & Armstrong: Principles of Marketing** (2014) and **Kotler & Keller: Marketing Management** (2012). The fulfilment of the course requirements should be acknowledged internationally and regarded as a proof of basic marketing knowledge.

### 1.1.2 Competences – Knowledge and Skills

During the Marketing course students will not only study the process, basic concepts and tools of marketing, but will learn how to apply them in:

- identifying the needs and wants of customers,
- creating strategies,
- developing marketing offerings,
- delivering products and services to customers, and
- communicating with customers.

With the help of the acquired competences, students will be able to contribute to the success of both business and non-profit organizations by developing and implementing marketing tasks and processes. They will be able to make decisions based on the rules of marketing, either as managers and entrepreneurs or employees. They will develop a strategic perspective, consumer and societal orientation, and also understand the importance of sustainability and marketing ethics. The ultimate goal of this course is to prepare students for contributing to the long-term market success of various types of organizations with strong commitment to satisfying the needs of consumers and the society.

### 1.1.3 Requirements

The students who successfully fulfil the course requirements can define the most important marketing concepts, understand the relationship between them and realize the importance of marketing in the long-term operation of business and non-business organizations. They know the process of marketing and can explain the major decisions that should be made at each step. They can apply the marketing tools in various business situations and in the process of marketing planning. They are able to prepare market and situation analyses for established organizations and can plan the marketing activities of newly created firms.

### Strategic Target planning marketing (7) (4) environment (5) behaviou Product (6) Pricing Place narketing process (3) marketing important MARKETING Summar (13) Media Glossan Final exam Mock exam

### 1.2 THE COURSE CONTENT

1. Figure: The structure of the learning material

#### 1.3 LEARNING ADVICES

The course consists of 15 chapters, which indeed cover 11 marketing topics. The first chapter that you are reading at the moment is the Introduction, while the last three are the Summary, Appendices and Tests. The 11 marketing topics can be divided into three modules in the following distribution: 2-4-5.

The **first module** contains two lessons which highlight the importance and areas of marketing. The lessons present the basic marketing concepts and tasks, as well as the development of the field.

Basically, marketing can be divided into two broad areas. Strategic marketing is practiced by senior managers, who make decisions on who the organization should serve (target market) and how it should serve them (positioning and marketing program). Strategic decisions are discussed in the **second module**. This module also deals with how organizations can collect data from customers and other business

partners (marketing information system) to create profitable strategies and superior customer value.

The lessons of the **third module** present marketing tactics on the basis of the "4P" concept. Questions include what products and services a company should market (Product), how much it should charge to customers (Price), how it can make its products/services accessible for customers (Place), and what communication channels and tools it should apply to reach the target audience (Promotion). The last lesson of the module (and the book) deals with the special areas of marketing, including non-business marketing, international marketing, online marketing, new product development and socially responsible marketing.

Students can read about the objectives of a given lesson at the beginning of each chapter. At the end of the chapters they find summary, open-ended questions and multiple-choice tests. Questions and tests summarize the main points of the chapters and give feedback to students on the level of their understanding the actual topic. It is especially important to answer all open-ended questions in order to gain a thorough understanding of the whole chapter, even by browsing through the content of the chapter again and again to find the correct answers. In case of the multiple-choice tests, a success rate of at least 60% is regarded as acceptable.

To make it easier to follow the book's logic, there are small icons placed next to certain elements of the content, such as *definitions*, *notes*, *examples* or *tasks*. The *definitions* are grouped together in alphabetical order at the end of the book as well. *Tasks* make studying more effective and interesting, while *examples* show how concepts can be applied in real business situations. Finally, *notes* help students to the better understand the concepts and integrate new information with previously acquired knowledge.

### 2. WHY IS MARKETING IMPORTANT?

### 2.1 OBJECTIVES AND COMPETENCES

We can best understand the essence of marketing if we review the scope of its activities including the most popular marketing concepts. Hence the main questions covered in this lesson are as follows:

- What are the main tasks of marketing (and marketing professionals)?
- What types of organizations are engaged in marketing activities?
- What are the most important concepts of marketing?

Laypeople often think about marketing as it was nothing else than designing attractive ads or aggressively selling unwanted products. Indeed, communication and selling is only the tip of the iceberg. First, every organization has to decide who its customers are, and what its customers want. In other words, what products and services it will offer to its target audience to satisfy their needs profitably.

After reading this chapter, students will understand why organizations have to deal with marketing tasks in a systematic manner. They will learn about the different types of markets and the different types of market offerings. Marketing is not only vital for profit-oriented firms but has a growing importance for non-business organizations as well, such as public utilities, schools, hospitals, political parties, churches, etc.

In this lesson, the fundamental concepts of marketing are grouped on the basis of their relationship with the most important actors of the market: buyers and sellers. The lesson also aims at developing a consumer-oriented mindset or attitude, which is in fact the heart of all marketing activities.

#### Anv Products valuable Services thing Brand The market Consumer offering markets (2) Competition Business Fundamental What is Types of Marketing environment concepts: markets markets chain Government concepts Marketing channel markets Customers Customer Satisfaction CLV Need CRM Demand Customer Want

#### 2.2 COURSE MATERIAL

2. Figure: Concept map

### 2.2.1 What is marketing?

equity

To put it simply, marketing is meeting customer needs profitably. Marketing aims at obtaining new customers and retaining existing ones. As it is impossible for any type of organization to operate without customers, the importance of marketing has already been proven. Marketing is becoming increasingly important for non-business organizations as well, who try to incorporate a customer-oriented mindset into their core values and satisfy the needs of their various stakeholders (e.g. employees, local and national state, society).

Without customers, clients or members no organization can exist. Organizations have to maintain good relations with multiple interest groups. Schools for example have to meet the needs of students, parents, future employers and the government. Moreover, as it is in the interest of the whole country that citizens are educated and appropriately skilled in various occupations, schools have to meet the expectations of the society too.

Marketing can be seen everywhere, on television, on the Internet, in the mailbox or in the street, however, it is much more than an audiovisual tool for promoting products and services. The marketing communication is only the tip of the iceberg. A market offering has to be developed in the first place, which is attractive and effective at the same time, and delivers value for both customers and companies.



3. Figure: Promotion is only the tip of the iceberg. A much larger part of marketing is below the surface and cannot be seen by consumers.

If we had to highlight the most important thing in marketing, we would underline the understanding of consumers. Many marketing experts believe that marketing works best if it means total customer-orientation. Marketing in a broad sense is regarded as a corporate philosophy that places the customer in the centre of the organization. In a narrower sense, it refers to a corporate function that aims at creating, communicating and delivering value (products, services, ideas, etc.) to target customers at a profit.

According to the American Marketing Association, marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. (July 2013).

- Find three definitions of marketing on the Internet and compare them. What are their similarities and differences? Create your own definition of marketing.
- ? Why do many people believe that marketing is nothing else than advertising and promotion? Why aren't they right?

### 2.2.2 Types of market offerings

When we think of marketing we tend to think of selling tangible objects, i.e. physical products such as food, mobile phones, cars or industrial equipment. In a broad meaning marketing covers the exchange of everything that means value for somebody, including services, events, beliefs, etc. Marketing has relevance in several non-business areas as well, including public institutions, utilities, non-profit and non-governmental organizations.

Note: Today, services in the areas of finance, health, education, entertainment, tourism, etc. make up the bulk of the economy in developed countries. Besides, most market offerings are a mix of products and services. We will discuss the specific characteristics of marketing services in lesson 8.

Marketing expands into the fields of (Kotler & Keller 2012):

- 1. products (food, car, electric goods, etc.),
- 2. services (plumber, bookkeeper, lawyer, restaurant, etc.),
- 3. events (sports events, festivals, exhibitions, etc.),
- 4. persons (professional athletes, musicians, actors, etc.),
- 5. places (towns, regions, countries, continents, etc.),
- 6. organizations (companies, schools, clubs, etc.),
- 7. information (books, journals, universities, etc.),
- 8. properties (real estate, land, shares, intellectual property, etc.),
- 9. ideas (e.g. "Stay young!"), and
- 10. experiences (superior market offerings not only provide benefits, but unforgettable experiences)

As marketing embraces the exchange of all goods that have value for a certain group of consumers, it would be more accurate to call products "market offerings". Offering refers to some combination of products, services, events, etc. that can satisfy customer needs.

Market offerings are designed on the basis of a value proposition, which refers to all the benefits an organization

## offers to satisfy customer needs in the form of products and services.

- A movie is also a market offering, which is complemented with a bunch of other products and services such as parking, soft drinks, popcorn, 3D glasses, comfortable chairs, etc. The value proposition of the movie corporation can be "a two-hour-long cloudless entertainment, the best visual experience of the year".
- Note: Political parties also engage in marketing activities, when they try to obtain voters with the help of impressive programs, speeches and promises. They are building brands by employing professional spokespersons, designing logos and creating positive image for their candidates. They try to captivate various groups of citizens (e.g. the retired, families and teachers) with the help of customized offerings such as wage rises, tax cuts, better public services, and attractive ideologies. The offer ideas and feelings for votes.



- 4. Figure: Politicians offer a better future in exchange for citizens' votes
- You can read more about political marketing on the following link: http://www.forbes.com/sites/davidcooperstein/2013/05/08/the-marketing-lesson-from-the-obama-campaign-ask-the-right-questions-dont-just-amass-data/
- Think over your previous week. Write down the different types of market offerings you bought during the course of the week. Where did you go shopping? What types of market offering have you spent the most money on?

### 2.2.3 Types of markets

Most companies we know offer their products and services on consumer markets however, the amount and value of the goods sold on business markets can be much larger. Exercise Ketchup is not only sold by retailers to households, but also by producers and wholesalers to cafeterias and fast food restaurants for example. Airplanes, buses and railway carriages are purchased mainly by governments and some business organizations, and only very rarely by private individuals.

The amount of sales conducted on business and non-business markets is actually much larger than that of consumer markets. However, the former remains largely invisible for consumers (we will discuss the characteristics of organizational buying behaviour in chapter 6). Similar to consumer markets, organizational markets are not homogeneous either. Depending on the target market, we differentiate among business and non-business buyers. The latter include organizations whose primary aim is not gaining profit or increasing shareholder value, but reaching some kind of a self-specified goal. Many of the non-business organizations are fully or partly operated by the government.

Note: The main characteristic of government organizations is that they live on taxpayers' money, thus their resources are limited. In many countries, in order to avoid lavish spending and corruption, as well as to foster responsible management of public resources, government owned organizations can only obtain durable goods and services through public procurement.

In order to increase sales, many organizations sell goods and services in foreign countries as well. For example, Heinz sells 650 million cans of Ketchup every year in 200 countries. Entering global markets comprises several difficult decisions. The most important ones are selecting the destination countries and the ways of entering them. There are many possibilities, which require different levels of commitment from companies (e.g. exporting through foreign traders, creating a joint venture with a foreign company, establishing a new production facility abroad).

From a marketing point of view, we can differentiate between the following types of customer markets:

- Consumer markets: Organizations that primarily sell to households generally devote much resource to building attractive brand image through superior products and marketing communication.
- Business markets: Organizations that primarily sell to other businesses and organizations have to deal with wellinformed, professional buyers, who judge market offerings more objectively than consumers. Customized offerings have a larger role on business markets than brand image.

- Non-business markets: Today, public institutions (e.g. police, healthcare, education, government institutions), utility providers (e.g. electricity, gas, water, sewage companies) and voluntary organizations (e.g. charities, foundations, associations) place a growing emphasis on quality when they make purchases. However, if we market to non-business organizations, we still have to pay more attention on pricing than on any other product feature.
- Global markets: International marketing includes special problems to solve. Companies can either standardize their offerings on all foreign markets or adapt products to the local needs and wants. If they adapt offerings to the local market, they have to decide how much they will change their products, prices and communication to best satisfy the needs of foreign customers. If they go global, companies have to take the cultural, linguistic, legal, social and economic differences of foreign countries into account as well.



5. Figure: Cashew is produced in tropical countries but sold globally by multinational companies

□ Note: We have to consider the continuous approximation of business and non-business spheres in today's economies. As a result of shrinking government funding to public services, many non-business organizations have to be engaged in profit-oriented activities as well. Business organizations at the same time are expected to contribute to social values; consider corporate social responsibility (CSR) as an example. As future marketing managers, we have to realize and build on the gradual integration of business and non-business values. (Dinya et al. 2004).

### 2.2.4 Fundamental concepts of marketing: the Customer

In what follows, we describe the key marketing concepts, which will be further explained in the upcoming lessons of this course book. As the starting point of all marketing activities is the customer's need, we will present the key concepts related to customers first. Then, we will deal with company's side and introduce the main marketing concepts related to sellers.

It is not always easy to identify and understand consumers' needs, as sometimes even they cannot express why they have bought a certain product or service.

- A need is a state of deprivation, a desire that motivates consumers to act in order to obtain a product, service, etc. to ease or cease the desire.
- Our basic needs are for example hunger, thirst, sleep and sex. "Higher level" needs can be the desire for safety, belonging, esteem and self-actualization (see Maslow's hierarchy of needs).

Needs are more or less the same for all people on Earth. They appear similarly and consistently in all societies, thus companies can hardly change or influence them. In contrast, wants can vary by culture and even by individual.

- Want is a need shaped by culture and personality.
- While a hungry Hungarian probably wants to have breaded meat with smashed potatoes and poppy seed strudel for dessert, a hungry American wants to have hamburger, French fries and ice cream. However, large companies can shape consumers' wants: McDonald's for example made many Hungarians want hamburger and coke for lunch.
- Demand is a want backed by money.
- Many of us would gladly drive an expensive sports car, but this leaves Ferrari managers indifferent. Ferrari builds superior cars to make rich people happy.



6. Figure: The Ferrari F430 is not just a vehicle for transportation. It gives customers a feeling of passion, excitement, power and exclusivity.

You can read more about Ferrari's marketing strategy on the
following link:
http://www.brandingstrategyinsider.com/2008/07/italys-master-
o.html#.U4r6mnZlvSg

Customers tend to choose the product that gives them the largest perceived customer value.

- Perceived customer value is difference between the total perceived benefits (functional, social, psychological, etc.) of the product and its total perceived costs (money, time and efforts to get it).
  - Note: Customer value can be increased by every single product feature the customer likes, while the product can have intangible benefits as well. For example, having a coffee with friends may cost as much as a coffee on-the-go, while the value of the experience is probably larger. A professional coffee machine purchased for home usage provides convenience, style and quality, which significantly increases customer value. This is why companies that sell coffee capsules can overprice their products.

The customer will be satisfied with the product if its performance meets his or her expectations. However, loyalty will be created only if the performance of the product *exceeds* customer expectations.

Note: Companies should be aware that too high customer expectations may easily cause dissatisfaction. On the other hand, if the value proposition is not attractive enough, it will be hard to obtain new buyers. Companies in the HORECA sector and especially lower priced hotels tend to show a better picture of their services than they are in reality (e.g. they put fancy descriptions and nice photos on their websites). This may result

in a relatively high rate of unsatisfied guests, who will share their negative experiences on the Internet with others.

- A loyal customer increases Customer Lifetime Value (CLV) that is the net present value of all the products and services the customer purchases at a given company.
  - Note: CLV is the value of a customer expressed in monetary terms. What makes it difficult to calculate CLV is the fact the most buyers "disappear" from time to time, they suddenly leave the company's products (churn rate) and may come back later in life. Thus it is impossible to give a very accurate calculation of the present monetary value of a single customer. Still, it is imperative for companies to predict the money value of the different types of buyers, in order to provide differentiated services to them. Long-term buyers deserve more attention and customized services. In the first step, firms should predict the number of years the customer will probably stay with them. Then they should calculate the amount of money the customer will spend on their products and services in the future. They also have to take expenses into account, including the costs of production and sales, as well as the costs of retaining the customer. Finally, the difference between the yearly revenues and costs associated with one buyer should be calculated by discounting the future cash flows. As a result we obtain the present cumulative value of the profits/loss. You can find a detailed example of how to calculate CLV on the following link:

### http://www.dbmarketing.com/articles/Art251a.htm

By calculating CLV, companies can identify their most valuable customers and can devote more time and money to satisfy their needs. On the other hand, losing customers with negative CLV will not hurt a company. It is also worth calculating CLV before introducing marketing programs to predict their long-term effects on sales, costs and CLV. CLV is a very useful tool for organizations, while its calculation is not too complex and expensive. However, it is a little bit predictive in nature. The most important advantage of CLV is that it emphasizes a customer-oriented attitude: it shows that a customer is not just a one-time transaction for a company, but a valuable long-term relationship. As the sum of all of its customers' CLVs, customer equity reflects the net present value of the company from a marketing perspective.

- Customer equity is the sum of the CLVs of all the customers of a company.
  - □ Note: Companies should respect their existing customers because the cost of obtaining a new customer is about five times as much as the costs of retaining an existing one.
- With the help of customer relationship management (CRM), companies can build databases about purchases and their interactions with customers. In a broad sense, CRM involves all activities that companies do in order to obtain, retain and grow the number of customers.

Companies not only want to increase the number of their customers (market share), but also their share in customers. Hence, they offer an increasing number and types of products; they try to make customers buy more and more products and services from them and satisfy all their needs in a given product category.

Brands like Columbia and North Face would like if customers bought most of their garments from them and not just clothing for outdoor sports. They also try to create new fashion trends that provide comfortable, quality and functional clothing to all life situations including work, travel and leisure.

### 2.2.5 Fundamental concepts of marketing: the Company

Market competition today is not among companies or products, but rather among brands. Increasing competition makes organizations put more efforts into differentiating their offerings, while the best and most effective way of differentiation is building strong brands.

Brands embrace every association, feeling and thought customers have in their minds about the given company and its products. The basic goal of all organizations is creating strong, favourable and unique brand associations in consumers' minds.

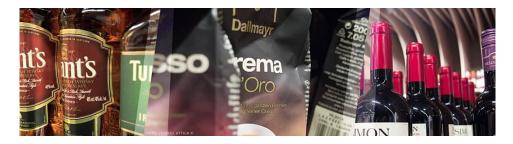


7. Figure: ICE (Intercity Express) is one of the strongest brands in Germany

- Note: ICE is not only the leading brand of Deutsche Bahn, but one of the leading brands in Germany too. It is known by 100% of consumers in Germany.
- According to rankings, Apple is the most valuable brand in the world: its value has reached 124 billion USD in 2014 (Forbes, <a href="http://www.forbes.com/powerful-brands/list/">http://www.forbes.com/powerful-brands/list/</a>). As a comparison, Hungary's GDP in 2014 was around 130 billion USD. Apple can owe its success to such user-friendly products as iPhone and iPad that created new markets and new groups of consumers who prefer to be innovative, unique and classy during work or when they are having fun.

Market competition does not embrace products from the same product category only, but substitutes as well.

- Wineries of Eger produce their own Egri Bikavér (Bulls's Blood of Eger). In a narrow sense, the competitors of Egri Bikavér are other red wines with similar characteristics. In a broader sense, competitor products can include all kinds of wines, spirits and even soft drinks. In the broadest sense, competitors of Egri Bikavér include all products and services that are similarly priced to a bottle of Bikavér and thus compete for consumers' money, including movie tickets, a bag of coffee, a new T-shirt or toys for the children.
  - □ Note: Substitute products may become strong competitors. Companies that market cameras and photo equipment for example have to face the strongest competition from mobile phone manufacturers, who began selling cell phones with inbuilt cameras. Although these integrated small cameras have limited capabilities regarding picture quality, they are always at hand and can be easily connected with online applications.



8. Figure: The competitors of the wines of Eger are, in a broad sense, all kinds of spirits, drinks and luxury food products

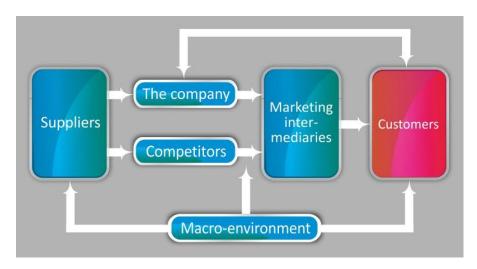
Building strong and reliable brands is more effective when organizations establish close connections with its partners, i.e. other members of the marketing channel and the supply chain.

- The marketing channel (distribution channel) refers to the organizations (e.g. retailers, wholesalers, logistics firms) that closely cooperate with each other to connect the producer with the customers.
- The supply chain refers to longer processes and more activities than the marketing channel. It starts with producing or purchasing raw materials and lasts until the final product is delivered to the customers. It includes both downstream and upstream processes such as cooperation with suppliers and with the members of the marketing channel.
- The supply chain in the case of wines begins with growing grapes and ends when the consumer buys a bottle of Bikavér ("Bull's Blood") or Egri Csillag ("Star of Eger") at the supermarket, or takes part at a wine tasting party in one of the atmospheric wine cellars of the Eger Wine Region.
- Through supply chain management (SCM) companies purchase inputs for production (raw materials, component parts, equipment), manufacture goods and deliver them to their final destination.
- Through partner relationship management (PRM) companies establish mutually fruitful and long-term relationships with the members of the supply chain (suppliers, distributors, advertising agencies and market

# research firms) in order to best satisfy the needs of their target customers.

The experience of wine tasting will be memorable if the wine maker, the grape grower, the assistants at the wine cellar, and the sommelier all exhibit full commitment and perform quality work. Not only the wine, but the food that accompanies it should have superior quality. The location, setup and atmosphere of the cellar also affect customer value. Many wineries need government support, bank loans or the help of investors to create a facility that will make wine tastings special. Some winemakers employ marketing professionals to better understand and satisfy consumer needs. As shown by this example, winemakers have to cooperate with a bunch of other people and firms to create superior customer value.

The **marketing environment** refers to all the persons, organizations and forces that a company encounters during its existence. The micro-and macro-environment of firms include those organizations that contribute to the creation, distribution and promotion of products and services such as suppliers, traders, advertising agencies, banks and customers. Macro-environment usually appears as an external force to companies that has to be taken into consideration and especially when identifying market opportunities and threats. The most common external forces are social, technological, economic, environmental and political (STEEP) factors.



9. Figure: The marketing environment (Kotler & Armstrong 2014)

### 2.3 SUMMARY AND QUESTIONS

### **2.3.1 Summary**

In lesson 2 we pointed out the importance of marketing and presented the types of markets, their participants and the basic marketing concepts associated with them. We began the lesson with the following question: What is marketing? Roughly speaking, marketing is managing customer relationships profitably. We emphasized that besides business ventures non-business organizations also make use of marketing tools. The subject of marketing can be anything from products and services to events, persons and ideas.

In the centre of all marketing efforts there are consumers. Accordingly we first discussed the fundamental concepts related to customers (needs, wants, demand, customer value, satisfaction, CLV, customer equity and CRM). Organizations that create market offerings represent the other side of the "story". They create, deliver and communicate value for customers with the help of other organizations within the supply chain. At the end of the chapter we reviewed the basic marketing concepts associated with organizations (brands, competition, marketing channel, supply chain and marketing environment).

### 2.3.2 Self-check questions

- 1. What is marketing, and why is it important for organizations?
- 2. What are the types of market offerings?
- 3. What are the types of customer markets?
- 4. What is the difference between need, want and demand?
- 5. What is the difference between supply chain and marketing channel?
- 6. How can we calculate customer lifetime value (CLV) and why is it important for organizations?
- 7. What do we mean by customer equity?
- 8. What is the difference between customer relationship management (CRM) and partner relationship management (PRM)?
- 9. What is the difference between partner relationship management (PRM) and supply chain management (SCM)?
- 10. What are the main constituents of a company's marketing environment?

### 2.3.3 Practice tests

- 1. One of the statements below is not an appropriate definition of marketing. Which one?
  - a) Marketing is providing value for customers profitably.
  - b) Marketing is the profitable management of customer relationships.
  - c) Marketing is advertising and selling products to customers.
  - d) The essence of marketing is to meet customer needs profitably.
- 2. A principle goal of marketing is to...
  - a. produce cheap goods
  - b. understand customers
  - c. sell products
  - d. advertise market offerings
- 3. Is a need shaped by culture and personality.
  - a) Want
  - b) Customer value
  - c) Demand
  - d) Need
- 4. If want is accompanied by purchasing power it becomes .....
  - a. social need
  - b. demand
  - c. physical need
  - d. market transaction
- 5. Which of the following concepts refers to the sum of all benefits that are offered by companies to satisfy consumer needs?
  - a) positioning
  - b) value proposition
  - c) product features
  - d) customer equity
- 6. Refers to nurturing mutually beneficial partnerships with suppliers of raw materials, distributors and traders.
  - a. supply chain management
  - b. direct marketing
  - c. customer relationship management
  - d. partner relationship management
- 7. Renting a DVD is cheaper than going to the movies. However, Tom és Sarah still chose going to the cinema as they thought it provided much better entertainment. Which marketing concept served as the basis of their decision?
  - a. social needs
  - b. relationship marketing

- c. customer loyalty
- d. perceived customer value
- 8. The macro-environment of an organization includes...
  - a. customers, competitors and suppliers
  - b. all business partners of the organization
  - c. the population of the country where a company operates
  - d. the demographic, economic, legal, political, technological and environmental characteristics of the country where a company operates
- 9. An experience, such as an adventure trip, can be an example for market offering.
  - a. true
  - b. false
- 10. Supply chain covers a longer process than marketing channel.
  - a. true
  - b. false

### 3. THE MARKETING PROCESS

### 3.1 OBJECTIVES AND COMPETENCES

In the previous chapter we described the essence of marketing, the different types of market offerings and markets, their actors and other basic concepts. In lesson 3 we continue discussing the process and activities of marketing. First, we differentiate between strategy and tactics, the two main types of marketing decisions and present the five company orientations that can influence how organizations relate to the market.

The most popular marketing tool is the 4Ps or marketing mix, which helps companies find the most suitable tactics for their target customers. In lesson 3 we present the elements of the marketing mix and emphasize that they have to be elaborated on the basis of the marketing strategy.

The most important part of the lesson is demonstrating the process of marketing, which summarizes the concepts and activities we have covered so far and also projects the contents of the upcoming lessons. Finally, we draw attention to the holistic view of marketing, according to which "everything counts" in marketing.

Students are expected to understand the key concepts presented in this chapter and especially the steps of the marketing process. The lesson aims at developing students' process oriented skills, since marketing can be interpreted as a specific order of well-defined steps. These steps or activities cannot be mixed-up, however, within each step organizations have a fairly large freedom to act, only limited by corporate strategy, the laws of the country and the creativity of marketing professionals.



10. Figure: Concept map

### 3.2 COURSE MATERIAL

### 3.2.1 Marketing strategy and tactics

Basically, there are two levels of marketing activities: strategy and tactics.

Marketing strategy refers to higher level marketing decision-making that deals with choosing the target

markets and formulating value propositions to meet customers' needs and wants.

Strategic planning is followed by marketing tactics, which embraces decisions about the details of product features, pricing, distribution and promotion.

Who should we serve? How can we best serve our customers? These questions are answered by strategy in marketing. The main task of marketing managers is to create a strategy that tells the organization how it can create and maintain profitable customer relationships (marketing strategy is discussed in more detail in lessons 5 and 8).

Note: Strategy tells companies how they can achieve their goals in a given area. A good strategy is specific, for example, instead of saying "increase sales" companies should specify the segment (e.g. among women), the amount (e.g. by 10%) and the deadline for achieving this goal (e.g. until the end of the year).

Marketing tactics include further details about a company's strategy, including product features, distribution and communication channels. The possible tactic combinations of a market offering can be summarized with the help of the marketing mix (see later).

### 3.2.2 Types of company orientations

Companies can follow different paths to reach their marketing goals. They can focus on production processes, product features, company resources, or on the needs of consumers or the society. These approaches also illustrate the historical development of marketing philosophy, however, they exist in parallel with each other even today.



11. Figure: Strategic orientations: Companies can follow various philosophies when they approach customers

According to the earliest approach, customers prefer those products that are easily accessible in terms of price and distribution.

Production oriented companies aim to achieve mass production, which infers high productivity, low costs and intensive distribution.

For example, in China where labour is abundant and cheap, most companies make good use of the production concept.

Product oriented companies strive to create products of high quality, innovativeness and performance.

The danger of product orientation is that company managers can easily become overly enthusiastic about their product's qualities and forget about the real needs of customers ("marketing-myopia"). High quality products will only be successful on the market if (1) customers find them more effective in satisfying their needs than competitors or previous products, and are also (2) willing to pay more for the new or improved features.

Some companies that produce film cameras did not expect market trends to shift so fast towards digital technology. While they were keeping their focus on improving traditional films, some of their competitors quickly understood that what customers want is preserving experiences in a fast and convenient way, and thus took lead in the market.

Several companies believe that demand for their products would be too low if they did not persuade consumers hard enough to buy them. This philosophy is especially typical of products that are rarely purchased spontaneously, as for example insurance, expensive dietary supplements or cosmetics, etc.

- Selling oriented companies make use of aggressive sales techniques to persuade consumers to buy the products and services they make.
- Customer oriented companies aim at understanding and satisfying customer needs better than their competitors.

Customer oriented companies do not look for the right buyers for their products, but try to create the right products for their customers.

Dell allows buyers to customise their computers, e.g. changing the processor or adding memory to get exactly the configuration they require. The company thus appears to offer better value for money than other suppliers. Some liberal arts universities let students enrol into the courses they wish and even to entitle their study program (and degree) themselves. Customer oriented companies give as much freedom as possible to customers in determining the features of the market offerings.

The most recent company orientation is societal marketing, which draws attention to the long-term wellbeing of consumers and the society.

- Companies oriented towards the society's needs devise marketing strategies that not only contribute the wellbeing of consumers, but also to that of the society. Socially responsible company strategies take the environmental, social and health aspects of production and consumption into consideration as well.
- Find two examples for each company orientation. In what ways are those companies socially responsible that you find to be following the societal orientation?

### 3.2.3 The marketing mix

Marketing strategy is supported by marketing tactics, target customers have to feel attracted by the market offering. The 4Ps are probably the most widely used marketing model, introduced by *E. Jerome McCarthy* in 1960. *McCarthy* classified the numerous marketing decisions into four groups: product, price, place and promotion.

- If we would compare marketing to making cookies, then the 4Ps were the basic ingredients (e.g. milk, egg, flour and sugar). Any changes in the amount of ingredients would influence the texture and taste of the cookie, and consequently the satisfaction of the customer. In case of Louis Vuitton handbags for example, all elements of the marketing mix (product, price, POS, promotion) have to reflect the strategy of the company, i.e. luxury and exclusivity.
  - Note: The 4Ps include several important aspects of the market offering, which should be constantly monitored and altered to keep up with competitors and the changing needs of customers. We will discuss the elements of the 4Ps in details in lessons 8-11.

According to critics, the 4Ps represent marketing as being too organization centred. Robert F. Lauterborn created the "4Cs" model in

1993 to put emphasis on the customer-side of the marketing tools. The 4Cs include:

- Consumer (Product),
- Cost (Price),
- Communications (Promotion) and
- Convenience (Place).

"Customer" may be a better term than "product" to express the essence of modern marketing, which is customer-oriented and not product-oriented. "Price" is changed to "cost" in Lauterborn's model, as it is one of the cost elements that customers have to bear when obtaining products. Other costs or risks associated with the purchase decision are functional, social, psychological and physical in nature. While "promotion" is manipulative, "communication" is cooperative, thus it better expresses interaction with customers. The point-of-purchase is not as important as "convenience", and especially considering the opportunities provided by the Internet. Customers want to be able to browse store shelves from their homes, buy and pay for products online, while the place-of-purchase looses its importance.

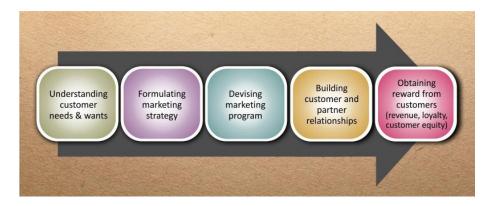
Kimberly Collins (2012) supplements the original 4Ps (called "programs") with variables such as "people", "processes" and "performance". Her model emphasizes the importance of employees and customers, processes of planning and implementation, and the variety of performance indicators (financial, customer-oriented, social, ethical etc.) companies have to take into consideration today.

- Think of your favourite product or brand. Characterise it with the help of the 4Ps.
  - □ Note: In the case of services, marketers have to develop seven marketing tools: the original 4Ps plus "people", "process" and "physical evidence". We will discuss the specifications of service marketing in lesson 8.

### 3.2.4 The marketing process

Including strategy and program, marketing covers five basic activities (Kotler & Armstrong 2014):

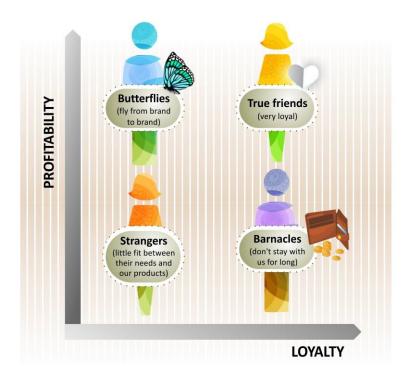
- 1. Understanding customers' needs.
- 2. Formulating customer-oriented marketing strategies.
- 3. Devising marketing programs to support strategy.
- 4. Building profitable customer and partner relationships.
- 5. Obtaining rewards (value) from customers.



12. Figure: The marketing process (Kotler & Armstrong 2014)

(1) As the first step of marketing, organizations have to **understand customers' needs and wants**. We will present the basic methods of how companies can collect data about consumers in the next lesson.

Successful organizations not only satisfy consumers' explicit needs, but also try to discover their latent needs. For example, many consumers had not expressed their desire for mobile communication until they were shown a cell phone. On the other hand, not all consumers are equally loyal to a company and companies have to treat them accordingly. "Strangers" do not deserve much attention, as they do not prefer the company's market offerings. If companies cannot make "barnacles" profitable, they should get rid of them, as they devote very limited resources to the company's products and services. "Butterflies" may spend more money, but are not loyal, so companies had better let them go in the long-run. "True friends" think highly of the company and continue to come back for more. They also bring in the most profit, thus companies should try to satisfy their needs as much as they can.



13. Figure: Types of customers (Reinartz & Kumar 2002)

(2) The second step of marketing is **formulating customer-oriented strategies**. Organizations have to identify their main customer groups and find the best ways of providing superior value to them. An important part of strategy is value proposition, which sums up the benefits of the offering.



14. Figure: Detergent manufacturers target women and mothers with rational product features such as "extra freshness" and "power gel".

- (3) The **marketing program** provides details about how the marketing strategy should be implemented, i.e. it translates strategy into deliverable action plans. The program has to depict how organizations create market offerings, make them accessible to target customers, communicate their benefits and establish attractive brand image.
- (4) Establishing **relationships with customers** (CRM) helps companies to maintain and increase sales and market share. If market offerings provide more value than costs, customers will probably return to the company and become loyal to its products. Many companies try to make customers loyal by various sales promotion tools such as club cards and frequent price cuts. However, true and long-term loyalty can only be achieved if companies fully satisfy customer needs, which is in fact the consequence of good marketing strategy and programs, and their accurate implementation.

Sometimes companies do not want to establish strong relationship with all customers, but prefer to concentrate on a small number of highly profitable buyers. Companies increasingly rely on the benefits of Internet and voluntary customer groups who readily advocate their brands. The social media, blogs, forums and websites all make it possible for customers to globally advertise their favourite brands, share their experiences about the products and become part of creating the brand image.

(5) Organizations, in exchange for their efforts, want to **receive some kind of reward** or **value** from customers, which in fact can take many forms including money, market share, positive attitude, loyalty, customer equity, etc.

#### 3.2.5 Holistic marketing

Last but not least, we draw attention to the holistic nature of marketing. As shown earlier, the new 4Ps model (people, processes, programs and performance) also highlights the expansion of marketing activities to a growing area of company operation. "Everything counts in marketing", which means that organizations should take the following aspects into consideration when they plan and execute marketing activities:

- integrated marketing,
- internal marketing,
- relationship marketing, and
- performance marketing.
- According to the notion of integrated marketing, marketing tasks should be managed on the basis of their relation to

each other, as the whole is always more than the sum of its parts.

- Internal marketing is directed towards employees, as only satisfied workers will create superior customer value. Internal marketing includes activities such as recruitment, motivation and training.
- The goal of relationship marketing is to create and maintain long-term and mutually beneficial relationships with customers, employees and business partners (suppliers, distributors, shareholders, financial institutions, etc.).
- Performance marketing covers both financial indicators (e.g. revenue, profit and market share) and companies' non-financial impact on social and natural environments as well.

This comprehensive view of the market and customers is called holistic marketing.

## 3.3 SUMMARY, QUESTIONS

# **3.3.1 Summary**

In lesson 3 we continued introducing the fundamental concepts of marketing. However, instead of static concepts, this time we presented activities. Marketing starts with identifying and understanding customer needs. Marketing strategy is based on customer needs, market competition and company resources. Strategy is a long-term plan of how a company can achieve its goals: it is shaped by the organization's orientation towards the market.

Marketing strategy is followed by tactics, which involve several decisions about marketing mix elements (product features, pricing methods and strategies, distribution channels, communication tools). If a company selects target markets right and creates attractive market offerings, then establishing profitable customer relationships will be an ease. Finally, organizations expect some kind of a reward for their marketing efforts. This reward is often financial in nature (e.g. customer lifetime value, customer equity), but can be less tangible too, such as brand awareness, satisfaction and loyalty.

We ended the lesson with the notion of holistic marketing that gives a broad view of the business, its place in the broader economy and society,

and in the lives of its customers. Holistic marketing examines company activities from multiple perspectives.

## 3.3.2 Self-check questions

- 1. Which marketing orientation places the customer in the centre of a company's marketing efforts?
- 2. Which marketing orientation reflects the most developed way of organizational thinking and why?
- 3. What is the link between marketing strategy and marketing tactics?
- 4. What are the elements of the marketing mix?
- 5. What are the main questions marketing managers have to answer concerning the product?
- 6. How is the 4Cs model different from the 4Ps?
- 7. Why it is important to analyse the role of marketing from a holistic point of view?
- 8. What do we mean by integrated marketing?
- 9. What are the two performance dimensions of the holistic marketing approach?
- 10. What are the main steps of the marketing process?

#### 3.3.3 Practice tests

- 1. Which one of the concepts below refers to the narrow-minded thinking of managers who focus too much on product performance and forget about the real needs for consumers?
  - a) marketing management
  - b) selling orientation
  - c) production orientation
  - d) marketing myopia
- 2. Which company orientation focuses on high productivity and low costs?
  - a) production orientation
  - b) product orientation
  - c) selling orientation
  - d) marketing orientation
- 3. The societal marketing concept tries to find a balance between customers' short-term needs and .........
  - a. company costs
  - b. customers' health
  - c. long-term needs
  - d. the society's long-term well-being

- 4. Which question does the marketing strategy answer?
  - a. How to achieve goals?
  - b. Which customers should we serve?
  - c. How can we profitably serve our customers?
  - d. All of the above are correct.
- 5. The marketing tools that help a company implement its marketing strategy are called...
  - a. promotion-mix
  - b. marketing mix
  - c. CRM
  - d. societal marketing
- 6. How can sellers avoid being short-sighted?
  - a. by making more realistic commercials and ads
  - b. by getting to know their competitors' strategies
  - c. by developing better products
  - d. by constantly focusing on customers' real needs
- 7. Which steps of the marketing process are about understanding the customer, creating customer value and strong customer relationships?
  - a) only the first step
  - b) the first three steps
  - c) the first four steps
  - d) only the last step
- 8. Which customer group is the most profitable for a company?
  - a. "barnacles"
  - b. "strangers"
  - c. "butterflies"
  - d. "true friends"
- 9. The elements of the marketing mix are product, price, place and packaging.
  - a. true
  - b. false
- 10. Relationship marketing is about satisfying and motivating our employees.
  - a. true
  - b. false

## 4. STRATEGIC PLANNING

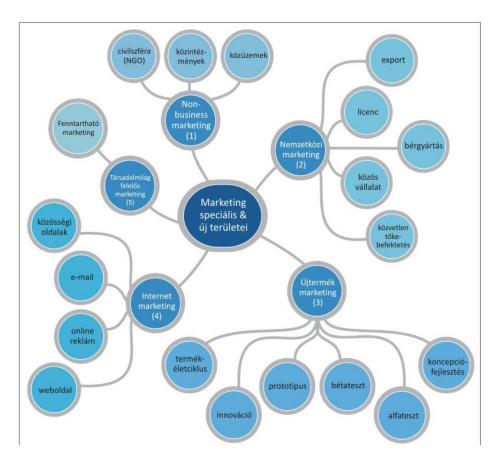
#### 4.1 OBJECTIVES AND COMPETENCES

We arrived at the second module of the course book. We mentioned earlier that marketing decisions can be made at two levels: strategic and tactical. The lessons of the second module (4-7) deal with strategic marketing, which aims at identifying target customers and the ways to profitably satisfy their needs. Strategic decisions are made by senior managers.

In the previous lesson we presented the five major steps of the marketing process. In lesson 4 we discuss the second step in more detail. Formulating customer oriented marketing strategies involves selecting target markets and positioning market offerings. Target marketing is always based on the overall company strategy, which shows direction to every company functions / departments. It is never enough to formulate the marketing strategy, it has to be accurately implemented, measured and corrected if necessary.

The goal of this chapter is to make students realize that planning is a vital part of marketing management. Some managers believe it is more important "to do things right" (implementation) than "to do the right things" (planning). Apparently, out of two companies that follow exactly the same strategy, the one that better executes the strategy will win the market competition. On the other hand, without good strategic plans it is almost impossible to achieve success in the long-term, however, in most cases accurate execution is more difficult than planning.

On the basis of the above considerations, lesson 4 develops students' management competences and skills, namely analysis, planning and controlling.



15. Figure: Concept map

#### 4.2 COURSE MATERIAL

## 4.2.1 Corporate strategy

Corporate strategy provides a framework for organizational functions including marketing. Companies create strategies for the long-term, i.e. for several years or even decades.

The first step of the planning process is defining the organization's mission, which describes why a company exists, what the ultimate goal of its existence is. The corporate mission should be translated into specific goals, which guide a company and its employees in their everyday work.

The next step is to decide on which industries a company should enter, how many strategic business units (SBU) it should establish. It is important to analyse and determine the weight of each SBU in comparison to a company as a whole. Organizations then have to formulate marketing plans for each SBU, product or brand. While marketing planning is done at the level of the products, corporate strategy is devised for the whole organization.

# Corporate mission

The starting point of corporate strategy is mission. By the mission statement customers can learn about the fundamental goals and values of a company. A good company mission also makes employees realize that they are all in the same boat, which motivates them to act in order to achieve the common goals.

Mission statement describes the fundamental goals of the organization, what it endeavours to achieve, what it wants to become within its broadly defined market environment. A market oriented mission statement defines the essence of a company in terms of its customers and their needs.

A good mission statement provides answer to the following questions:

- Which industries do we compete in?
- Who are our customers?
- What do our customers value?
- What do we want to become in the future?

It is far from easy to answer the questions above, however, it is a must if a company has long term plans. A good mission statement has the following parameters:

- straightforward, meaningful and specific
- motivating and inspiring
- emphasizes the company's strengths
- instead of the product, profit or sales, it focuses on the values customers and the society regard as important
- Pick three companies and analyze their mission statements on the basis of the aforementioned criteria.
- You can browse the mission statements of Fortune500 companies on the following link:

  <a href="https://www.missionstatements.com/fortune\_500\_mission\_statements.html">https://www.missionstatements.com/fortune\_500\_mission\_statements.html</a>

The mission statement has to be translated into specific goals, in order to let managers know what their exact tasks and responsibilities are. A good mission guides the whole company towards clear objectives,

even if a company has a multitude of products and it is present in several markets. For example, if the mission envisions that the company will become the market leader in a given industry, this vision has to be transformed to the level of corporate strategy (e.g. growth in all SBUs via market and product development) and marketing strategy (e.g. finding new customer segments or designing new market offerings).

If a company's mission is increasing market share, the corporate strategy can be market development (see Ansoff's matrix), i.e. selling our existing products to new customers. In this case marketing managers have to find new segments whose needs can be satisfied by our products. They can suggest to company managers to enter into foreign markets, which may require the company to design new advertising campaigns and develop new channels of distribution. This implies the creation of new ads and other promotional tools, negotiating with foreign distributors and media companies. This example shows how corporate mission can translate into specific goals, corporate strategy and marketing program.

# Business portfolio

Most companies operate in several markets and manage multiple brands.

Business portfolio refers to the sum of a company's products and services that are offered on the market for customers. Analyzing the business portfolio, i.e. evaluating the market strength of SBUs, is an important part of the strategic planning process carried out by managers.

When planning the future business portfolio, a company first needs to analyse the present portfolio and decide which business units has to be harvested, invested (grow) or left alone (hold).

- A strategic business unit (SBU) can be a company division, a product line within the division, a single product or brand.
- Hewlett Packard (HP), the computer and printer company has several divisions. The printer division, which makes laser and inkjet printers, is the largest. Other divisions are Handheld Devices, Servers (mini and mainframe computers), etc. All of them use the HP brand name except for Compaq, a part of HP since 2002, which operates as a subsidiary and uses the Compaq brand

name. (Source: Division – business, Wikipedia, <a href="http://en.wikipedia.org/wiki/Division\_%28business%29">http://en.wikipedia.org/wiki/Division\_%28business%29</a>)

The largest company of the world, General Electric, operates in several industries such as finance, health, transport, electric energy, weapons, software, wind turbines, etc. You can read about GE's SBUs and marketing strategy on the following link: <a href="http://www.businessinsider.com/general-electric-a-deep-analysis-of-company-strategy-2011-3">http://www.businessinsider.com/general-electric-a-deep-analysis-of-company-strategy-2011-3</a>



16. Figure: Business portfolio analysis

The well-known business portfolio planning method, the so-called BCG-matrix, was developed by Bruce D. Henderson for Boston Consulting Group (BCG) in 1970. The BCG-matrix categorizes business units based on two dimensions: growth rate and market share. Therefore the matrix divides SBUs into the following groups:

- Cash cows have high market share in a slow-growing market. They typically generate more cash than the amount needed to maintain them. Cash cows are the foundations of a company and provide financial sources and positive image for other SBUs.
- Stars are business units with high market share in a fast-growing industry. They used to be question marks and may become cash cows in the future, if they receive sufficient financial injections. To keep up with the high growth rate of the market, companies have to devote enough money and efforts to their promotion.

- Question marks (also known as problem children) operate in a market of high growth rate, but have a relatively low market share. They are the starting point for most businesses and thus have the potential for gaining market share and becoming stars and eventually cash cows when market growth slows.
- Dogs are business units with low market share in a mature, slow-growing industry. They typically break-even, generating barely enough cash to maintain their market share. Often, it is better to harvest and get rid of them in the long-run, and instead allocate resources to finance more promising projects.
- Give an example for each type of business unit of the BCG-matrix. Examples should not necessarily relate to the same company.

The problem of matrix-based portfolio planning methods is that they are neither objective (they estimate market share and growth) nor future-oriented (they are based on past data). A more recent version of the BCG-matrix is the McKinsey/GE-matrix, which is more comprehensive and detailed on the one hand, but more subjective on the other. The dimensions of the GE-matrix are the "attractiveness of the industry" and the "competitiveness of the SBU". It has a 3x3 structure instead of the 2x2 one of the BCG-matrix.

Note: Today, business portfolio planning is not the sole responsibility of senior managers. Instead, it is performed by expert groups led by division managers as they have a daily contact with customers and markets and a better knowledge about the market potential of products and services.

Besides analyzing the present business portfolio, it is important to see how a company can grow in the future. The "product-market" matrix invented by Igor Ansoff (1965) offers growth opportunities for companies that intend to increase their sales and revenue.



17. Figure: The Ansoff-matrix: growth strategies

The Ansoff-matrix offers the following growth opportunities for companies:

- Market penetration: selling more to our existing customers (e.g. by more intensive distribution)
- Market development: obtaining new customers for our existing products (e.g. by selling in new regions or foreign countries)
- Product development: selling new or improved products to our existing customers (e.g. by creating new product categories)
- Diversification: establishing new SBUs and entering new markets/industries
- Give an example for each growth strategy of the Ansoff-matrix. They do not necessarily have to relate to the same company.

# 4.2.2 Marketing strategy

Marketing plays an important role in planning corporate strategy. We presented in lesson 3 that companies can have different approaches to the market and one of them is the so-called marketing concept or customer orientation that places the customer in the centre of all organizational activities. Besides, marketing helps the whole company to indentify market opportunities and customer needs. Marketing managers

plan marketing strategies for business units and contribute to the successful and profitable implementation of the corporate strategy. In addition, marketing managers constantly work together with other company departments, especially production, sales and finance, to ensure that marketing plans are executed accurately and financed adequately.

Marketing strategy tells a company how it can achieve its marketing goals. It involves activities such as segmenting customers, choosing the target market and positioning the market offering. The heart of the marketing strategy is "STP". A company has to divide customers into homogeneous groups (Segmentation), choose the customer segments it can best serve (Targeting) and create unique brand associations in the minds of target customers (Positioning). This process is called target marketing, which will be discussed in lesson 7. The process of STP is followed by planning the marketing mix. The 4Ps are the sum of the tactical tools that companies use to influence customers and the demand for their products.

# 4.2.3 Marketing management

Marketing management, like any other type of management, involves four basic activities: analysis, planning, implementation and control. Through situation **analysis**, a company collects information about its internal environment (strength and weaknesses) and external environment (market opportunities and threats). See the SWOT-analysis for details.

**Planning** means strategic planning, that we have already presented in the previous chapter. Strategic plans are translated into marketing and other plans at the level of various divisions, products and brands.

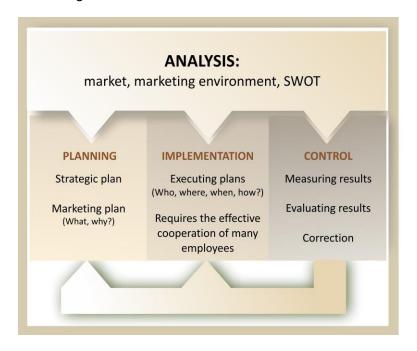
Marketing plans show how marketing efforts will contribute to achieving the overall goals of a company. All divisions, products and brands have to create their own marketing plan.



18. Figure: The parts of the marketing plan

In the **implementation** phase companies execute the plans.

**Control** involves the measurement and evaluation of the results of marketing activities, and if necessary, their correction and improvement. While marketing planning deals with questions such as "what" and "why", implementation gives answer to "who", "where", "how" and "when".



19. Figure: The process of marketing management (on the basis of Kotler-Keller 2012)

# Measuring results

Often, marketing professionals are required to verify their expenditures with financial calculations. Companies place an increasing emphasis on the measurement of marketing results. Marketing control consists of the following steps:

- setting marketing objectives,
- measuring results,
- identifying the reasons for possible underperformance, and
- taking corrective actions.

There are two types of marketing control. Operative control means continuous performance evaluation, i.e. comparing the actual status of performance indicators (e.g. sales, profit, costs of distribution channels) to target values. Strategic control refers to the alignment of marketing strategies to the changes of the market environment, as strategies and programs can quickly become obsolete.

One of the most important marketing performance indicators is the return on marketing investments, i.e. the marketing ROI.

The return on marketing investments (MROI) refers to the profit generated by the marketing expenditures of a company as compared to the costs of those investments.

Today, companies can evaluate their marketing performance by a multitude of indicators. Besides traditional indices such as sales and profit, they can also apply customer oriented measures such as retention rates, customer lifetime value or customer equity. The advantage of these indicators is that they not only assess a company's present performance, but its future potential as well. The most evident result of marketing investments (e.g. money spent on market research, salaries of the marketing staff, training of sales personnel, advertising budget) is the increase in sales and market share. However, some important marketing outcomes are hard to measure, as for example brand image, brand awareness or customer loyalty.

Note: Marketing expenditures can be regarded as investments in establishing profitable customer relationships. Larger customer value and satisfaction result in higher retention rates and new customers, which eventually affects customer lifetime value (CLV) and customer equity.

## 4.3 SUMMARY, QUESTIONS

## 4.3.1 Summary

In lesson 4 we showed why companies create strategies, and how marketing relates to company strategy. As part of corporate strategic planning, organizations determine their mission, goals and business portfolio. The main activities of marketing strategy are segmenting markets, choosing target customers and positioning products and brands in their minds.

Marketing is not only about planning. Before preparing future tasks, companies should analyse and interpret the market environment and also take account of their internal resources. Strong emphasis should be put on the accurate implementation of plans as well. Plans have to be compared with results systematically and control mechanisms should be developed in order to identify possible deviations from targets on time.

In the remaining lessons of the second module, we will continue discussing those activities that are closely related to marketing strategy: the market environment, consumer behaviour and target marketing.

## 4.3.2 Self-check questions

- 1. Explain the relationship between strategic planning and marketing planning.
- 2. What are the steps of strategic planning?
- 3. What are the parameters of a good mission statement?
- 4. What does business portfolio mean in marketing, and why is regular portfolio assessment important for organizations?
- 5. Explain the categories of the BCG-matrix.
- 6. What are the drawbacks of matrix-type portfolio assessment tools?
- 7. Explain the Ansoff-matrix and its categories. Give examples for each category.
- 8. What do we mean by STP in marketing?
- 9. What are the main tasks of marketing management?
- 10. What is marketing ROI? Why is it important for companies to calculate MROI?

#### 4.3.3 Practice tests

- 1. The essence of marketing strategy is STP. What does STP stand for?
  - a) segmenting, targeting, positioning
  - b) segmenting, targeting, pricing
  - c) servicing, targeting, pricing
  - d) selling, teasing, promotion
- 2. Regarding strategic planning, taking corrective actions is part of which task?
  - a) planning
  - b) implementing
  - c) control
  - d) organizing
- 3. Which marketing management function answers the following questions: "what" and "why"?
  - a) analysing
  - b) planning
  - c) implementation
  - d) control
- 4. Which growth strategy means selling more of our existing products to our existing buyers?
  - a) market penetration
  - b) market development
  - c) product development
  - d) diversification
- 5. How would you call social media such as Facebook according to the BCG-matrix?
  - a) cash cow
  - b) star
  - c) question mark
  - d) dog
- Diversification means...
  - a) selling on multiple markets
  - b) selling multiple products on one market
  - c) selling one type of a product
  - d) satisfying multiple customer needs

- 7. What is the correct order of strategic planning?
- a) goals  $\rightarrow$  mission  $\rightarrow$  SBUs  $\rightarrow$  functional strategies
- b) goals → SBUs → mission → functional strategies
- c) mission → SBUs → goals → functional strategies
- d) <u>mission</u> → <u>goals</u> → <u>SBUs</u> → <u>functional strategies</u>
- 8. If a company is selling on a niche market...
- a) it satisfies the needs of multiple markets.
- b) it serves the whole market.
- c) it serves the unsatisfied needs of a small market.
- d) it sells products that customers rarely purchase.
- 9. Strategic control means the systematic comparison of a company's performance with the goals set.
- A) true
- B) false
- 10. Question marks are products with a high market share in a market of low growth rate.
- C) true
- D) false

## 5. MARKETING ENVIRONMENT

#### 5.1 OBJECTIVES AND COMPETENCES

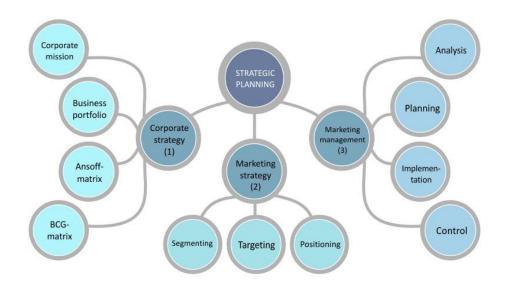
The main goal of lesson 5 is to show that companies do not operate in a vacuum, but in a market full of other organizations such as competitors, suppliers, distributors, customers, etc. Some companies are fighting for the same customers, while others cooperate with each other. Companies have to take the broader socio-economic environment into consideration when they define their business and targets. Both micro- and macro-environmental forces influence the strategies of companies, their competitive advantage and relationship with customers.

After studying the lesson, students will be able to present the environmental forces that influence organizations in satisfying customer needs. Students will be able to understand how environmental changes influence marketing decisions, and make recommendations on how organizations should react to these changes.

In the lesson we also present the main tools and methods of how companies can collect information about the market including customer needs and wants (marketing information system).

The basic competence developed in the lesson is openness to changes and alertness to market opportunities and threats. Following the changes of the environment, being up-to-date and informed are important characteristics in many areas of life, not only in marketing.

In lesson 5 we continue explaining the process of marketing. This time we focus on analysing the marketing environment, since companies have to study and understand their environment in order to set goals and formulate competitive strategies.



20. Figure: Concept map

## 5.2 COURSE MATERIAL

## 5.2.1 Marketing environment

The marketing environment embraces internal and external forces and factors that influence organizations in building customer relationships.

The marketing environment can be divided into two major areas: micro-environment and macro-environment.

- The micro-environment embraces factors that are within close proximity to a company: the company itself, its employees, suppliers, distributors, customers, competitors and the public. The elements of the micro-environment can be influenced by the company.
- The macro-environment refers to external forces that provide a broader framework for the decisions, performance and strategy of the organization. They involve economic, demographic, legal, political, social, technological and environmental forces.

Most organizations cannot influence the factors of their macroenvironment, but rather have to adapt their strategy to them. However, large firms, and in particular multinational corporations, can sometimes shape the economic and cultural trends of a smaller country. They have strong brands that influence the decisions of consumers and large operations, i.e. significant economic weight (in terms of sales, employment and taxes paid) as compared to the country's GDP.

Note: Environmental factors can hide threats, but also offer valuable market opportunities. With the help of the SWOT-analysis, organizations can examine their internal and external environment. They should make use of their strengths (e.g. committed employees, skilled management and innovative technologies) to exploit opportunities and fend off threats. Weaknesses (e.g. short product lines or weak brands) should be minimized or converted into strengths, otherwise competitors can easily exploit them. Threats and opportunities are external in nature and are often the result of political and demographic factors. For example, the accession of Eastern European countries to the EU presented many new market opportunities to Western European companies.

#### **5.2.2 Micro-environment**

To achieve their market goals, organizations have to continuously interact with members of the micro-environment, including their employees, suppliers, marketing intermediaries, publics and customers, while keeping an eye on the strategy and offerings of their competitors.

# The company itself

Small businesses are typically managed by one or few people and can quickly adapt to the changes of the marketing environment. Large organizations are made up of various departments ("internal environment"), all having their own goals and strategies. The top management of large companies prepares the overall strategy for the organization, which then guides the activities of other company departments, including marketing. Besides formulating marketing strategies, the marketing department also helps to make other departments committed to the common goals of the company. They can use various internal communications tools such as newsletters, desktop alerts, staff surveys and events to foster corporate culture and the feeling of togetherness.

# Suppliers

Suppliers deliver and rent production factors (supplies) to manufacturers (e.g. raw materials, component parts, equipment).

As a result of faulty, unreliable or expensive supplies, companies can lose customers and market share. Hence, organizations had better treat their suppliers as partners, as they have critical role in their market performance. Large companies permanently monitor and evaluate the performance of their suppliers in terms of quality and costs. Transnational corporations, in order to optimize efficiency (minimize costs and maximize output), make use of suppliers and production facilities in multiple countries.

# Marketing intermediaries

Marketing intermediaries assist a company in several ways, for example in promoting, selling and delivering the product. They embrace distributors (retailers and wholesalers), shipment and logistics companies, advertising agencies, financial intermediaries, etc.

Distributors are important members of the marketing channel. They assist manufacturers in identifying and retaining customers. Retailers are often very large companies, think of WalMart for example, which is the largest company by revenue in the world. WalMart employed 2.2 million people in 2013 around the world.



21. Figure: Wal-Mart Stores Inc. is the world's largest company by revenue

Shipping and logistics management companies help sellers in delivering goods to buyers. The largest shipping companies in the world are DHL, UPS and FedEx.

Marketing service providers supply professional services such as creative services, third-party data, hosted solutions, database marketing, prospecting, campaign management, marketing resource management (MRM), customer analytics, e-marketing, advertising, etc. Their competencies range from technology hosting to full business process outsourcing.

Financial intermediaries such as banks, insurance or leasing companies provide short and long-term funds and other financial services to companies. Organizations should devote enough time and money to establish reliable and long-term partnerships with marketing intermediaries and optimize the performance of the whole supply chain.

# Competitors

Companies not only have to create customer value, they have to create more value than their competitors. Strategic advantage means that the organization discovers better (more efficient or more effective) ways of satisfying customers than competitors. Strategic advantage can be gained for example by acquiring extensive distribution channels, innovative technologies or exclusive rights to sell products in a specific market. One way of creating strategic advantage is through positioning, which is the task of the marketing strategy. Smaller organizations can gain strategic advantage by focusing on smaller (niche) markets and satisfying the needs of fewer customers better (e.g. by selling a larger variety in fewer markets, satisfying specific local needs, providing better quality).

# The public

From a company's point of view, the general public is not homogeneous, but is made up of several subgroups of people and organizations. The financial publics for example embrace banks, consulting firms, stockbrokers, etc., as well as the owners and investors of a company. Media involves online and print publishers, television and radio channels, and various Internet sites. Voluntary or government organizations for protecting customers also influence organizations' behaviour. The local community includes citizens who live close to – and generally work at – the plants and service units of a company. Large businesses often enter into strategic partnerships and sponsorships with local organizations such as universities, municipalities and sports clubs. Firms that sell products nationwide or in multiple countries have to nurture a positive image within the broader society or globally.

To improve their overall image among various publics, organizations can use PR tools, including news releases, press conferences and social media sites. Firms also try to establish good relationship with their internal environment (employees) with the help of internal PR tools (e.g. newsletters, company events). If employees feel positive about the organization they work for, their attitude will pass on customers as well.

#### Customers

We already presented the various types of markets in lesson 2. Consumer markets are one type of customer markets, as firms not only sell to individuals (B2C), but to other businesses (B2B) and government organizations (B2C) too. Governments buy products and services to provide public goods (e.g. police, army, schools, hospitals, highways). International markets refer to foreign buyers on consumer, business and government markets.

#### 5.2.3 Macro-environment

Organizations and their partners (micro-environment) operate in a broader environment, called the macro-environment. Many companies can lose profits and market share because of unexpected changes in the macro-environment (see for example the sub-prime crisis). National and global trends are hard to predict and control, hence companies who foresee or can induce changes in the macro-environment will become market leaders. However, most companies are happy if they can adapt to the changes and would never think of inducing the changes themselves. In what follows, we briefly present the factors of the macro-environment and give examples of how they can shape the marketing activities of organizations.

# Demography

Demography is the statistical study of the size, density, geography, age, sex, occupation, etc. of a country's population. Demography is the most important macro-environmental factor, as after all, people constitute markets.

The population of Earth today (2014) is seven billion people and it is growing continuously. It is estimated that there will be about 10 billion people on Earth by 2050, which inter alia gives rise to new markets, and especially in the developing world. In Europe, aging populations are the most important development regarding demography. Ageing results in a new consumer segment, active

senior citizens, who have relatively high purchasing power and spend more on travelling and other leisure services than what elderly people used to. Further demographic trends include working mothers, career-centred women, stay-at-home dads, hedonistic singles and internet-addicted young people.

# Economy

Economic environment involves factors (e.g. income, employment, inflation, interest rates and national debt) that directly influence consumers' purchasing power and purchasing decisions.

- Value marketing offers relatively good quality for a reasonable price, which is a popular strategy in lower income countries and segments. In richer countries, the "high quality-high price" position is more frequently used.
  - □ Note: Demand is normally a positive function of income, but growing income does not affect all products equally. Relative household expenditures on food decrease, while those on health and clothing increase by growing income.

#### Natural environment

The natural environment is an input of production. Companies, sadly, not only utilize natural resources but often overuse and abuse them. Today's production and consumption have brought about the depletion of many non-renewable resources and also resulted in the irreversible growth of pollution as well as the contamination of oceans, the atmosphere and the soil. Slowing down pollution require increasing commitment from international bodies, national governments and consumers too. Socially and environmentally responsible corporate behaviour can only develop as a result of pressure from both consumers and government authorities.

# Technology

In recent decades, changes in production and servicing technology were the most influential factors within the macro-environment. The technological environment of organizations entails people, processes and equipment that create new technologies and thereby new products and market opportunities. Today, instead of dishevelled lonely inventors, research and development teams make companies more competitive by keeping them up with the latest technological advances and competitors. Small companies often have a technological disadvantage, which makes

it difficult for them to take up the gauntlet and compete with their larger and more mature counterparts.



22. Figure: Differences in technology: South-African woman versus Toyota plant in Japan

In Scandinavian countries, and especially in Norway and Sweden, almost 100% of the households have Internet, which makes it easier and more profitable for companies to go online.

#### **Politics**

The political environment refers to laws and regulations imposed by national and regional governments to influence and control the behaviour of organizations and individuals. The political environment affects market competition, product safety, labelling, pricing, advertising, etc.

♥ For example, in countries that have weak environmental regulations, high-polluting industries can proliferate.

#### Culture

Cultural environment refers to forces that influence the fundamental values, behaviour and preferences of individuals and organizations in the society.

Note: It is difficult to change the primary beliefs of people (e.g. the importance of having a family), as it is passed from one generation to another, and shaped by government, economic, family, educational and religious institutions. Secondary beliefs on the other part may be changed, for example, not all people agree with the previous norm that one should marry at a young age. Secondary beliefs can be shaped by reference groups, the media and other commercial sources.

Demography and culture are sometimes summed as social environment. The PEST analysis differentiates between political, economic, social and technological forces that describe organizations macro-environment. PESTEL adds environmental and legal factors, while STEEPLE broadens the analysis to ethical considerations as well.

You can read about Hungary's PESTEL analysis on the following link: http://www.ircjournals.org/vol2issue2/9-12.pdf

On the basis of how closely they follow changes of the marketing environment, we differentiate between three types of organizations. Proactive organizations can trigger changes mainly through product, process or marketing innovation. Reactive companies observe the market trends and try to adapt their operations accordingly. While the third group of companies only tries to guess what may have happened on the market.

Many companies regard the marketing environment as an endowment that cannot be changed, only adapted to. These organizations analyse the market and create strategies to avoid threats and exploit opportunities. However, some companies took the initiative and altered the way business had been done before.

The Model T, also known as the "Tin Lizzie," changed the way Americans live, work and travel. Henry Ford's revolutionary advancements in assembly-line automobile manufacturing made the Model T the first car to be affordable for a majority of Americans. For the first time car ownership became a reality for average American workers, not just the wealthy. More than 15 million Model Ts were built in Detroit and Highland Park, Michigan, and the automobile was also assembled at a Ford plant in Manchester, England, and at plants in continental Europe. Conceived by Henry Ford as practical, affordable transportation for the common man, it quickly became prized for its low cost, durability, versatility, and ease of maintenance. Assembly-line production allowed the price of the touring car version to be lowered from \$850 in 1908 to less than \$300 in 1925. At such prices the Model T at times comprised as much as 40 percent of all cars sold in the United States. (Source: History.com - Model T,

http://www.history.com/topics/model-t )

Note: József Galamb, a Hungarian-American mechanical engineer was the chief designer of the Ford Motor Company and devised many of the parts of the famous Model T.

## **5.2.4 Marketing information system**

The Marketing Information System (MIS) is the sum of people, tools, methods and processes that serve to collect, systematize, analyze, evaluate and transfer data about an organization and its marketing environment accurately and in a timely manner.

Organizations can collect data from primary and secondary sources.

- Primary research is the systematic planning and collection of data related to a specific marketing / business problem, as well as their transfer to decision makers.
- Secondary data have already been collected, analyzed and published. Secondary research relies on gathering secondary data.

It is cheaper to gather secondary than primary information, however, readily available data may not be timely and relevant for a company's specific problem. Looking for secondary data is always a good starting point of a research, so that companies would not waste money on primary research that has already been conducted.

There are several types of primary research methods such as observation, focus groups, interviews, surveys, experiments and trials. Focus groups, interviews and surveys belong together, since they are all based on respondents' self-assessment.

By observation, the companies collect and analyze primary data about events, consumers and activities that are important for them. A supermarket for example can observe how customers wander around the store, a bank can observe the flow of traffic in town to find the best place for its ATM, beer manufacturers can observe how people behave in a bar to collect data for a television commercial, etc. When observed, consumers are in their natural environment (e.g. while buying or using products and services) without knowing that they are observed. The disadvantage of the method is that it is not easy to observe feelings, attitudes and motivations.

Surveys, interviews and focus groups are the most popular methods of primary research. They can be applied per se to measure consumer behaviour, attitudes, motivations, etc., but can also be complemented by secondary research.

In standardized surveys and structured interviews, the researcher addresses exactly the same questions to all consumers. As interviews typically contain open-ended questions, they give more freedom to the respondent. Focus group discussions involve 6-12 people who are asked about products, brands, companies and their consumer behaviour. The advantage of focus groups is that they show how consumers interact, how opinions clash and opinion leaders influence others. The disadvantage of the method is that consumers want appear wise and please the moderator (researcher), so they are not always sincere.

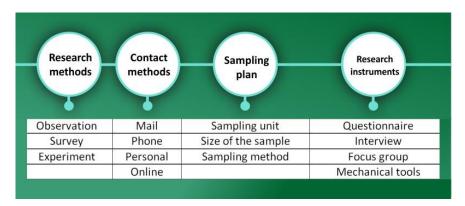
Accurate sampling is probably the most challenging part of questionnaire surveys, as in most cases it is impossible to reach and ask all consumers who are relevant to a specific problem. Applying the proper sampling method is the key for creating a representative survey.

- The sample is a relatively small group of consumers that is relevant for the research question, and whose characteristics approximate those of the population they are selected from.
  - Note: When developing a sample there are some important questions to answer: which consumers we should ask (sampling unit), how many consumers to ask (sample size), or how we should select the respondents (sampling method). Sampling methods can be probability (random) or non-probability. In the former, each individual in the population of interest has an equal likelihood of selection (similar to lottery). Methods involving judgement are referred to as non-probability selection and include quota, purposive, snowball and convenience sampling, etc. You can read more about sampling methods on the following site of the University of California:

http://psychology.ucdavis.edu/faculty\_sites/sommerb/sommerde mo/sampling/types.htm

Trials and experiments are another important group of research methods in marketing. It is most common for causal research. For example, a supermarket wants to know how the new store layout influences customer routes within the store, or a toy manufacturer can test what toys children like to play with.

Note: During observation it is important to leave the environment unchanged and examine customers in their everyday life. On the other hand, through experiments marketers test how a certain change in the environment of the purchase influences consumer behaviour. For an experiment a control group is also needed. The difference between a control group and an experimental group is that the latter is exposed to the conditions of the experiment and the former is not.



23. Figure: Characteristics of primary research methods (Kotler & Armstrong 2014)

## 5.3 SUMMARY, QUESTIONS

#### **5.3.1 Summary**

Organizations do not operate in a vacuum. The marketingenvironment involves forces that influence a company's capacity to create and maintain successful customer relationships. We identified twelve environmental forces, half of which are part of micro-environment, while the other half refer to the factors of the macro-environment.

The micro-environment embraces the company, the industry in which it operates and the industry's markets. Some sources differentiate between "micro" and "meso" environments. The former refers to a company itself while the latter to industry specific factors. Whereas most companies can influence their micro-environment, they generally have to adapt to the macro-environment. Only large companies can affect the elements of the macro-environment such as culture, the economy or legislation. For example, American brands, movies and television series have spread the American culture and lifestyle around the world.

At the end of the chapter we presented how companies can gather information about consumer behaviour and the marketing environment. The marketing information system (MIS) refers to all people and processes that are engaged in collecting, systematizing, analysing and

evaluating data. Data can be primary or secondary, depending on who collects them. Marketing research generally refers to primary data gathered by a company through observation, surveys, interviews, focus groups, tests and experiments. When companies devise questionnaire surveys, increased attention should be paid to establishing a representative sample and selecting a proper sampling method.

## 5.3.2 Self-check questions

- 1. Specify and characterize the factors within the microenvironment of organizations.
- 2. What is the difference between the micro-environment and macro-environment of organizations?
- 3. What is *demographic environment* and how it can influence the operation and strategy of organizations?
- 4. What is *economic environment* and how it can influence the operation and strategy of organizations?
- 5. What is *natural environment* and how it can influence the operation ad strategy of organizations?
- 6. What is *political environment* and how it can influence the operation ad strategy of organizations?
- 7. What is *technological environment* and how it can influence the operation ad strategy of organizations?
- 8. What is *cultural environment* and how it can influence the operation and strategy of organizations?
- 9. What is the difference between reactive and proactive organizations? Although most businesses have to adapt to the changes of the macro-environment, some of them can influence it. How is it possible?
- 10. What methods do you know for collecting information about the marketing environment of organizations? What is a good sample like in marketing research?

#### 5.3.3 Practice tests

- 1. Who are the constituents of the micro-environment?
- a) <u>customers, the company, suppliers, competitors, marketing</u> <u>intermediaries, the public</u>
- b) customers, the company, suppliers, competitors, marketing intermediaries, retailers

- c) customers, suppliers, competitors, marketing intermediaries, retailers and wholesalers
- d) customers, the company, suppliers, competitors, marketing intermediaries, the media
- 2. Who can be influenced by internal PR tools?
- a) distributors
- b) suppliers
- c) <u>employees</u>
- d) competitors
- 3. Which one is a correct list of marketing intermediaries?
- a) distributors, shipping firms, financial intermediaries, competitors
- b) distributors, shipping firms, banks, financial intermediaries
- c) distributors, shipping firms, marketing service companies, customers
- d) <u>distributors, shipping firms, marketing service companies,</u> financial intermediaries
- 4. What are the elements of the PESTLE model?
- a) demographic, economic, environmental, geographic, technological, cultural
- b) natural, geographic, technological, cultural, ethical
- c) demographic, cultural, economic, environmental, population, technological
- d) social, economic, environmental, political, legal, technological
- 5. What is the proper word for those organizations that anticipate changes in the marketing environment and adapt to them before they can take place and hurt the organization?
- a) passive
- b) active
- c) reactive
- d) proactive
- 6. Which environmental factor influences companies today at the greatest extent?
- a) political factors
- b) technological environment
- c) natural environment
- d) geography

- 7. Which macro-environmental factor is influenced negatively by production?
- a) politics
- b) technology
- c) environment
- d) demography
- 8. Which factor of the marketing environment refers to the fundamental values of the society that shape social behaviour and preferences?
- a) demography
- b) technology
- c) environment
- d) <u>culture</u>
- 9. Retailers are generally small companies.
  - a) true
  - b) false
- 10. SWOT-analysis helps companies assess both the internal and external factors of the environment.
  - a) true
  - b) false

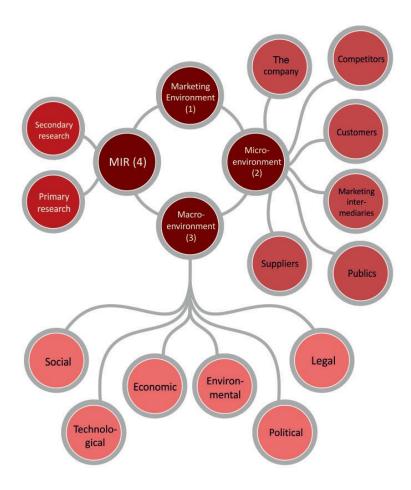
#### 6. Consumer behaviour

#### 6.1 OBJECTIVES AND COMPETENCES

In lesson 6 we will deal with the most important factor of organizations' micro-environment, the customer. An important goal of marketing is to influence consumer behaviour, however, in order to influence what, how and when customers buy, companies have to understand *why* they purchase certain products and services.

In this lesson we examine consumers' and organizations' purchasing behaviour. We highlight that understanding customer behaviour is vital for the success of any organization. Examining consumer behaviour is one of the most interesting fields of marketing, as we are all consumers. In addition to marketing and economics, the study of consumer behaviour involves short excursions into the fields of psychology, sociology and anthropology.

This lesson aims at teaching students the philosophy of customerorientation and the factors that influence consumer behaviour. Marketers should not focus solely on profit, but on satisfying customer needs profitably, as success in the long-term will be realized if organizations place customers – and not profit – in the centre of their operations.



24. Figure: Concept map

#### 6.2 COURSE MATERIAL

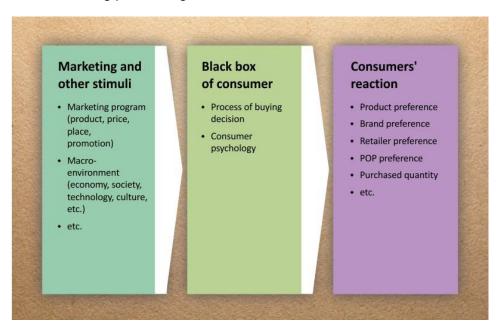
When was the last time you spent at least €50 on a product or service? What was the reason for the purchase? What steps did you take to obtain the product/service? How did you feel after the purchase? Were you delighted, satisfied or disappointed?

Marketers continuously investigate the secrets of consumer behaviour and try to find answer to the question: Why does a consumer buy a product? Examining consumer behaviour is not an easy task, as often the consumers themselves are not aware of why they bought a certain product.

Consumer behaviour describes why and how households and individuals purchase products and services.

## 6.2.1 Factors influencing consumer behaviour

A key mission of examining consumer behaviour is to learn how customers react to various market offerings and what factors influence them in making purchasing decisions.

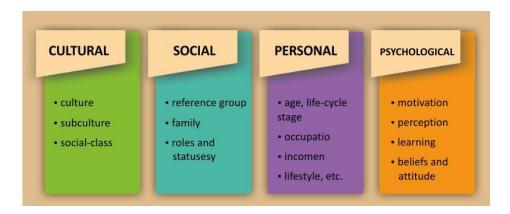


25. Figure: A model of consumer behavior

□ Note: It is difficult to model what happens in the minds of customers, since as much as 95% of our thoughts and feelings can originate from our subconscious ("black box").

Customers are influenced by cultural, social, personal, and psychological factors during purchase situations. These factors can hardly be influenced by companies, but always have to be taken into consideration when choosing target markets.

Think about when you last purchased a mobile phone. What factors influenced your decision (brand, type, price, point-of-purchase, etc.) and how?



26. Figure: The factors influencing consumer behavior

#### Cultural factors

- Culture includes values, norms, beliefs, customs, etc. that guide people's behaviour in their everyday lives, and which is developed in social institutions such as family, school, workplace, etc.
- American children acquire the following values: performance, participation, success, activity, efficiency, pragmatism, individualism, development, material wealth. freedom. humanitarianism, youth, fitness and health. Marketers have to follow shifts in values and lifestyles, for example the increasing need for feeling fit and healthy offers many new opportunities in the health industry (e.g. vitamins, nutritional supplements, home sports equipment, private trainers, sports clothing, functional food).
- Subculture refers to people who have similar (moral, ideological, social, etc.) values, share common experiences and life situations, which result in their distinctive use of style, including fashion, music, mannerisms and argot.
- There are smaller cultures or subcultures within every culture. Try to specify some organizations that sell products and services for subcultures.
- A social class is a group of individuals who occupy a similar position in the society.

Consumers can be classified according to their income, occupation, education, wealth, etc. into social classes. Different classes have

different product and brand preferences, this is why it is important to study them from a marketing point of view. Occupation has an important effect on social class membership, because it provides financial rewards, stability and benefits like healthcare.

Note: The major social classes are upper-class, middle-class, working-class and lower-class. Members of the upper-class are the so-called social elite, who represent only a few percent of the society and typically inherit their wealth. However, many of the upper-class people acquired their wealth themselves ("new money"). In developed countries the middle-class constitutes the backbone of the society: they have fairly large houses, live in nice neighbourhoods and attend good schools. They are entrepreneurs, qualified professionals, white-collar workers or managers of large companies. Lower middle-class people involve blue-collar workers and lower rank white collar workers. Working class people do physical work, and often need the help of their relatives and friends to solve difficult life situations. Members of the lower-class are generally uneducated. disqualified and often unemployed, many of them live from day to day.

#### Social factors

- Reference group is a group of individuals that the consumer tends to compare themselves to for the purpose of evaluating his or her own behaviour.
- For most people their friends are the reference group. Circles of friends have common ways of having fun, common ideals, etc. and thus maintain a similar view of the world around them. Many consumers try to adapt to the lifestyle of their close friends, including buying behaviour (they buy the same brands, go to the same stores, etc.). In addition, groups of friends often represent a subculture in many ways.
- An opinion leader is a well-known individual or organization that has the ability to influence people on a specific subject matter. Opinion leaders can be politicians, business leaders, celebrities, sports stars, etc.

The family is the most important consumer group. Marketers often study the roles of family members (wife, husband, children and grandparents) in the purchasing process, to understand their influence in family decision making regarding various products.

Status refers to what a person is in the society. The term may be used to refer to all of the different statuses an individual has, such as woman, mother, wife, sister, employee, etc. Role refers to the behaviour expected of people in a status. Sometimes the different roles of the same person are incompatible with each other, which leads to role conflict (e.g. caring mother versus hard-working employee).

#### Personal factors

Consumers' tastes change by time. Marketers believe that so-called life-cycle stages have a stronger influence on consumers' decision making than their actual age. We can differentiate between the following **life-cycle stages**: young single, young couple, young couples with children, couples without children, single parents, etc.

**Occupation** also influences customer behaviour, similar to **income**. For instance, blue-collar workers buy carpenter-style pants while office workers buy suits and ties. Some companies specialize in producing clothes for certain types of occupations. The role of income in consumer behaviour seems to be evident, however, some people try to consume over their real capacity, which is supported by the relative ease of obtaining loans today.

- Rolex positions its watches as "a symbol of excellence and timeless style". Other companies target the whole market. Timex, for example, offers reliable and stylish watches at a reasonable price. According to their newest slogan (Wear it Well™) men and women no longer wear a watch to simply tell time – they wear a watch to make a statement about themselves.
- Lifestyle refers to the way how people live their life, which reflects their activities, interests and opinions. People of the same age, occupation or social class can have completely different lifestyles, so marketers have to place increasing emphasis on customers' lifestyle when designing market offerings.
- Think of your colleagues. What similarities and differences can you identify in their lifestyles?

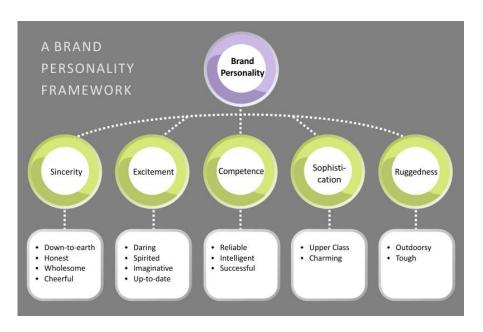
AIO is a well-known method used for psychographic segmentation, i.e. to define individuals' psychographic profile. Lifestyle can also be described by the AIO model, as it refers to consumers'...

- Activities (including work, hobbies, sports, social events, shopping, etc.)
- Interests (regarding food, fashion, family, recreation, etc.)
- Opinion (about oneself, social problems, the business world, etc.).

Another popular lifestyle-typology is the VALS model (*Values and Lifestyles*), which segments U.S. adults into eight distinct types (or mindsets) using a particular set of psychological traits and key demographics that drive consumer behaviour. You can learn about the details of the VALS model on the following link: http://www.strategicbusinessinsights.com/vals/ustypes.shtml).

- Personality is a unique combination of psychological traits that result in permanent and long-term reactions to the impulses coming from the environment.
- Personality makes a person unique. It arises from within the individual and remains fairly consistent throughout life. It is important for marketers to study the personality of consumers. For example, coffee consumers generally like to socialize, thus Starbucks created friendly atmosphere in its outlets where people can relax and chat while having their favourite cup of coffee.

Brands also have personalities and consumers tend to pick brands that have similar personalities to theirs. According to Jennifer Aaker (1997), brands have at least one of the following personality traits: sincerity, excitement, competence, sophistication and ruggedness.



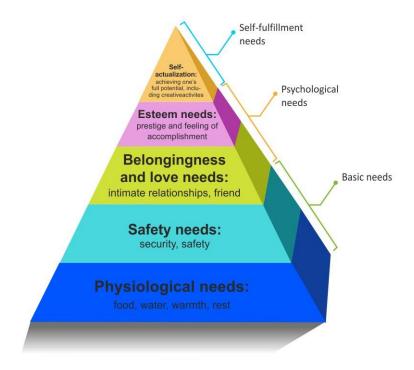
27. Figure: Brand personality framework (Aaker 1997)

- Think about your favourite brands and try to characterize them on the basis of Aaker's brand personality framework.
- Note: Some believe that the properties a consumer have express his/her personality: "You are what you have". In order to better understand consumer behaviour, marketers have to understand the relation between self-image and the products consumers buy.

# Psychological factors

Motivation is a desire or want that energizes and directs our behaviour. A learned behaviour will only occur if it is energized.

Two significant motivation theories are from Sigmund Freud and Abraham Maslow. Maslow tried to explain the rules of how people satisfy their needs.



28. Figure: The hierarchy of needs (on the basis of Maslow 1943)

According to Maslow (1943), people are motivated to satisfy certain needs. When one need is satisfied, people seek to fulfil the next one, and so forth. The most popular version of Maslow's *hierarchy of needs* includes five stages, often represented as hierarchical levels within a pyramid. The five stage model can be divided into basic needs (e.g. physiological, safety, love, and esteem) and growth needs (self-actualization). People are motivated by the lower basic needs first, if they are unmet.

As stated by Freud, consumer's buying preferences are dictated by unconscious motives. For marketers it means that elements (e.g. visual, auditory and tactile) of a market offering may invoke emotions which influence (stimulate or inhibit) purchase. Even consumers may not be aware or cannot express the real reason behind their purchases.

For example, an elderly man with high income buys an expensive sports car saying he enjoys speed. On a deeper level, he wants to show others his success in life, while on an subconscious level he wants to feel independent again and enthral women.

Perception refers to how consumers recognize, interpret and respond to market information. It is a process where consumers take in sensory information from the environment, make something meaningful from it, and then use that information to interact with their environment.

Consumers can interpret the same information in different ways. As stated by some surveys, people can encounter more than a thousand pieces of marketing information in a single day. It is impossible to recognize and interpret all of them. The concepts below show how consumers try to adapt to living in a world full of (marketing) information.

- Selective attention means that customers leave most marketing information unnoticed. Thus marketers have to work hard to attract consumers' notice.
- Selective distortion is the tendency of consumers to interpret marketing information in a way that will fit their preconceptions and earlier experiences. Consumers often distort information about a market offering to make it consistent with prior brand and product beliefs.
- Selective retention means that consumers tend to retain information that is consistent with their attitudes and beliefs. Due to selective retention, consumers will better remember the good points of a product they like and tend to forget about the good points of product they do not prefer. Strong brands can benefit the most from selective retention.
  - □ Note: Marketers use repetition in sending messages to their target customers to make sure their messages are not overlooked. An interesting idea has been the use of subliminal perception in selling products. The argument is that marketers can embed hidden messages in ads or during movies. Consumers are not consciously aware of these messages that yet can affect their behaviour. In the 1950s, companies experimented with subliminal commercials as for example "have a Coke" or "have a popcorn" during the filming of movies. However, the effects of these kinds of commercials have not been justified.
- Learning is a relatively lasting change in behaviour that takes place as the result of experience (and not studying). For example, if the consumer is delighted by a certain

brand based on experience gained by usage, he or she will continue buying it in the long term.

- Belief is the psychological state, in which an individual holds a presumption to be true. Belief is often associated with religion, however, people can have beliefs regarding many areas of life, for example brands, products or companies.
- Attitude refers to a person's enduring favourable or unfavourable evaluations, emotional feelings, and action tendencies toward some object or idea. People have attitudes toward almost everything: religion, politics, clothes, music, food. (Kotler & Keller, 2012, p.168)
- Attitude is difficult to change. Some creative campaigns, however, achieved significant results. "Got Milk?" was an American ad campaign encouraging the consumption of milk by improving consumers' attitude to milk. The campaign was created by an advertising agency for the California Milk Processor Board in 1993 and ran from 1993 to 2014. It has been credited with greatly increasing milk sales in California.
- How would you describe your thoughts, feelings and experiences about the following things? How intense is your attitude concerning these products/services? Is it negative or positive? → Cigarette smoking, wine drinking, going to the opera, playing computer games, rafting.

#### 6.2.2 The purchasing decision

The process of consumer decision making varies by the type of the buying decision. There are big differences between buying bread, a tennis racket or a new home. More expensive products usually involve more consideration and more participants in the buying process. Basically, we can differentiate between four types of buying decisions based on the level of customers' involvement and the perceived differences between brands: complex, dissonance-reducing, habitual and variety-seeking. Involvement refers to the degree of the emotional or personal association with a product.

# Complex Buying Behaviour

Consumers go through complex buying behaviour when they are highly involved in a purchase and are aware of significant differences

among brands (e.g. when the product is expensive, bought infrequently or is highly self-expressive).

A consumer buying a car may have to learn the new features cars have today and also think about which ones are important for him or her. Finally, the consumer may decide on the basis of feelings and not rational considerations, which makes complex purchases even more complex. Marketers' task is to assist the buyer in learning about the most important attributes of the product class and the companies' performance regarding these attributes.

# Dissonance-Reducing Buying Behaviour

Sometimes the consumer is highly involved in a purchase, but considers the differences to be small between brands. In this case the buyer first learns about the product, but buys it fairly quickly because brand differences are not noticeable. Consumers may buy this kind of product on the basis of availability or good price. As there are no important differences between brands, following the purchase, the consumer might experience dissonance. For example, the consumer encounters a seemingly better offering or gets to know some bad news about the purchased product.

Dissonance refers to the psychological discrepancy within the consumer, when a new belief conflicts with another previously held belief. It is a feeling of discomfort that results from holding two conflicting beliefs. To ease this frustrating situation something must be changed.

To decrease the feeling of dissonance the consumer will be alert to any information that can justify his or her decision. Marketing communications can help customers to support their preferred belief and feel good about their brand choice.

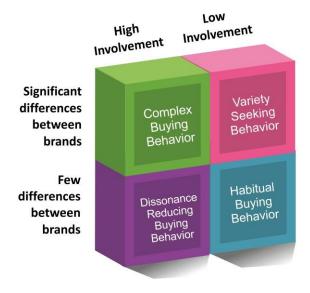
# Habitual Buying Behaviour

If there is low consumer involvement and no significant brand differences perceived, e.g. in the case of buying milk or oil, consumers go to the store and take the brand they usually take. If they keep buying the same brand, it is mostly out of habit and not strong brand commitment. Consumers have low-involvement in the case of cheap, frequently purchased items. In this instance the buying process is shorter than for high-involvement products, for example, consumers do not search for product information and do not evaluate alternatives extensively. Rather, they are passive recipients of information when they

watch television or see print ads, and then purchase the product almost automatically. Repetition and emphasizing easily recognizable symbols create brand familiarity (through classical conditioning) rather than brand conviction. In this buying situation consumers can be effectively motivated by sales promotion.

# Variety-Seeking Buying Behaviour

The fourth type of buying situations represents low consumer involvement, but significant differences between brands. Consumers in this case often do a lot of brand jumping, e.g. when purchasing chocolate the consumer has some beliefs, chooses a brand without much evaluation, and evaluates it during consumption. Next time, the consumer may buy another brand to try a different taste: brand jumping here occurs because of variety rather than disappointment. The market leader brand is likely to encourage habitual buying, while challenger firms will encourage variety seeking by offering lower prices, deals, free samples and ads that present good reasons for trying a new product.



29. Figure: The types of purchase decisions

Give three examples for each type of consumer decision making. Explain your examples.

# The stages of the consumer buying decision process

Purchasing decision making can be longer in time for complex or dissonance reducing situations and shorter with variety-seeking or habitual ones. Often, the purchase is a result of a sudden feeling or thought, without any prior consideration ("impulse buying").

The process of consumer decision making classically constitutes five steps, however, not all of them are considered in all purchase situations. For example, in the instance of habitual buying situations problem recognition is followed by product purchase.

- 1) The first stage is **recognizing the problem**. Here the buyer has a need or want to satisfy, or a problem that needs to be solved. This is the beginning of the buyer decision process.
- 2) The second step is where the buyer begins to search for information about the product or service. Consumers can use various sources including personal (friends and acquaintances), commercial (e.g. ads), public (e.g. online) or experimental (e.g. trying it or using product samples). Complex and dissonance-reducing situations entail more extensive searches for information. Today, an increasing number of customers use the Internet for learning about the product, its most important features, price and availability.
- 3) In stage three, the consumer **evaluates the available alternatives**. Here, he or she decides on a set of criteria and their weights to assess each alternative.
- 4) In the fourth stage the consumer **buys the product**, i.e. selects the brand, point-of-purchase, quantity, time of purchase, etc. The buying process does not stop at the purchase decision.
- 5) The consumer **evaluates the purchase** on the basis of its functional and other, less tangible (e.g. image-related) characteristics. If the performance of the product meets the initial requirements, the customer will be satisfied or even delighted, otherwise he or she can take some action to solve this disappointing situation (e.g. returning, selling or giving the product away). Sometimes customers continue to collect information about the product even after the purchase, to evaluate the purchase and make themselves satisfied.

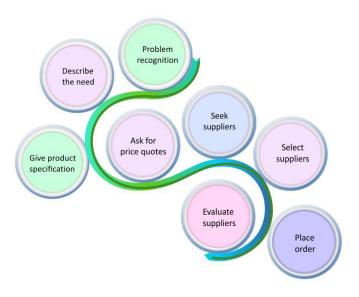
# 6.2.3 Organizational buying behaviour

Not only final consumers, but business and non-business organizations also purchase products and services. Organizational buying behaviour is different from that of households and individuals. Organizational buyers purchase products and services is much larger

quantities than individuals. Besides, organizational buying is more objective, extensive and formal than consumer buying.

- Organizations purchase products and services that they do not consume themselves, but use for operational purposes, manufacturing, resale and rental. Wholesalers, retailers, governments and non-business organizations are all engaged in organizational buying.
- During the business purchase process, for-profit organizations decide on what products and services they need, seek and evaluate available suppliers and brands, and finally select the best alternative on the basis of multiple criteria.

In case of a complex business buying situation, similarly to that of consumers, companies go through a series of steps. First, some external force or internal need triggers the buying process. Some individual or department (often the purchasing department) describes the need and its specifications, including the required budget. Companies have to consult with potential suppliers and evaluate their offerings. When the purchase decision has been made, companies have to monitor the delivery and installation, check product or service quality and assess supplier's performance. Conditions of future support services and maintenance has to be negotiated in advance.



30. Figure: The business buying process

Business markets are huge. Indeed, transactions on business markets involve much more money, goods and services than those on consumer markets. Think of how many transactions take place until a tyre is sold at a service outlet. Suppliers provide rubber, carbon black and other raw materials needed for tyre production. Manufacturers make and sell tyres to retailers who resell them to final consumers. But tyre manufacturers (there are about 450 in the world) sell tyres to automobile producers too, who mount tyres on cars and other vehicles. However, the largest tyre manufacturer company is still Lego, which produced 380 million tyres in 2011, for small Lego cars.

Business buying is similar to individual buying, however, when organisations buy products and services they follow the overall strategy of the company, such as cost efficiency and high quality. The most important characteristics of organizational buying are summarized on the basis of McKaskill (2011):

- Derived. Demand on organizational markets can be derived from demand on consumer markets. For example, the demand for rubber depends largely on the demand for automobiles on world markets.
- Consultative. In case of organizational buying, the buyer and seller often works together in the long-term, while defining the problem, finding a solution, implementing the product/service, supporting the operation, etc. In many cases, the supplier has more knowledge about the product and the market environment, including the potential problems of implementation and usage. Therefore mutual trust and sympathy is of high importance in case of organizational buying.
- Large scale. Organisational decisions can be of very large scale, involving purchases of many millions of Euros and take many months or years. Risk can also be very high and involve many actors as the purchase can determine the future of the whole organization.
- Rational. Organisational buying is more predictable and rational than consumer buying. However, the individuals who take part in the buying process are still influenced by their own motivations, attitude, experience and knowledge. If the information search and evaluation process is not rigorous enough, or there is pressure to make a quick decision, then

- probably not all suppliers will be considered or evaluated by the buying centre.
- Participants. Whereas most decisions on consumer markets are made by one or two individuals, organizational buying is a formal group decision, which usually involves many participants called a "buying centre". Within this group, individuals take different roles as purchase decisions can involve marketing competences, technical skills, economic considerations and the actual user's inputs as well.
- A buying centre refers to members of an organization who are responsible for making major purchase decisions. In a business setting, purchases typically require the input of different departments of the organization such as marketing, finance, purchasing and management.

The possible roles involved in a buying centre are as follows:

- Initiators are users or others in the organization who request that something be purchased.
- Users will directly use or consume the product or service.
- Influencers help specify the requirements, or provide information for the evaluation of the alternatives (e.g. technical experts).
- Buyers have the authority to choose suppliers and undertake the actual purchase transaction (they may also take part in negotiations concerning price and conditions).
- Deciders have the authority to decide on product requirements and select the final supplier (they may be the same as Buyers in routine purchases).
- Gatekeepers control the flow of information or access to other groups involved in the buying process.
- Note: Similar roles can be seen in the consumer buying process, for example when the family buys a new television for the kids (Users). The Buyer will be the father, the Decider is the mother and the Influencer can be any other family member or friend. The Gatekeeper will be the grandmother, who informs others about the purchase.

Organizations tend to use routine procurement practices with little involvement from the suppliers if the purchase occurs frequently and has low risk. The patterns of habitual organizational buying follow similar processes to individuals. You can read more about organizational buying behaviour on the following link:

# http://www.smartcompany.com.au/marketing/sales/22378-20111007-marketing-strategies-organisational-buyer-behaviour.html#)

Alike B2C companies, B2B marketers should also find out which types of buyers they want to target, and who to contact and concentrate on within the buying centres of those organizations. Business marketers can also segment the market in various ways to find the types of customers to which they will sell.

## 6.3 SUMMARY, QUESTIONS

#### 6.3.1 Summary

The study of consumer behaviour focuses on the purchase decision process. Marketers try to determine the steps of buying and the factors that influence them. Besides marketing strategy and programs, consumer decision making is influenced by people's cultural, social, personal and psychological traits.

Consumer decisions are hard to predict, even for marketing experts. It makes predictions even more difficult that not all buying situations are the same. Consumers decide routinely or switch between brands randomly in the case of products with low value and low buyer involvement. Regarding offerings with high value and high-involvement, consumers try to avoid or decrease their feeling of dissonance, or approach the buying process in a complex manner and consider as many factors as possible to make the best decision.

The purchase decision classically contains five steps, however, not all of them are taken all the time. In routine or impulse buying situations for example, the recognition of a need is immediately followed by the purchase decision. But when we buy a car or a pet for the kids, we devote more time, money and efforts to collecting and evaluating information and choosing the right seller. The purchase process does not end here, as the use of the product can entail several problems, which have to be solved by the marketer in cooperation with the consumer.

In lesson 6 we also presented the main characteristics of business buying behaviour, as most products and services are sold on organizational markets. Organizations are more rational buyers than consumers, however, they can be also influenced by personal factors, as eventually individuals make decisions. In case of businesses, the buying centre usually involves more participants and the buying process contains more steps than for consumers.

#### 6.3.2 Self-check questions

- 1. What is the most important question of studying consumer behaviour?
- 2. What is the difference between "consumer" and "customer" markets?
- 3. Depict the model of consumer behaviour.
- 4. What can be the life-cycle stages of consumers?
- 5. What lifestyle classification models do you know?
- 6. What is the difference between selective attention, selective distortion and selective retention? How can marketing experts overcome them?
- 7. How would you interpret cognitive dissonance in consumer behaviour? How can companies decrease the feeling of cognitive dissonance?
- 8. Specify the steps of the consumer decision making process. How can consumers search for information about products?
- 9. What are the main characteristics of business markets? Compare the characteristics of organizational and consumer markets.
- 10. What are the steps and who are the potential participants of the business purchase decision process?

#### 6.3.3 Practice tests

- 1. What is the most important question of studying consumer behaviour?
- a) What products and services do consumers buy?
- b) Where do consumers go shopping?
- c) When do consumers go shopping?
- d) Why do consumers buy certain goods and services?
- 2. According to the model presented in the lesson, what factors influence consumer decision making?
- a) cultural, political, social, psychological
- b) cultural, political, social, sociological
- c) cultural, social, personal, psychological
- d) cultural, social, legal, psychological

- 3. What is the name of the group consumers compare themselves and the products they buy to?
- a) referral group
- b) reference group
- c) representative group
- d) opinion leaders
- 4. On the basis of what factors does the AIO model categorize consumers?
- a) hobbies, work, leisure
- b) hobbies, work, friends
- c) activities, interests, opportunities
- d) activities, interests, opinions
- 5. According to the brand personality framework of Jennifer Aaker (1997), what is an exciting brand like?
- a) upper-class, charming
- b) reliable, intelligent, successful
- c) daring, spirited, imaginative, up-to-date
- d) outdoorsy, tough
- 6. Based on Maslow's hierarchy of needs, in what order do consumers satisfy their needs? (from left to right)
- a) physiological, love, safety, esteem, self-actualization
- b) love, physiological, safety, esteem, self-actualization
- c) physiological, safety, love, self-actualization, esteem
- d) physiological, safety, love, esteem, self-actualization
- 7. Which type of consumer decision making refers to low-involvement and small perceived differences between brands?
- a) complex
- b) dissonance reducing
- c) variety-seeking
- d) habitual
- 8. Who can be the members of the buying centre of an organization?

- a) users, influencers, customers
- b) users, influencers, buyers, janitors
- c) abusers, influencers, buyers, deciders
- d) initiators, users, influencers, buyers, deciders, gatekeepers
- 9. Subculture refers to people who have similar values, share common experiences and life situations.
- a) true
- b) false
- 10. Through perception, people select, interpret and evaluate products.
- a) true
- b) false

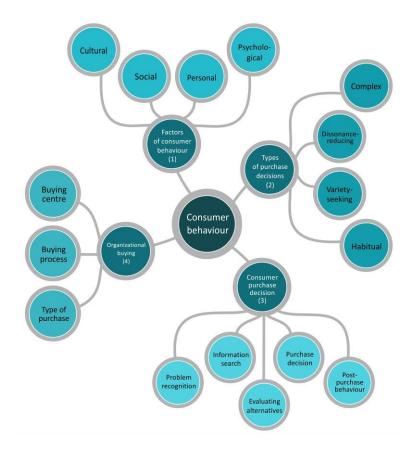
#### 7. TARGET MARKETING

#### 7.1 OBJECTIVES AND COMPETENCES

#### 7.2 COURSE MATERIAL

Lesson 7 is the last chapter of module 2 that discusses the questions of marketing strategy. Following strategic planning, marketing environment and consumer behaviour, we will now discuss target marketing. We already mentioned the importance of choosing target markets in lesson 4. Most companies realize that they are not able to serve all customer needs at the same time, at least not with the same product or service. Instead of mass marketing, most companies pursue segment marketing, i.e. target different groups of customers with different market offerings. Target marketing links marketing strategy to marketing program, as the marketing mix elements can only be determined if a company knows its consumers and has a specific idea about how to attract them.

In this lesson, students will learn about the steps of target marketing, namely market segmentation, market targeting and market positioning, and will be able to apply their knowledge to formulate specific marketing strategies and programs. The lesson aims at developing the competence of selection and focus, as successful marketers have to know what information to look for in the marketing environment, which customers to serve, and thus focus their efforts on the most profitable segments.

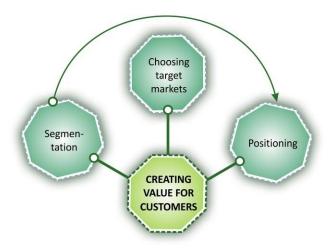


31. Figure: Concept map

Only few organizations are able to satisfy the needs of all customers with a single product (Coke or the Model T were good examples for mass marketing for many years). Target marketing is about finding the customers the company can make happy while making a profit.

- Segmentation is when a company divides the market into homogeneous subgroups that have similar needs, wants and consumer behaviour. Most companies segment the market on the basis of geographic, demographic, psychographic (see AIO) and behavioural characteristics.
- Segmentation is followed by Targeting, by which a company evaluates the attractiveness of each segment and chooses one or more of them to serve with its products and services.

Through Positioning a company tries to occupy a clear, unique and long-lasting position in consumers' heads by communicating the most valuable benefits of its offering towards them.



32. Figure: The elements of target marketing

# 7.2.1 Segmentation

Segmenting the market is important if customers react differently to different combinations of the marketing mix. Not all people like the same market offering, the same restaurant, movies, beer or holiday resort.

A consumer segment is the sum of customers who react similarly to the same marketing stimuli; whose behaviour can be influenced with the same combination of marketing tools.

Through segmentation companies divide large heterogeneous groups of the society into smaller, more easily targetable groups. The bases for segmentation can be geographic, demographic, psychographic and behavioural in nature.

**Geographic** segmentation divides customers on the basis of their place of living, e.g. country, region, town or neighbourhood.

Many retailers open larger outlets in larger cities and smaller ones in smaller towns. Large hotel chains operate establishments only in big capital cities and sometimes in larger towns. A popular way of segmenting customers is based on their **demography** (e.g. age, gender, family size, life-cycle stage, income, occupation, education, religion, race, generation, nationality).

- Traditional demographic characteristics such as age and occupation are not so relevant today, as consumers with similar age and occupation can have completely different buying habits. Instead, life-cycle stages and lifestyle are more relevant bases for segmentation today.
- From a marketing point of view income is the most important demographic feature. There is no company who would not consider segmentation based on customers' income.

**Psychographic** segmentation classifies consumers on the basis of demography (e.g. age, gender and income), culture, attitude, values, and lifestyle. For example, adventure parks target young couples, families and groups of friends who like doing outdoor sports, enjoy challenges and spending time in the nature.

Behavioural segmentation groups consumers according to their behaviour, feelings and knowledge regarding the product. Occassion for example refers to when consumers typically purchase or consume a product (e.g. coffee, cornflakes and orange juice are typically consumed in the morning, flowers are usually bought on Valentine's day, while most books are bought at Christmas time). Different customers look for different benefits of the same product: while effective toothpaste means white teeth for some, it means no cavities for others. User status and usage rate shows how often consumers buy/consume a product. Most companies try to please heavy users, while the needs of nonusers or potential users are only considered when they plan growth strategies. The best customers are loyal to the company (loyalty status), however, smaller organizations try to make consumers switch brands. User and loyalty statuses are closely connected to attitude: indifferent buyers can easily be persuaded and serve as the basis for the future growth of the company.

Most companies apply **multiple bases** during segmentation. For instance, they segment consumers by gender, age, income and lifestyle at the same time.

Multinational companies practice **international segmentation** and classify countries on the grounds of their location, economic development, political stability, bureaucracy, attitude to FDI, taxes and regulations, and cultural factors such as language, religion and values. Some transnational companies, disregarding the specific characteristics of the foreign countries, target the same group of buyers everywhere

(e.g. Mercedes targets the well-off, Apple targets young and innovative adults).

You can read more about segmentation variables on the following link: <a href="http://www.examstutor.com/business/resources/studyroom/marketing/market\_analysis/9\_behavioural\_segmentation.php">http://www.examstutor.com/business/resources/studyroom/marketing/market\_analysis/9\_behavioural\_segmentation.php</a>

#### 7.2.2 Targeting

When choosing target markets a company evaluates the attractiveness of each segment and selects the ones that best suit its mission, goals and strategy in the long-term.

Mercedes wants to satisfy the needs of several sub-segments within high-income consumers. The A-Class is typically made for women, but lately also for young professionals. The new A-Class particularly appeals to women, as it provides comfort and cachet (prestige) without lacking in performance and ease of handling. You can read about the marketing strategy of Mercedes Benz on the following link: <a href="http://www.thedp.com/article/2014/04/how-mercedes-markets-itself">http://www.thedp.com/article/2014/04/how-mercedes-markets-itself</a>

Companies can target the whole market with the same offering (mass / undifferentiated marketing), only one segment (focusing / niche marketing) or several segments (segment marketing). If companies pursue segment marketing they can either approach the various segment with the same strategy or different strategies.

- Differentiated target marketing means that a company offers different products and benefits to different types of customers.
- Undifferentiated target marketing means that a company offers the same products and benefits to the entire target audience.

Undifferentiated targeting is more common when a company has limited financial resources, there are only one or few versions of the product by nature (e.g. steel, grapefruit), the product has been just introduced to the market, consumers have homogeneous needs concerning the offering, and competitors also apply undifferentiated targeting.

A good segment is measurable, substantial, accessible, differentiable and actionable (Kotler & Keller 2012):

 Its size, purchasing power and the characteristics of the customers within the segments can be measured.

- It is large and profitable enough to serve.
- It can be effectively reached and served.
- It is distinguishable and responds differently to different marketing mix elements and programs. (e.g. If married and unmarried women respond similarly to a sale on perfume, they do not constitute separate segments.)
- Effective **programs** can be formed for attracting and serving the segment.

If there is more than one promising segment to target, the larger and/or more profitable or the one with the highest growth potential should be chosen. The structure of each segment should also be analyzed, for example by Porter's five forces model that includes present and future competitors, substitute products, and the bargaining power of buyers and suppliers.



33. Figure: The factors affecting the attractiveness of industries (Porter 1979)

Segments or industries are less attractive if there are several competitors and substitute products, and buyers and suppliers have relatively high bargaining power. The goals and strategies of organizations, as well as their resources and skills have to be taken into consideration when selecting target segments.

There is a growing need for economical or fuel-efficient cars, however, luxury car manufacturers have to place their consumers' needs in the forefront and offer vehicles that have superior comfort, performance and safety.

Not the fastest growing segment is always the best alternative, and especially not for small businesses. Generally speaking, small organizations do not have the resources and competences to serve substantial segments and to keep large companies at bay. Smaller companies are thus better at serving niche segments, while large ones can make use of economy of scale effects in larger segments.

In case of niche marketing, a company focuses on one or two smaller segments of the market (e.g. organic cosmetics, organic food), but aims to acquire the majority of those segments.

Small segments can be profitable as well, since they pay a premium to the firm that best satisfies them. In addition, they usually have growth potential and unlikely to attract many competitors. High level of specialization in niche markets would also fend off new entrants.

- You can read about extreme examples of niche marketing on the following link: <a href="http://www.thesolopreneurlife.com/6-cool-examples-of-successful-niche-businesses/">http://www.thesolopreneurlife.com/6-cool-examples-of-successful-niche-businesses/</a>
- When marketing efforts are focused on a very small (smaller than in the case of niche marketing) group of consumers we call it micro-marketing. This strategy requires a company to define customers on the basis of a particular characteristic such as location or job title, and tailor campaigns accordingly.
  - Note: Micro-marketing can be an expensive technique due to the high level of customization and lack of economy of scale.

If marketing programs are tailored to the needs and wants of local customer groups we talk about **local marketing**. Local marketing means getting as close to individual customers as possible for example through sponsoring local sports teams and creating funds that support local causes.

The most extreme level of segmentation is **customised** or **one-to-one marketing**. Today customers increasingly take part in the decisions regarding their favourite brands, e.g. in determining what and how to buy.

NIKE allows its buyers to customize their shoes for performance, fit, and style. Nike offers many shoe styles and products. Shoe customization options usually include colours of different components, as well as material, feature, and fit options. You can make your shoes personal on the following website: <a href="http://www.nike.com/us/en\_us/c/nikeid">http://www.nike.com/us/en\_us/c/nikeid</a>

It is important to take **social responsibility** into consideration, especially when targeting vulnerable customers. For example, targeting children with food products that have high sugar content, or selling mortgage or other types of loans to low income households can be regarded as unethical.

## 7.2.3 Positioning

Positioning refers to designing an attractive image for a company's offering in order to occupy a distinctive place in the minds of target consumers. Positioning requires identifying the ideal points-of-parity (POP) and points-of-difference (POD) brand associations.

Note: While value proposition embraces all product features including price, positioning refers to a small group of benefits that the target market highly values. Both positioning and market proposition try to answer the question why customers should purchase the product.

From the customers' point of view, the position of a product refers to those benefits that customers associate a company or brand with, and which differentiates the brand from competitors. While the product is manufactured in factories the brand is established within the minds of customers.

Longines does not sell simply watches, but elegance too, as reflected by their motto: "Elegance is an attitude". The company, owned by the Swatch-group tries to capture customers and especially women with the help of print catalogues: <a href="http://www.luxurydaily.com/longines-captures-mutli-cultural-audience-with-mail-catalogs/">http://www.luxurydaily.com/longines-captures-mutli-cultural-audience-with-mail-catalogs/</a>

If a company wants to position itself as a high-quality high-price ("more-for-more") brand, it has to produce high quality products in the first place, sell them through committed and reliable retailers (perhaps through its own retailers) and use high standard communication channels. The sales staff has to be properly trained on product features

and usage, while the advertising campaign should reflect high standards in every aspect.

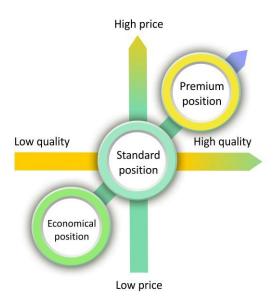
The Lake Balaton of Hungary is the largest lake in Central Europe. In the "Marketing Plan 2014" devised by the Hungarian Tourism Ltd., Balaton is positioned by the following words: clean, quality services, perfect water parameters, beach, all-year, for the family, health tourism, active programs, wine regions, easily accessible and good value for money.



34. Figure: The Balaton region in Hungary is positioned for foreign tourists as an easily accessible destination that offers good value for money.

- Watch some television commercials and try to identify the positions marketers would like to take. Did they convince you about their targeted position?
- Perceptual or positioning maps help companies develop a market positioning strategy for their brands. As the maps are based on the perceptions of buyers, they are also called perceptual maps. They show where existing products and services are positioned in the market, so firms can decide where they would like to place their products in relation to competitors.

A perceptual map can have any number of axes, but to keep things simple they usually have only two. Any criteria can be used for the map, including price, quality or other product feature.



35. Figure: Positioning map

Place 5-6 car brands on the perceptual map above.

Companies must ensure that their brand positioning has both **points-of-parity** (POP) and **points-of-difference** (POD). On the one hand, the brand or product should be considered similar with the major offerings in the category for the key attributes. On the other, it needs to have a number of unique or **differentiated attributes** (POD), to give enough reasons for buyers to choose the product.

Everyday chores are not typically attributed with fun, happiness and joy. Companies that market home appliances, e.g. washers, dryers, dishwashers, microwaves, can find it more difficult to connect with consumers in an emotional way. However, Whirlpool tries to make a difference by emotional positioning. According to senior brand manager for Whirlpool, Jon Hall, their campaign makes people really think beyond "what is the product going to do for me in this scenario" (functionally), and shifts it to "how will these products enhance my life?" (emotionally). You can read more about Whirlpool's positioning on the following link: <a href="http://www.psfk.com/2014/10/whirlpool-family-emotional-campaign.html">http://www.psfk.com/2014/10/whirlpool-family-emotional-campaign.html</a>

An appropriate POD should be...

considered important and valuable by consumers,

- easily noticeable,
- provided by the company at a superior level and in a consistent manner,
- easy to communicate,
- difficult to imitate,
- affordable for the target group, and
- profitable for the company.



*36. Figure: The positioning process* 

**Positioning strategies** give ideas to firms about what market position they should take, how they can defeat competitors:

- "More for more." Most luxury brands offer better quality products for more money (e.g. Rolex, IPhone, Mercedes).
- "More for the same." With this strategy challenger firms on high-end markets can provide alternatives to thrifty welloffs.
- "The same for less." This strategy is typical of large hypermarkets and category killers that offer a multitude of products at lower prices than smaller stores. Other companies imitate the products of their larger competitors and produce them with lower manufacturing and promotional costs (e.g. tablet computers similar to IPad).
- "Less for much less." This strategy targets the saving consumer, who can be satisfied with an average solution, especially in case of a low-involvement product.
- "More for less". In theory, this is the best strategy on the market. But is there any company that can adopt it in the long run?

After choosing the proper positioning strategy, it is important to identify our **competitive advantage**. Many organizations highlight quality

or low price as their primary feature, which can be insufficient per se. Companies who differentiate have to create an image that makes them unique and interesting for consumers, which shows they are the best alternative for a specific problem.

Elmex toothpaste is produced by GABA group, which is owned by Colgate Palmolive. GABA's brands are Elmex, Aronal and Meridol. The product range includes consumer products such as toothpastes, dental rinses, mouthrinses, toothbrushes, interdental products, a fluoride gel as well as a fluoride concentrate for the dental profession. Each product is an effective problem-solver in its own right, but used together, they add up to complete and comprehensive problem-solving systems. You can read more GABA's positioning about the on the following http://www.gaba.com/en/406/About-us.htm

You can find examples for **positioning statements** on the following link: <a href="http://www.dummies.com/how-to/content/strategic-planning-positioning-statement-examples.html">http://www.dummies.com/how-to/content/strategic-planning-positioning-statement-examples.html</a>

The desired position has to be **communicated** consistently to target customers, while also creating a market offering that meets the requirements of the position. If a company positions its products as "high quality", they should be manufactured accordingly, otherwise a company risks its credibility and can lose customers. Marketers have to communicate benefits that are straightforward, competitive and desirable for customers.

In every marketing book there is usually the example of Volvo, the brand that has positioned itself in the car category synonymously with the word "safety". Recently the company emphasizes other benefits besides safety to keep up with competitors' positions.

Organizations sometimes **reposition** their offerings, when the elements of the market environment (e.g. customers, competitors) or the skills of the company require so. However, changes should be made in a careful manner, preferably in small steps so that customers do not get confused. Companies should not forget that planning the market position is always easier than implementing and maintaining it.

Established in 1891 in Eindhoven, the Netherlands, Philips now endeavours in a wild variety of industries including healthcare, lighting solutions, lifestyle products for personal well-being and pleasure. Because its products and areas of specialty are so broad Philips prefers to be described as "a diversified technology company, focused on improving people's lives through meaningful

innovation". Recently, Philips introduced a revised logo and identity created by Philips' in-house design team. (You can read more about Philips' corporate identity on the following link of Brand New,

2013,

http://www.underconsideration.com/brandnew/archives/new\_logo\_and\_identity\_by\_and\_for\_philips.php#.VKLDmcCA )



37. Figure: The changing identity of Philips

# 7.3 SUMMARY, QUESTIONS

#### 7.3.1 Summary

In lesson 7 we presented the most important questions of target marketing including market segmentation, market targeting and product positioning. As part of marketing strategy, target marketing defines which markets and customers the organization will serve. Basically, customers can be segmented on the grounds of their geographic, demographic, psychographic and behavioural characteristics. A good segment is measurable, accessible, profitable, distinguishable and reachable.

When choosing the target market a company has to decide if it will satisfy the needs of the whole market, several segments or just one or two smaller segments (niche marketing). It also has to determine if it will sell the same product or different offerings to various customer groups (differentiated vs. undifferentiated targeting).

Mass marketing refers to the strategy when a company offers the same product or service to all of its consumers, regardless of their specific needs and wants. The other extremity is when the organization tailors its offerings according to the needs of individual customer. Micro marketing, as part of niche marketing, reduces the market to very small but easily definable groups of buyers and tries to satisfy their needs as much as possible.

During positioning, a company uses communication tools to establish a positive image about itself and its brands in the minds of target customers. The positioning map helps organizations to compare their position to those of the competitors. Positioning covers a range of activities including differentiation, making positioning strategy, creating competitive advantage and communicating the position towards customers. The established position is not for good as most companies have to continuously amend their position in light of changing customer needs and competitors' actions.

#### 7.3.2 Self-check questions

- 1. Why is target marketing important and what are its main steps?
- 2. What do we mean by market segmentation? Which are the most important bases for segmentation?
- 3. What is psychography? Give some examples for consumer' psychographic characteristics.
- 4. Why can multi-base segmentation be useful?
- 5. What is a good market segment like?
- 6. What do Porter's five forces tell us about markets?
- 7. What is niche marketing? Give some examples of niche markets.
- 8. What is the positioning (perceptual) map for?
- 9. What are the steps of positioning?
- 10. Specify possible positioning strategies with examples.

#### 7.3.3 Practice tests

- 1. What consumer characteristics are combined in psychographic segmentation?
- a) demography and psychology
- b) demography and sociology
- c) demography and geography
- d) psychology and geography
- 2. What does "accessible" mean in case of market segmentation?
- a) It it easy to profile customers in the segment.
- b) It is profitable to satisfy segment needs.
- c) It is easy to reach the customers in the segment in the same way.
- d) It is easy to differentiate the customers in the segment from those of other segments.
- 3. One of the factors below is not a constituent of Porter's "five forces" model (but that of the "diamond" model). Which one?
- a) threat of new entrants
- b) bargaining power of suppliers
- c) bargaining power of buyers

- d) related and supporting industries
- 4. One of the factors below is not a constituent of Porter's "five forces" model (but that of the "diamond" model). Which one?
- e) threat of substitutes
- f) bargaining power of suppliers
- g) bargaining power of buyers
- h) demand conditions
- 5. What is the first step of the product positioning process?
- a) selecting a competitive advantage
- b) creating a positioning statement
- c) differentiation (identifying PODs)
- d) communicating the position
- 6. Which position strategy is required from most luxury brands?
- a) "more for more"
- b) "more for the same"
- c) "same for less"
- d) "less for much less"
- 7. Companies following undifferentiated targeting do not pay attention to the potential differences between customers' needs.
- a) true
- b) false
- 8. Niche marketing refers to devising different marketing programs for different segments.
- a) true
- b) false
- 9. Value proposition is a narrower category than positioning statement.
- a) true
- b) false
- 10. Perceptual map is the same as positioning map.
- a) true
- b) false

# 8. MARKET OFFERINGS

#### 8.1 OBJECTIVES AND COMPETENCES

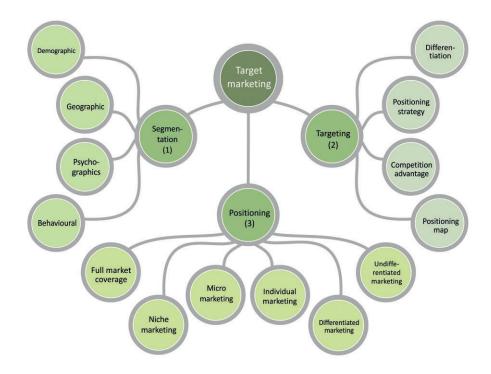
The numerous decisions in marketing were divided into four major groups by Jerome McCarthy in 1960: product, price, place and promotion. Lesson 8 deals with the questions associated with the product / marketing offer.

Product is the first and foremost marketing tool. Organizations today create market offerings that embrace various combinations of tangible and intangible benefits. In this lesson we define the product, classify the various types of produces and discuss the main questions marketing professionals have to deal with in relation to market offerings.

We highlight the importance of branding, which is the most important feature of market offerings. Today, instead of products, brands, brand associations and images compete against each other on the market. We also discuss the specifications of services marketing, as developed economies are dominated by services, including utilities (water, electricity, heating, the Internet, etc.), transportation, tourism, banking, HORECA, retailing, call centres and a plethora of B2B services such as support, legal services, accounting, etc.

After studying this chapter, students will understand the complexity of market offerings and be able to answer the most important questions related to them. They will realize the differences between product and service marketing, including HIPI principles and the seven Ps of service marketing. They will also learn how to build strong brands.

The lesson also develops customer-orientation in students. Although this chapter focuses on the product, students should not forget that making a product is only one aspect of satisfying customer needs and wants. A product concept is the result of corporate and marketing strategies and is strongly related to other elements of the marketing mix, discussed later in this course material.



38. Figure: Concept map

#### 8.2 COURSE MATERIAL

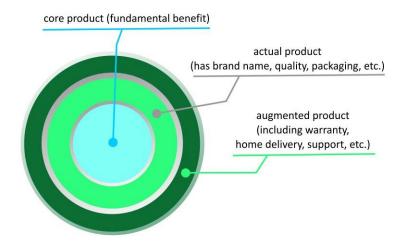
#### 8.2.1 What is product in marketing?

Devising the marketing mix begins with making decisions about the product. The market offering has two kinds of extremities: it can be 100 percent product (e.g. soap) and 100 percent service (e.g. medical check-up). Most market offerings are in between the two, for example a meal at a restaurant can be much more than a plate of dish.

- A product can be anything, an object, service, event, person, place, organization, idea or their mixture, which can be offered to consumers for satisfying their needs.
- A service is an activity performed by somebody to satisfy the needs of another person. As opposed to products, a service does not result in the ownership of an object.

There are three levels of products:

- The core product is the benefit that makes the product valuable to customers. In the case of a car the benefit is that costumers can go where and when they want to.
- The actual product is tangible, it is the vehicle that costumers test drive and buy. The actual product has many features such as design, brand, colour, performance, etc.
- The augmented product is the services that go with the actual product. They are often important competitive advantages such as warranty, customer service support and after-sales services for the car.



*39. Figure: The levels of a product* 

Pick your favourite product and analyze it with the help of the product-levels model.

Products can be classified on the basis of the market type they are sold on. The characteristics of consumer and industrial goods and services can differ significantly. Consumer products are purchased by individuals, families and households for the purpose of consumption, while industrial goods are bought by organizations usually as inputs for production.

The types of **consumer goods** are as follows:

 Convenience products are purchased frequently and without much prior consideration (e.g. milk, bread, sweets). Their purchasing is usually based on habitual behaviour, whereas some convenience goods may be purchased impulsively.

- Shopping goods usually necessitate for more involved buying processes than convenience goods. Consumers compare a variety of attributes including suitability, quality, price, and style. These products might include automobiles, furniture or clothes.
- Specialty goods have unique characteristics and brand identifications for which a group of buyers is willing to make a special purchasing effort (e.g. travelling large distances, do extensive searches online). E.g. specific brands of highinvolvement products such as luxury cars, high-fashion clothing, special sports equipment, etc.
- Unsought goods are normally not looked for by consumers or they do not know about them. Consumers tend to postpone the purchase of these goods, as the need for them is not seen as urgent to them. This is frequently the case with various insurances, securities, medical check-ups, blood donation, etc.

#### **Industrial / business goods** and services include the following:

- Materials and parts include products which are used in the production process as inputs. Examples are raw materials and component parts.
- Capital items (production infrastructure) are used repeatedly in the production process. Examples are machinery, equipment and buildings.
- Supplies are not directly used in production like materials, but are required for production such as lubricating oil, printer ink, office furniture, cleaning supplies, copy and print services, coffee and snacks, etc.
- Services typically purchased by businesses are legal services, financial services, shipment and logistics, IT, etc.

As we already mentioned in lesson 2, the product can be many different things, tangible or abstract, that can satisfy a consumer need.

- Products and services, such as a television set and television channels, are the most typical market offerings.
- Organizations (e.g. churches, schools, museums and clubs) sell themselves by improving public attitude towards them mainly via public relations (PR).
- Persons (e.g. politicians, lawyers, architects, doctors, sports persons) recruit clients, members, voters, fans and investors with similar methods as profit oriented businesses.
- Places include towns, countries, parks, zoos, etc. Place marketing or place branding is a complex set of tasks, as

- there are several factors that influence the value of places including natural environment, built environment, employment opportunities, schools, places to go out, etc.
- Ideas (e.g. "Clean your teeth every day.") can also be marketed to influence people's behaviour for the society's wellbeing or commercial purposes.
- Events include wine festivals, concerts, fairs, lectures, sporting events, etc. Event marketing / organization is a special area of marketing that involves planning, communicating and implementing events.

#### 8.2.2 Product decisions

When buying physical products, consumers consider various criteria including product features. Companies when creating products have to consider customers' perceptions about each feature, how much premium they would pay for certain features. For example, customers may not compensate a company for the R&D and production costs of a tennis racquet that is equipped with an inbuilt minicomputer or sensor, which collects statistics about the accuracy of the shots. Product features are an important field of differentiation and customers can provide lots of information on how they like and how much they use the various features of a product. Some companies offer customization to consumers, who can thus take part in designing some features of their products. The most important product features are the following:

## Quality

Quality is an important positioning tool. It has two dimensions: **performance quality**, which is the ability of a product to perform its primary functions, and **consistency** (conformance quality), which refers to freedom from defects and consistency in delivering a required level of performance.

For example, both Suzuki and Mercedes have high level of consistency, however, Mercedes offers exceptionally high performance in some aspects of driving as well (e.g. comfort, power, speed), which is in turn rewarded by some customers in monetary terms.

Other aspects of quality include **durability**, the product's expected operating life, which is a valued attribute for durable goods such as vehicles, kitchen appliances, cell phones, watches, some kinds of shoes,

etc. Buyers will also pay a premium for more **reliable** products, i.e. goods that do not fail in a specified time period.

## Style, design and form

Style and design are effective ways to add customer value. Some companies have reputations for outstanding style and design, which can attract attention, improve product performance, cut production costs and provide a strong competitive advantage. In general, style refers to how a product looks, to its appearance. Design on the other hand includes user friendliness, a product with a good design is easier, better and more comfortable to use. Style and design closely relate to the form of a product, i.e. its size, shape and physical structure. Consider the many possible forms of a chair. A chair can be differentiated by ergonomics, shape, colour, cushioning, materials, technology (e.g. dental chairs), etc.

Brand name, packaging and post-purchase services

An important product feature is brand name.

A brand name is a term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors (Kotler & Keller 2012).

Brands are much more than just a name, they represent everything consumers think of a company.

Packaging has several functions, e.g. it draws customers' attention to a product, especially in certain industries as for example packaged food and cosmetics. Since as much as 60 percent of our purchases can be impulse buying, packaging is the last chance for companies to grab customer attention. Packaging has to include product labels by law, which identifies, describes and promotes the product. Labels have to contain information regarding customer safety including ingredients, allergens, net quantity, expiry date, special storage requirements, nutritional facts, preservatives and other additives, place of origin, etc. Post-purchase services such as maintenance, support and home delivery are also relevant, and especially for durable goods.

Pick two brands from the same industry and compare them on the basis of quality, style, design and other important product features. Most companies market several products and brands in one or multiple industries, which can be closely related to each other.

- A product mix (or assortment) is the set of all products and items a particular seller offers for sale (e.g. sporting goods).
- A product system is a group of diverse but related items that function in a compatible manner (e.g. tennis equipment).
- A product line is a group of closely related products that fulfil a similar function, are sold to the same customers, or marketed through the same outlets.
  - □ Note: A product line can consist of different brands, a single family brand, or an individual brand that has been line extended (e.g. tennis racquets, tennis strings, tennis balls).

For example, the Wilson company sells various products for golf, tennis, badminton, squash, football, soccer, basketball, baseball, etc. (product-mix). The Wilson tennis product system may include racquets, apparel, strings, grips and other accessories (they are all related and compatible with each other).

The **product mix** constitutes **product systems** and **product lines**. The Wilson tennis racquet line includes various types of racquets such as the Blade, Pro-Staff, Six One, Juice, Steam, etc. Each type has a couple of items, for example the latest item within the ProStaff type is Wilson Pro Staff RF97 Autograph.

The length of a product line is the number of items that constitute it. There are circa 50 different Wilson tennis racquets. A product line is too long if the company can increase profits by decreasing the number of items in the line, and too short if profits can be increased by adding more products. Line extension refers to the expansion of an existing product line in order to add variety to existing products (e.g. adding junior tennis racquets to a tennis racquet line).

The dimensions of a product mix are as follows:

- Width refers to the number of product systems and product lines the company has (Wilson carries couple of product systems including tennis, golf, badminton, squash, football, basketball, baseball, volleyball and soccer, and several product lines within systems).
- Length refers to the total number of items in the mix (this can be several hundreds of items for each product system of Wilson).

- Depth refers to how many variants are offered by each product in a line (within the tennis racquet line there are about 50 variants).
- Consistency describes how closely related the product lines are regarding use, production requirements, distribution channels, etc. Wilson's product lines have high consistency, as they are sporting goods sold in the same type of stores to consumers with similar lifestyles.

## 8.2.3 Services marketing

Markets for services grow with unprecedented speed. Two thirds of the world's GDP is created by services today. There are several types of services including government services (courts, job centres, hospitals, police, post offices, schools, etc.), non-business services (museums, churches, dog shelters, etc.) and business services (airlines, HORECA, insurance companies, television networks, telecommunications firms, etc.). The characteristics of service marketing can be summarized by HIPI principles:

- Heterogeneity: The performance of most service providers varies by place and time. Personal factors make service quality volatile and heterogeneous even at the same provider.
- Intangibility: It is impossible to gain prior information about services by various senses, i.e. services cannot be touched, smelled or tasted like tangible products. However, companies can present photos and short films about their services and write detailed descriptions to make them more tangible for customers before purchase.
- Perishability: A service that has not been consumed today cannot be sold tomorrow. Services cannot be stored like products thus service companies find it hard to adapt to the fluctuations in demand. However, they can divert demand from peak-season and peak-time to off-season and off-time with price differentiation.
- Inseparability: In the case of services which require the presence of the marketer (e.g. a tennis lesson), providing and taking the service cannot be separated in time and place. It requires the provider to personally meet the consumer at a specified time.
- Find examples of how service companies try to increase trust in customers towards their services and make them "more tangible".

For service marketing we differentiate between seven groups of marketing tools: the original four Ps plus people, process and physical evidence.

- Product in the case of services is the customer's perceived value.
- Pricing services is harder than pricing products, because in addition to raw materials the environment of the service (e.g. atmosphere) has to be included in the price as well, which is not always easy to price.
- Place is more important for services than for products, as the success of service companies largely depends on their location (how near they are located to target customers) and the outlay of the POP, which can add much value to the purchase.
- Promotion is of high importance as service companies have to persuade consumers about the benefits of an invisible thing.

The next three Ps are unique to services marketing:

- People are very important part of a service as they meet customers personally. Selecting the right people for the right kind of job is vital for the success of the serviced companies.
- The process of providing the service is also an important part of what the customer is paying for. Service companies have to create processes that are effective in solving two kinds of problems: waiting time and complaints.
- □ Note: It is essential to adequately take care of consumer complaints. There will always be late deliveries, burnt pizzas and grumpy staff. Generously compensating customers for dissatisfying services is a good opportunity for a company to make customers loyal. Front-line personnel have to be trained on how to identify unhappy customers and take care of their needs with special care.
  - Almost all services include some physical elements, even if the majority of what a consumer is paying for is intangible.
     For example, an insurance company would give their customers some sort of printed materials as well.

Differentiating services is a complex task as services by nature present less tangible benefits. Service companies can differentiate themselves along the seven Ps presented above. As most services involve some waiting time, fast delivery systems can be a strong competitive advantage, as in the instance of McDonald's. Service

suppliers can also be more reliable regarding on-time delivery, order completeness, handling emergencies and consumer inquiries. Some suppliers are more innovative than others and satisfy their consumer needs in a more efficient, effective or pleasant way.

The efficiency or productivity of services can be improved by training or hiring better employees, focusing more on quantity than quality (this may be detrimental to company image), automating the provision of services and applying state-of-the-art technologies.

#### 8.2.4 Branding

The brand name and accompanied visual symbols help customers in identifying the product or service. The brand in a broad sense is everything that the product or company means for the customer. Brand building and brand management is thus the most important task of marketing.

The brand image exists in the minds of customers. It is the promise of the company to provide certain product features, benefits and experiences on a consistent basis.

- Brand equity is the added-value of the brand name. Some consumers are willing to pay a premium of 20-40% for their favourite brand as compared to competitors.
- Brand valuation is estimating the total financial value of the brand.
  - Note: The pillars of brand valuation are the profit earned by the brand, brand equity, and the competitive strength of the brand. You can read more about brand valuation on the following link of Interbrand: <a href="http://www.interbrand.com/en/best-global-brands/2013/Best-Global-Brands-2013.aspx">http://www.interbrand.com/en/best-global-brands/2013/Best-Global-Brands-2013.aspx</a>)
  - The estimated value of Apple is about USD 100 billion, but Google is close with 90 billion. Coca-Cola was in the third place with USD 80 billion regarding brand value in 2013. It is easier for strong brands to make line and brand extensions because consumers believe in their promises (e.g. Vanilla Coke, Diet Coke, Cherry Coke).

Marketers need to position their brands in the minds of customers. They can position products on the following levels:

It is relatively easy to position products on the basis of **features**, however, consumers are not really interested in product features per se, but rather in the benefits they

- provide (e.g. Why is Biffidus Essensis is beneficial to me? Why is an inflatable seat belt safer than normal air bags?).
- A **benefit** is the positive effect triggered by the features of a product. Good brands provide valuable benefits, for example adventure (Harley Davidson), white teeth (Colgate) and clean clothes (Ariel).
- **Beliefs and values** are the highest levels of brand positioning, for instance, freedom and power (Harley Davidson) or healthy and beautiful smiles (toothpaste).

Basically, the owner of a brand can be the manufacturer or the seller. Some companies license a well-known brand rather than establishing their own one. Brand ownership and sponsorship have the following types:

- Manufacturer brands are created and owned by producers.
   The producer is responsible for marketing the brand (e.g. Audi, Samsung and Whirlpool).
- Private label brands are owned by businesses that operate in the distribution channel such as suppliers and retailers. They are produced by a contract manufacturer (e.g. Tesco and Aldi).
- Licensed brand refers to the leasing of a brand name to a company other than the manufacturer or creator. The biggest global brand licensor is the Walt Disney Company.
- Co-brand refers to when two companies finance a common brand to unify their customers. For example Apple and Nike created Nike+ that measures running performance and transfers data to the Ipod nano.

Most companies continuously develop and extend their brands. The four strategies below present some basic directions of brand development and are closely related to the "product-market" matrix presented in lesson 4:

- Line extension occurs when a company adds new products to the product line under the same brand name. For example, new flavours, forms, colours, ingredients, or package sizes.
- Brand extension occurs when a company introduces products of a different product category, but under the same brand name. For example, Honda uses its company name to cover different products such as automobiles, motorcycles, lawn mowers, snowmobiles etc.
- Multi-brands occur when a company manages two or more different brands in the same product category. The company

- may want to protect its major brand by setting up flanker (fighter) brands.
- New brands refer to when a company creates an entire new brand name in order to access a new product category for which none of the company's current brand names are appropriate.

		Product category	
		Existing	New
Brand	Existing	Line extension	Brand extension
	New	Multi-brand	New brand

40. Figure: Brand development strategies

#### 8.3 SUMMARY, QUESTIONS

## **8.3.1 Summary**

In lesson 8 we dealt with the first element of the marketing mix, the product. Products can take several forms including services, persons, places, organizations, ideas, etc. and their combinations. We also differentiated between consumer and industrial goods. Most importantly, there is always some intangible benefit behind all successful products, as shown by the product-levels model. Often, customers are not interested in the tangible product, but the benefits and beliefs they can offer to them.

Companies have to make many important decisions regarding the first "P", including the length, width, depth and consistency of the product mix, as well as the quality, design, style, brand name, packaging, etc. of the various products. The lesson also discusses the most important questions regarding branding and services marketing. We used the HIPI principles and the 7Ps to summarize the specific characteristics of services. Brands are central to the marketing efforts of companies as they embrace everything consumers think and feel about a product. A strong brand can enormously increase customer perceived value.

#### 8.3.2 Self-check questions

- 1. What product levels do marketing experts differentiate among? Give examples for each level.
- 2. What are the types of consumer and industrial goods?

- 3. What forms can a product take in marketing?
- 4. What are the main product features?
- 5. What is a product system and product line? Give examples.
- 6. What is a product mix and what are its dimensions?
- 7. What do the HIPI principles refer to?
- 8. What is the difference between the marketing mix of products and services?
- 9. What is a brand and how can brand value be measured? What are the levels of brand positioning?
- 10. What is the difference between manufacturer brands and private label brands? How can companies extend brands?

#### 8.3.3 Practice tests

- 1. What do we mean by actual product?
  - a) The fundamental benefit of the product.
  - b) The tangible object that can be placed on a shelf in a store, and which has product features including quality, brand name, design etc.
  - c) The product augmented by services such as warranty and home delivery.
  - d) The actual product that a consumer buys.
- 2. What are specialty goods?
  - a) Products purchased every day.
  - b) More expensive products, which consumers evaluate on the basis of various features such as price, quality and style.
  - c) <u>Products with special features that make customers give up</u> their regular buying process.
  - d) Unsought products.
- 3. From the lists below which contain solely industrial goods and services?
  - a) materials, components, buildings, machinery, unsought goods
  - b) materials, convenience goods, buildings, machinery, industrial services
  - c) shopping goods, component parts, buildings, machinery
  - d) <u>materials, capital items, supplies, parts and components, business services</u>
- 4. Which one of the followings cannot be a product in marketing?
  - a) persons
  - b) places
  - c) organizations
  - d) all of them can be a "product"

- 5. Which one of the followings is not a mandatory element of food labelling?
  - a) ingredients
  - b) net quantity
  - c) special storage requirements
  - d) all of them are mandatory by law
- 6. What is a product line within a company?
  - a) A group of closely related products that fulfil a similar function.
  - b) A group of closely related brands that fulfil a similar function.
  - c) A group of closely related products that have similar colour.
  - d) None of them.
- 7. What does product mix "depth" refer to?
  - a) to the number of product lines
  - b) to the number of brands in all product lines
  - c) to the number of product varieties
  - d) to the consistency of product lines
- 8. What do we mean by heterogeneity in services marketing?
  - a) The quality of services as compared to products can substantially change according to who, where and how provides it.
  - b) Services cannot be seen, taste and smell.
  - c) Services cannot be stored for later consumption.
  - d) The provision and consumption of services cannot be separated in time and place.
- 9. What do we mean by perishability in services marketing?
  - a) The quality of services as compared to products can substantially change according to who, where and how provides it.
  - b) Services cannot be seen, taste and smell.
  - c) <u>Services cannot be stored for later consumption.</u>
  - d) The provision and consumption of services cannot be separated in time and place.
- 10. What is multi-brand strategy?
  - a) Adding new packaging, taste or form to an existing product.
  - b) Introducing an existing brand in a new product category.
  - c) Managing different brands in the same product category.
  - d) Adding a new brand name to a new brand category.

#### 9. PRICING

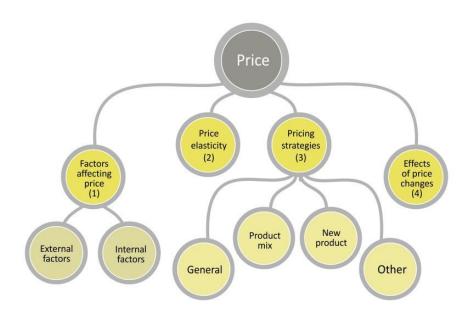
#### 9.1 OBJECTIVES AND COMPETENCES

The second element of marketing mix is price, an outstanding marketing tool. Outstanding in the way that it is not expenses, but income to the company. While a product, distribution and communication creates value for customers, this value is returned to the company through price.

In lesson 9 issues of pricing are revealed, pricing strategies applied by a company are explored and internal and external factors influencing pricing policy of a company are demonstrated. Companies and other organizations have to face very strong price competition as it takes customers seconds match prices on the internet and choose the best price per earning product. Companies need not in any case participate in price competition. Instead of price reduction the solution may be positioning, changing features of the product, way of distribution or image, communication strategy of the product.

The lesson will describe what factors are the price of a product influenced by, what is the role of customers' perceptions, expenses of the company, strategies of competitors in finalising the price.

The lesson will develop analytical thinking and analysing abilities of students since determining price depends on joint alignment of various factors. By the end of the lesson students will understand how to understand retail price of a product, what the connection is between factors influencing a certain price and how final price is created as outcome of several factors.



41. Figure: Concept map

## 9.2 COURSE MATERIAL

Price is the only marketing mix element ("P") which does not mean expenses but income to the company. Furthermore price is "P" to be changed the easiest and the fastest. Determining price is not easy, organizations do a lot of mistakes when establishing price, e.g. they decrease the price too quickly before trying to persuade customers about the value of the product. Or perhaps they put emphasis just on costs and not on customer-value which also depends on the other elements of the marketing mix.

Price in broader sense is the whole of those values which consumers exchange for the gains of owning or using a product or service. More simply price is a sum expressed in money which customers must pay to obtain a product, service, etc. (the value manifested by them).

Pricing is increasingly not static but dynamic, that is continuously changing in case of more and more products. Prices are set differently to persons and situations. In internet shopping it often happens that sales price continuously changes according to demand and supply, just like at the stock market (e.g. eBay and similar online bargain sites).

Price can mean several expenses and disbursements in everyday life, not only the concrete counter value (purchase price) paid for the product. It can appear as rent, tuition fee, fare, toll, gratuity, bribe, wages, commission or tax.

## 9.2.1 Factors influencing price

Product price may be influenced by factors both inside and outside the company. Internal factors are marketing purposes of the company, marketing mix strategy, expenditure and other organizational considerations. Among external factors can be mentioned demand for the product, competitors and other environmental factors, like legal regulation or per capita income.

#### Internal factors

- Marketing purposes of the company which may be of various ones. Profit increase is not a short term target of every organization. A temporary target may be to achieve market leader position, to survive, to develop the best product, to eliminate competitors, to avoid redundancy, to achieve total or partial returns of costs, etc.
- 2) Marketing mix strategy: In favourable situation marketing mix elements are connected, united to each other. Companies often start from an ideal sales price (adjusted to the one of the competitors), then costs (product development, distribution, communication) are determined by the price. World brands may be braver as well, e.g. Ferrari or Louis Vuitton does not necessarily start from price but from excellent quality and its communication and builds up the product from non-price position.
- 3) Costs of a company: lower costs make lower prices and higher profit possible (e.g. Tesco). Costs from microeconomic aspect can be fix- and variable costs. While fix costs do not depend on the volume of production (e.g. rent, instalment), variable costs grow together with the increase of the production (e.g. raw material). Average costs (total costs/production) decrease by the growth of the market experience of the company that is those who have been on the market for a long time, produce more efficiently.

4) Organizational considerations In case of small enterprises it is top management (or the owner) who determines the price, at larger ones sales, marketing, production and finance managers also may have a say in the decision as well.

#### External factors

- The most important external factor to influence price is volume and nature of demand. While costs mean the bottom limit, demand fixes the top limit when determining price. Demand may considerably be influenced by marketing strategy of the company.
- By the nature of market competition pure competition, monopolistic, oligopolistic competition and monopoly can be distinguished.
  - In case of pure (perfect) competition, when there are a lot (almost "indefinite" number) of competitors and customers on the market, the company must accept the price evolved on the market, it is not worth bothering with marketing strategy (e.g. currency market)
  - We can speak about monopolistic competition if there are a lot of small sellers and buyers on the market, everybody appears with individual price and slightly different product on the market where there is strong marketing and price competition (e.g. clothes market).
  - In an oligopolistic competition some large companies offer uniform- or heterogeneous products (e.g. aluminium- or car market). For new sellers it is difficult to enter the market, the firms continuously watch the strategy of their competitors and act immediately if another company changes price.
  - Monopoly produces products solely in a given geographic region, so the price is determined also only by them. It can be state monopoly or private enterprise as well. It usually determines higher price than the other prices on the market and takes fewer products to the market (e.g. postal services, garbage collection, electricity service).

- 3) Competitors: costs, offers and prices of the competitors must be taken into consideration, as customers do the same. A "high price and high margin" strategy may attract a lot of competitors to the market.
- 4) Other environmental factors: macroeconomic situation, distributors' conditions, government regulations, social concerns (e.g. not only profit aspects should dominate, the poor should also have access to medicine).

It is often difficult to determine how benefits of a product are appreciated by customers. In a popular restaurant it is easy to count cost of ingredients, but it is difficult to state how much excellent taste, environment, atmosphere and experience is worth or a conversation with friends or business partners. A good stronghold to it is pricing of competitors.

## 9.2.2 Price elasticity

Price reduction increases demand for the majority of products, but it is hard to foresee how much. If demand gets higher than the rate of price reduction then it is worth decreasing the price. Similarly, price increase usually decreases demand for the product but it is not known, how much. If demand decreases in lesser extent than price increase, it is worth increasing the price. All these questions can be answered by price elasticity of demand.

Price elasticity of demand shows the effect of one percent change in price on quantity demanded. Price elasticity is usually a positive value. In mathematics: (change in demand (%)) / (change in price (%)). Demand for a product is elastic if price elasticity is larger than one and inelastic when it is less than one.

The more a product can be replaced, the more elastic is its demand, so the more it is worth decreasing the price.

In case of clothes and electronic products price decrease results in higher income, because major sales attract a lot of new customers. On the other hand it is difficult to replace petrol, therefore increase in petrol price decreases demand in lesser degree and usually increases tax revenue and revenue of filling stations. Situation is similar at tobacco products.

The less important a product is in the consumer basket of a buyer the more inelastic is the demand for a product. E.g. if palm oil gets more

expensive, we do not buy it at all, it will be replace by another oil. Demand for luxury- and prestige products (expensive watch, car) inelastic.

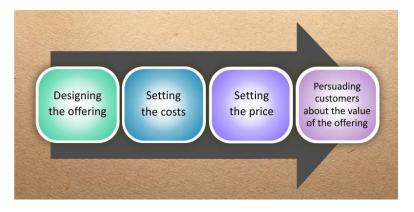
In certain cases it is worth increasing price. If profit rate of a company is 4%, then 1% price increase will increase profit by 25% (profit rate will be 5%) in the case if sales volumes do not change. The question always is how sales volume will change after 1% price increase. If it decreases by more than 1%, it is price elastic, if it is less, then the product is price inelastic. Enterprises usually raise price due to growth in costs but it is often greater than the increase in costs.

There are products whose demand grows due to price increase, similarly, demand falls in case of price reduction. These products do not respond to the law of demand. In case of the so called Giffen or "inferior" goods demand rose in spite of price increase in Ireland in 19th century (the situation was written by Sir Robert Giffen): relatively less was spent on meat and eggs due to price increase, so people still found potato the cheapest, therefore, even more potato was bought. In case of luxury products price decrease may result in demand fall, as many buy luxury products because it is a prestige for them. However, theoretically more people can buy a cheaper luxury product, so it does not mean such a big prestige and is not so attractive for wealthier consumers. At the same time strong brands are expected to have higher price, so if a leading brand decreases price it may result in loss of trust: consumers get suspicious that the product is not that good any more.

## 9.2.3 Pricing strategies

# General pricing strategies

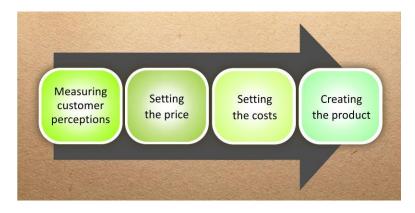
1) **Cost-based pricing** is mostly applied by lawyers, accountants, doctors, etc. It is not efficient if sales volume is not up to the expectations. If the buyer cannot be persuaded about the value of the product, then a lower profit must be done with. Break-even-point shows the amount of goods with the sales of which costs of the company just return at fix prices that is profit is zero. Break-even amount can be calculated as follows: fix costs / (price – variable costs).



42. Figure: Process of cost-based pricing

 Value-based pricing is an alternative to cost-based pricing. Price is set not by cost, but by the value perceived by customers. It starts from the customer, the value attributed to the product by the customer and not from costs. Strong brands often use this strategy since in their case value of brand capital is big.

A basic type of value-based pricing is value-pricing, that is determining the best ratio of quality and price, "not bad quality at acceptable price". Some hypermarkets and discount stores usually work with low prices and sometimes discount their products. There are stores which usually work with higher prices, but discounts are more frequent.



43. Figure: Process of value-based pricing

2) Competitor-based pricing means prices are set to the competitors' prices and the price is the same, a little higher or lower. This tactics is frequent at oligopolies. It is often difficult to measure demand elasticity, so the company relies on collective wisdom of the industry. The firm changes price if the others do so, independently of the changes in its own demand or costs



44. Figure: Aspects of setting price

## Pricing strategies for new products

- Market skimming. After high introductory price it is gradually decreased. The aim is to squeeze maximal price from all the customer segments (e.g. new mobile phones). It works if competitors cannot enter the market and if low production level does not mean too high unit cost.
- 2) Market penetration. The initial price is low in order to gain the most possible customers the fastest possible while unit cost should decrease. Later, when customers already know and like the product, the price may be increased.

# Product mix pricing strategies

Product pricing is often not individual but dependant on other products of the company. Some of the product mix pricing strategies are the following:

- Product line pricing: price gaps are set between the certain elements of product line based on determining costs, customers and prices of competitors.
- Optional product pricing: product pricing based on the choice of the customer, when accessories are charged with

- a surcharge to be able to show a cheaper price for the basic product (e.g. car with- or without extras).
- 3) "Captive product" pricing: to be able to use the product it is indispensible to have accessories, priced separately: the company will usually set prices low for the main product, but will have high mark-ups on the supplies needed most often. (e.g. electric toothbrush and head, razors and blades, printer and cartridge, etc)
- 4) Dual pricing: at services it is typical that there is a fix basic price and a changing charge for use (e.g. cheap basic fee at mobile companies but much more expensive minute charge)
- 5) **By-product pricing:** in order to be able to sell the main product cheaper (e.g. Hershey Foods produces ten thousand tons of cocoa bean husk a year which is sold in small packages for garden decoration, or zoo dung is sold for gardeners)
- 6) **Product bundle pricing:** selling several complementary products together (e.g. McDonald's menu)

# Other pricing strategies

Prices must regularly be changed depending on customers and competitors. Different consumer demands, changing situations also must be conformed to, so that is why a product may have not only one price at a time.

- Discount price: price decrease in case of certain conditions (e.g. payment on time, buying in bulk, for middlemen if they take part in advertising and promotion, for customers outside the season).
- 2) Segmented pricing: when a company sets more than one price for a product irrespective of its costs being the same (e.g. student ticket, pensioner ticket, higher room price at the weekend, etc.) Airlines often change their prices from hour to hour, even minute to minute depending on the seats, demand and prices of competitors. An airline may charge seven million different prices for its flights a year.

- 3) Psychological pricing: is based not on economics but on psychology. Price reveals a lot about a product as the best (highest quality) products are usually the most expensive ones as well. Every customer has a "reference price" in mind as a reference base when shopping (e.g. how much the product cost last time). It is not the same either what type of shop they sell the product in or how the other products are priced. EUR 100 means quality, while EUR 99 reflects cheapness.
- 4) Promotional pricing: temporarily price can be forced below costs to increase short term sales. Loss leader products can attract customers in the store, who will of course buy a lot of other marked up products as well. Loans at low interest rate, longer warranty and free maintenance are all types of lower price. Promotional price is easy to get used to for both customers and companies, however, frequent discounts may spoil image of brands.
- 5) Geographical pricing is applied by companies for towns, regions or countries when different prices are suited to different income-, social and other conditions. Concerning international marketing a company may apply the same or different prices on different target markets. In developing (poorer) countries in a paradox way the company may skim less price-sensitive customers with a higher price, while in a developed country it applies lower (penetrating) pricing. The same product may be more expensive in different countries due to higher transport fees, insurance costs and taxes.

## 9.2.4 Effects of price changes

Demand for a product may fall due to several reasons, e.g. weakening economy (crisis, economic setback), strengthening competitors or outdated product. Price decrease, as it has been mentioned, is not always the best solution if there is decrease in demand as in response competitors will also decrease their prices, which may result in strong price competition and weakening profit in the whole industry. Instead

product development or a better and stronger communication may be more beneficial.

Companies are often forced to raise price the two main causes of which are cost increase and over-demand. Oil producing companies and diamond merchants often keep back production and sales this way artificially inducing over-demand and price increase on the world market. Furthermore petrol prices are built in the prices of the majority of products inducing inflation this way as well. Companies continuously raising price expose themselves to consumers' attitude permanently getting worse towards them. There are different alternatives of price Companies often change expensive basic commodity for increase. cheaper ones or develop more efficient production procedures. Price increase may cause also positive effect on luxury products making customer circle even more exclusive. Price decrease, however, may have bad effect on the image of the product (e.g. if a Louis Vuitton could be bought half price, customers would be suspicious about the deterioration of the quality).

It is a difficult question what a company should do if competitors decrease price. First of all it is worth finding out what the cause of price change at the competitors is and how long it may last. Then what effect it may have on the demand of our products and whether it is also worth decreasing our prices. If our prices are not lowered and our product is price elastic less loyal customers may go over to the competitors. Price change at competitors is always a good opportunity to think over market position and image of our product, but if we think too long or do not take some direction (stronger communication or price- and cost decrease, perhaps diversification), we may as well lose considerable market share.

On several markets state also influences prices, mostly when determining price ceiling. Maximum fee of foreign mobile use is maximised by the European Union within the EU. It is fixed in EU 531/2012/EK regulation what maximum price can be charged for roaming services and also contains other rules concerning roaming fees and services. Regulation of roaming prices is described in details on the following link: <a href="http://europa.eu/rapid/press-release\_IP-14-720\_en.htm">http://europa.eu/rapid/press-release\_IP-14-720\_en.htm</a>

#### 9.3 SUMMARY, QUESTIONS

#### **9.3.1 Summary**

In lesson 9 it was discussed how companies create price component of their marketing offer. Price offer is both shaped by internal and external factors but it is a basic rule that price is usually bigger than costs (internal factor) and it does not exceed judgement of customers (external factor) while taking strategy and prices of competitors into consideration. Besides the major guidelines there are several pricing strategies the majority of which has been described in the lesson. Choice of a certain pricing strategy mostly depends on whether it is a new product, already existing on the market or a product sold together with other products. Sometimes a company can apply even several prices at the same time for the same products in certain market situations. E.g. it gives reduction to repeat buyers, in poorer regions it decreases or increases price, or gives discount on the product in certain shops to attract more customers, increase market share or get rid of accumulated stock.

Prices are often changed by companies because their costs grow, demand falls or they or their competitors launch a new product while the older products are discounted. When changing price it is always worth paying attention to price elasticity of the product as in case of products not easy to replace (e.g. petrol, bread) price increase is a good option while in case of replaceable ones (clothes) price decrease is recommended to obtain higher profit.

## 9.3.2 Self-check questions

- 1. What is price in Marketing? What types of prices are there?
- 2. What are the internal factors influencing price?
- 3. What are the external factors influencing price?
- 4. What does price elasticity of demand show?
- 5. What kind of offers does law of demand not concern? Say some examples!
- 6. What is the difference between cost- and value-based pricing strategy? Which would you recommend and when to a company?
- 7. What pricing would you recommend to a company when launching new products?
- 8. Products of a company are often sold together with or depending on other products. What product-mix pricing strategies do you know?
- 9. What is segmented pricing? Say some examples!
- 10. What are the most frequent cases when companies change price? What mistakes may be made in this respect?

#### 9.3.3 Practice tests

- 1. What are the internal factors influencing price of a marketing offer?
- marketing objectives, competitors, costs, organizational considerations
- b) nature of demand, competitors, other environmental factors
- marketing objectives, marketing mix strategy, costs, industry structure
- d) marketing objectives, costs, organizational considerations
- 2. What type of competition is represented in the market of mobile providers (dominated by some large companies)?
- a) perfect competition
- b) monopolistic competition
- c) oligopoly
- d) monopoly
- a) If price of a can of tennis balls rises by 1%, its demand will decrease by less than 1%. What kind of a product is a tennis ball?
- b) price elastic
- c) price inelastic
- d) unit price elastic
- e) inferior
- 3. What is value-based pricing?
- a) pricing of the product is done by the value perceived by competitors
- b) pricing of the product is done by the value perceived by the company
- c) <u>pricing of the product is done by the value perceived by customers</u>
- d) pricing of the product is done by the value perceived by traders

- 4. In which pricing strategy is price of the product decreased gradually after a high introductory price?
- a) market skimming
- b) market penetration
- c) value-based pricing
- d) cost-based pricing
- 5. In which pricing strategy are priced separately and relatively expensive the accessories indispensible for using the product?
- a) by-product pricing
- b) dual pricing
- c) optional product pricing
- d) captive product pricing
- 6. In which pricing strategy does the company try to sell its products together? (e.g. McDonald's menu)?
- a) dual pricing
- b) bundle pricing
- c) product-line pricing
- d) value-based pricing
- 7. In which pricing strategy does the company sell the product at two or three different prices, but the price difference does not reflect differences in cost?
- a) discount
- b) segmented
- c) psychological
- d) promotional
- 8. Due to what reasons do companies raise price the most often?
- a) increase in costs, over-supply
- b) decrease in costs, over-demand
- c) decrease in costs, over-supply
- d) increase in costs, over-demand

- 9. What can companies do to keep their position if competitors decrease their prices?
- a) also decrease price
- b) improve communication activity to improve value perceived by customers
- c) launch a lower price product in the product line
- d) all the answers may be a good solution

## 10. Point of purchase – Distribution

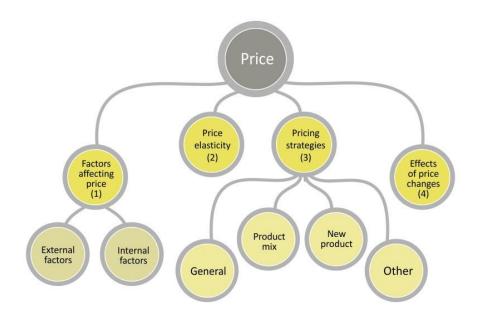
#### 10.1 OBJECTIVES AND COMPETENCES

Products get to customers through marketing channels belonging to comprehensive supply chains. It is well known that companies do not want to satisfy needs of their customers alone, but together with a number of business partners (suppliers, tradesmen, other service providers) who are members of supply chains and marketing channels themselves.

Lesson 10 will write about distribution policy of companies, venue of purchase and marketing intermediaries. Marketing intermediaries help companies in different ways, e.g. product promotion, sales and sending it to its end user.

In the lesson first nature and planning of marketing channel will be discussed, then marketing intermediaries, that is wholesalers and retailers will be introduced.

The main competence to be developed in the lesson is process approach. The product has to go through several steps, production processes and marketing intermediaries to get to the end user. Companies have already realised that their market performance depends not only on themselves, but the performance, commitment of the other members of the marketing channel as well, so they pay more attention to planning and developing supply chain.



45. Figure: Concept map

#### 10.2 COURSE MATERIAL

#### 10.2.1 Supply chain and marketing channel

Supply chain has already been defined in the course material, so this topic is not completely unknown. An organization is "surrounded" by supply chain from two sides:

- On the one hand by organizations providing raw- and basic materials, spare parts, machines, services necessary to production (organizations "below" the company)
- On the other hand by retailers, wholesalers and other service providers contributing in sending the product to the customer (firms "above" the company)

These latter intermediaries are called marketing channel. This way supply chain is a broader notion, but not up-to-date enough as it supposes that customers are "supplied" with products and services irrespectively of their needs – although, as it is known, customer is the starting point of any kind of marketing activity. Therefore "demand-chain" would be more appropriate. Expression "value delivery network" got widespread in marketing in the 1990s which expresses the complex

process and connection system better where members of the supply chain cooperate to satisfy consumers more efficiently and profitably.

Marketing channel of supply channel previously was described as organizations closely related to each other connecting producers to customers. These organizations not only forward the product but complete it with useful services as well. The question is who should do the additional services: the producer or the channel members. Channel functions can be summarised as follows:

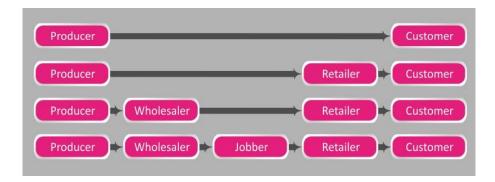
- collection of information about marketing environment, customers, competitors and forwarding them to the producer
- promotion connected to the product including communication with current and potential buyers
- negotiation with the producer about ownership of the product and its conditions
- transport and storage of the product (warehousing)
- collecting finance sources necessary to tasks of channel functions
- risk-taking in connection with the tasks connected to the product and its distribution
- Logistics were originally used in military context, nowadays it is increasingly widespread in business as well. Logistics is management of purchasing, storage and flow of resources. In logistics management potential suppliers and marketing intermediaries are identified, their efficiency is assessed, and connection is made with those who offer the best combination of price and services. A lot of companies manage their logistics processes themselves if they think it is more economical than outsourcing it to subcontractors.

The simplest marketing channel is direct or zero level channel where there are no intermediary organizations, the company sells directly to the customer and takes over the majority of channel functions.

A good example for direct marketing channel is internet store, of course if it is functioned by the producer and the product can be bought directly from him. However, majority of web stores are run by wholesalers or retailers and delivery is done by independent parcel services adding an indirect channel to it. But local pizza places do zero level sales as we can buy freshly made pizza

straight from the oven. Door-to-door vendors or MLM companies based on personal selling mostly also apply zero level channel.

One-, two- or three level marketing channel refers to one, two or three intermediary firms taking part in sending the goods to the buyer (the producer and the buyer are the bases of any marketing channel). The length of a marketing channel depends on the number of intermediaries taking part in it. The longer a channel is the farther the producer is from the buyer and the more difficult it is to control and motivate members of the channel.



46. Figure: Levels of the consumer marketing channel (Kotler & Keller 2012)

According to the number of intermediaries in a marketing channel exclusive, selective and intensive product distribution can be distinguished

- Companies choosing exclusive distribution (e.g. luxury brands) carefully select their intermediaries because they would like to have larger control over distribution and raise the prestige of the brand. A producer often assigns exclusive rights to certain sales companies hoping to be more dedicated in selling their products
- In the case of selective distribution several (more than one) distributors take part in delivering the goods to the buyers (e.g. electronics goods).
- In the case of intensive distribution the producer involves as many sales points in the marketing channel of the product as he/she can, so that customers can buy the

# product wherever and whenever they need it (it is typical of soft drinks, mineral water, sweets, snacks, etc.).

In a traditional marketing channel besides producers and buyers, independent wholesalers and retailers can be found. Each of them is an independent organization tending to maximize their own profit even if the whole system in fact tends to decrease profit. In a traditional marketing channel none of the parties are able to have considerable control over the channel, thus there can be frequent conflicts between the members.

- In case of a traditional marketing system there may occur conflicts between the members of the channel. E.g. while the producer wants to achieve fast market growth at low prices and intensive distribution, tradesmen would like to work with higher margin and gain considerable profit in short term. In many cases the producer gets middlemen to have bigger stock because he is optimistic about his product, while tradesmen are pessimistic and do not see the same potential in the product.
- Vertical marketing systems (VMS) unify the marketing channel. The system is directed by the head of the channel (e.g. producer) because middlemen (corporate VMS) are owned by him or in a way he is able to have authority over the other members (administered VMS), e.g. the brand is strong. In certain cases equal members of the marketing system work together on contractual basis (contractual VMS).
- A characteristic feature of integrated marketing system is that the sales strategy of the product sold in different ways and through different distributors is unified.
- The retailer offers the product on mobile internet, internet, in shops, brochures, etc. so customers pick up on it and remember it. Furthermore, customers can get informed about and buy the product through the best possible for him channel.

Applying several middlemen makes unifying difficult, but raises the number of possibilities as well customers can meet the product. Besides the company can choose how it is the most economical to sell the product to the various customers. They may choose personal selling for major organizational customers, in case of small consumers telephone-or internet sales could be an option. The problem of multi-channel sales is that the different channels may defer customers from each other.

### 10.2.2 Retailing

Retail trade covers all the activities the aim of which is to sell the product to the end users. The end user buys goods for his own personal use and not to process, sell or lease it to others. retail functions can be fulfilled by the producer itself or wholesalers, but normally firms specialized for it deal with retail (e.g. hyper- and supermarkets, corner shops, shops in shopping centres, etc.).

The name retailer refers to tradesmen, who may be large in their size though, serving mostly small consumers (households). The largest company of the world is a firm dealing with retail, WalMart, operating on the American continent. Retailers play an important role in popularizing a product or brand, because the majority of shopping decisions are made in the store, or decisions are often changed there, depending on what is suggested by the shop assistant, how visibly the product is placed on the shelf or what kind of point-of-sale advertising is displayed on the spot.

Another category can be non-store retailing. These mostly mean zero step (direct) marketing systems such as catering (HORECA: hotels, restaurants, cafes).

#### In-store retail sale

Characteristic types of in-store retailing are department stores, general stores (groceries, convenience stores), supermarkets, discount stores, hypermarkets, outlet centres, shopping centres, authorised retailers and temporary markets (fairs) and permanent fruit and vegetable markets.

**Small convenience stores** work with small choice of goods, on small area, employ few and untrained shop assistants, and mostly can be found in densely populated housing estates or touristic environment.

**Supermarkets** are based on self service, their choice is bigger, but their sales area is small compared to it (500-2500m2). The can be found in both housing estates and in downtown, even hypermarkets operate supermarkets to be present in the city centre or shopping centre (e.g. Spar, Tesco Express).

The variety of goods and services in **discount stores** is narrow, there are few sales staff, however, prices are relatively low. They are located near to housing estates or at the edge of towns where rent is cheaper. The goods are usually sold in pre-packed, boxed way, in bigger volume (bulk packaging). Simple display considerably reduces rental costs. Examples are Aldi, Plus, Penny Market, Lidl, etc. In case of basic food stuff, discount stores have competitive advantage over hypermarkets:

they are strong in high turnover food stuff categories (flesh and dairy products).

**C+C** stores (Cash & Carry, that is "Pay as you go.") are mostly concerned with wholesale, but several of them sell for end users as well. They are self service warehouse stores, mostly selling their products in bulk, multi-packs. Their price level is average or below, thanks to big bulk sales and low costs (the conditions are similar to those in discounts). They are located at the edge of settlements and have big parking lots.

A hypermarket is a self-service retail establishment which offers a wide range of food stuff and other consumer goods, with a floor space of minimum 2500 m<sup>2</sup> and a big parking lot. Wholesale stores such as METRO are not to be listed here.

**Hypermarkets** work with a wide range of goods, their floor space of huge (over 3000 m<sup>2</sup>), they are located mostly at the edge of towns where there is enough place for building the store and the parking lot belonging to them. The largest hypermarket chains in the world are American WalMart, French Carrefour, British Tesco and also French Auchan.

If all the shop types are counted, the largest one in the world by number is Japanese-American general store named "7-eleven" with 50 000 shops. It is followed by Dutch Spar, WalMart, Carrefour, and the two German discounts, Lidl and Aldi (all having about 10-15 thousand units worldwide).



47. Figure: 7-eleven is an international chain of convenience stores that has the most shops worldwide

□ Note: 7-eleven operates in a franchise system and in 2007 it exceeded McDonald's in number of its outlets.

**Shopping centres (malls)** are large-size (bigger than 5000 m<sup>2</sup>) retail establishments incorporating a lot of rented shops, entertainment and catering units. Shopping centres besides restaurants are full of boutiques

(elegant shops selling leisure and sports fashion clothes), brand shops and specialised shops founded mostly for selling products of multinational firms.

The largest shopping centres of the world are several hundred thousand square metres. The biggest in the world is New South China Mall in Dongguan situated on  $900,000~\text{m}^2$ , but it was 99% empty when opened (now only one third is empty).

Choice of **specialized shops** is less wide, but deeper: few groups of goods related to each other are sold but number of product types within the groups is big. Since they sell specialised items they need skilled shop assistants to provide customers with advice. There are specialized shops in various industries: in foodstuff trade (organic shop, sweets shop, bakery, wine shop, greengrocer's, butcher's), in clothing trade (boutique, shoe shop), chemicals (drugstore, household chemicals, agricultural shop), in the field of durable consumer goods (bookshop, electronics shop, furniture shop, etc). Specialized shops can be independent ventures, members of multinational or home chains or franchise partners.

The main characteristics of franchise that it is based on an individual product, way of production or service or brand name developed by the franchisor which the franchisee would like to utilize in return for a fix and turnover-proportional fee.

**Department store** is a retail unit consisting of a number of separated, independently managed units. They are mostly established in downtowns, and offer good quality goods and a lot of services. The profile of the units may be completely different (e.g. clothing, electronics, home accessories, toys, cosmetics, books, etc.) Department store was the first, but even nowadays important form of the modernisation of retailing, although it has already passed its peak in a way and must face increasing competition because of the emergence of specialised shops and shopping centres. The largest department stores in the world are Macy's, Sears, Kohl's (all of them are American) and British Marks & Spencer.

Recently **giant specialised shops** have emerged offering a huge choice of certain goods (e.g. OBI, IKEA, MediaMarkt), this way make life impossible for smaller shops operating in the same product category (therefore they are often called "category killers")

A special variation of smaller size specialised shops are **outlets** or **outlet centres**. Outlet originally was a commercial unit operated by the producer, now branded, but end- or left products are offered much cheaper (even 30-70% reduction) than the original price. They are mainly focused on clothing or sell products of the previous or earlier seasons.

A retail park (shopping park) includes specialised stores of big ground floor ("box" stores) having different profiles and sometimes give home for smaller commercial units as well (e.g. pharmacy). The ground floor building is next to big parking lots and can be approached from there directly. The covered passage outside the shops provide possibility to have a look at the goods displayed or just a pleasant walk.

**Fairs** and **markets** (e.g. vegetable market) are mentioned last, though it is the oldest form of trade. In their case there are no shop spaces, yet they are also considered shop retail as sale is connected to a place, the customer goes for the product and there is sales personnel as well.

To be complete when mentioning types of shop retailing a special type of retail, catering must also be mentioned often related as **HORECA**. It is abbreviated from HOtel, REstaurant and CAfe.

## Non-store retailing

One of the most widespread ways of non-store retailing –zero level marketing system - is sales from vending machines emerged to sell soft drinks, sweets, tickets, cash, etc. Typically they are available non-stop and work with relatively high price. Although loading, maintaining the machines, fetching the money needs human resource, but much less than running a traditional shop. In Europe about 3.7 million machines are operated, most of them sell hot drinks.

The other typical type of non-store retailing is personal selling at home where the sales representative meets the customer in his home (e.g. insurance agents, Jehova witnesses). A special type of zero level system is Multi Level Marketing (MLM), involving the customer to be a sales agent by which system Avon, Amway or Herbalife works, as the greatest ones.

Retail utilizes technological achievements, first of all possibilities provided by the internet and mobile-internet more and more intensively. Nowadays not only multinational large companies but smaller ventures pay attention as well to having a tasteful homepage, because it is not only a relatively cheap promotional tool, but makes it possible to see the products and direct sales (see.: e-commerce, web-shop). In case of brand shops and specialised shops it is indispensible to build up a possibility for fast and convenient shopping as nowadays majority of customers find information about the products on the internet even if finally they do not buy it on the internet.

In 2013 about half of EU-28 citizens said that they had bought goods online the previous year. In 2010 this proportion was only 40%. The figure was the highest in Danemark, Hovedstaden region (83%) and

the lowest was in South. East Romania. See details: Eurostat, 2014. <a href="http://epp.eurostat.ec.europa.eu/statistics\_explained/index.php/Information\_society\_statistics\_at\_regional\_level#E-commerce">http://epp.eurostat.ec.europa.eu/statistics\_explained/index.php/Information\_society\_statistics\_at\_regional\_level#E-commerce</a>

The biggest retailers use computer based systems to trace inventory (e. RFID), for interactions with suppliers and communication with customers. Consumers increasingly expect retailers to be on the internet as well. Since the products can be seen and bought online so in many cases traditional store retail is not necessary, maximum showrooms. In online stores also choice is bigger and prices are lower than in brick-built shops.

Retailers, just like any other company compete for customers. While earlier individual choice and low prices were the main strategy, nowadays there is hardly any difference between the different types of tradesmen: the same products can be found in hypermarkets, specialised shops and on the internet, too, so it is not easy to create individual choice. Hardly any difference is there between services, too in discount stores, supermarkets and hypermarkets (the first ones have improved, the latter ones have set back their services).

It is important for retailers to segment the market and decide customers with what income and demand they want to serve (selection of target group), what choice they have, what services they provide at what price and at the same time what kind of image they want to create in the heads of the customers (positioning). The main questions cover the following issues:

- product choice
- additional services
- price
- communication
- creating the shop and its atmosphere

When creating the marketing system it is important to make it possible for customers with various needs (households, companies) to be able to buy as many products as they need. It may be problematic in case of bigger goods (e.g. furniture, car), so companies producing bigger size durable products produce their goods just after order to minimize storage costs. It is also important how much the customer has to wait for the product after ordering it. A more frequent expectation for internet order, too, to be delivered within a week, which can be solved at products in store — otherwise the customer must be given precise and regular information. Customers when doing shopping in stores like spacious, airconditioned, easily approachable establishments mostly if all the family sets off shopping. Proximity of parking lots is a principle demand even at smaller specialised shops. Tradesmen offering bigger choice are usually

more attractive, however, too large choice may be disturbing for customers, mostly if it is difficult to find the required product. Services attached to shopping may provide competitive advantage: home delivery, fixing or installing larger goods are tasks requiring effort but return on long term by increase in customer satisfaction.

## 10.2.3 Wholesaling

The most important task of a wholesaler is to create connection between production and consumption in time and space and provide appropriate choice for retailers and customers. These tasks can be fulfilled if the gap is successfully bridged between scheduling production and occurring consumption.

Wholesale is the sale of goods and services to organizations that resell or use them for business purposes. Wholesalers purchase goods usually from producers and sell them to retailers, businesses or other wholesalers. They typically do not sell to small consumers.

Similarly to retailers wholesalers also take over a lot of tasks from producers or customers. First of all they sell and promote goods taken over or bought from producers. They help producers with wide scale distribution as they are in connection with a lot of retailers and customers and buyers often trust them more than producers. Wholesale ventures create a choice from products of various producers, besides they spare customers' money as they buy in bulk, so cheaper, and sell it in smaller quantities. They stock and deliver the goods thus reducing costs of buyers and producers. They finance their customers because give them credit and also suppliers if they pay in advance and in time. As usually they get ownership of the product, they also take over risk (theft, damage, outdating). They provide retailers with information, help them to shape their shops, introduce computer based inventory systems.

Many think that wholesaling is unnecessarily built in the supply chain and in case of giant hypermarkets wholesaling seemingly has not much to do. These retail companies often created their own wholesale firms, where the number of channel levels does not change, only their owner.

There are various types of wholesalers. Majority of wholesalers buy the products from the producer, so it becomes his own property. (merchant wholesaler). Wholesalers may have a wider palette of goods (general merchandise wholesaler), may specialise in a single type of products (single-line wholesaler), or may focus on a very narrow range,

e.g. only sell healthy foodstuff (specialty wholesaler). At cash & carry wholesalers goods can be bought and taken with cash payment, but these wholesalers do not provide wide range of services – this type is typical in less developed countries. Certain wholesalers take ownership of the products but they do not handle, transport or store them, just collect needs of customers and forward them to manufacturers (dropshipper).

# Shipping and logistics

Shipping does not necessarily mean dealing with and fulfilling interurban movement of goods. A seller fulfils its duties even if it makes goods available in his own factory or warehouse (shipment agreement = sales contract). By shipment a sales deal is fulfilled.

☐ Transportation is a process that must be done for the sake of movement (locomotion) of the goods. Its starting point is the venue of production or storage (plant, workshop, mine, warehouse, etc.), the destination is the place of usage. The natural or juristic person doing transportation is called carrier.

Depending on whether transportation is done within a town, between two or more towns or countries, local (within a settlement), interurban (domestic) and international transportation is distinguished.

Freight is the organisation of forwarding the product to its destination at the least possible cost, safest method, right time and optimal way. It is a branch of logistics.

A forwarding agent (forwarder) buys services necessary for transportation and forwarding the goods in his own name – with the invoice of his principal. He undertakes to organise forwarding the goods up to the topical market conditions, the most efficient way for his principal.

## 10.3 SUMMARY, QUESTIONS

#### 10.3.1 **Summary**

Organizations must get in touch with customers after creating their marketing offer (product development, determining price). The product is delivered to the customers through a marketing system. The most important members of marketing system are firms involved in wholesale

or retail and banks completing financing their work, other finance providers (e.g.: insurance companies), forwarding agents and carriers.

The most important feature of a marketing system is the number of participants, this way we can speak about 0,1,2 and 3 level channels and exclusive, selective and intensive distribution. The marketing system takes over several tasks connected to sales from producers (e.g. collecting information, promotion, freight, etc.). Production companies often take over or try to gain control over wholesalers and retailers (see VMS). On the other hand retailers are becoming increasingly bigger and stronger (e.g. hypermarkets). In the lesson major types of retailers and wholesalers and their features were introduced.

By the concept of integrated marketing system for producers it is worth organising distribution by a unified strategy so that customers can obtain the product in different ways, but all the ways should end up in a positive experience. Finally it is worth mentioning that marketing system is also part of a bigger network, supply- and demand chain, which involves not only distribution of ready-made products, but also acquisition of basic materials, machines and other services necessary to produce the product.

#### 10.3.2 Self-check questions

- 1. What is the difference between marketing system and supply chain?
- 2. List the so called channel functions provided by marketing intermediaries (retailers and wholesalers)4
- 3. What does length of a marketing system depend on? What is the difference between direct and indirect marketing system?
- 4. Compare exclusive, selective and intensive product distribution! Say some examples!
- 5. Why did vertical marketing systems (VMS) evolved?
- 6. What is integrated marketing system?
- 7. What kind of retail shops do you know? Say some examples for non-store retail!
- 8. What is the difference between discount store, supermarket and hypermarket?
- 9. What basic decisions must retailers make?
- 10. What is the difference between shipment, freight and transportation?

#### 10.3.3 Practice tests

- 1. Which is the supply form when the company sells the product through some retailers
  - a) exclusive
  - b) selective
  - c) intensive
  - d) direct
- 2. What is vertical marketing system?
  - A system where the producer, wholesaler and retailer all work independently in order to maximise their own profit.
  - A system where the producer, wholesaler and retailer all work in a unified system in order to satisfy the needs of customers.
  - c) A system where the producer works together with other producers in order to satisfy needs of customers.
  - d) A system in which sales strategy of a product sold in different ways, through different intermediaries is unified.
- 3. What is so called corporate VMS?
  - a) <u>intermediary firms are owned by the channel boss</u>
  - b) the channel boss is somehow able to have power over the other channel members
  - c) the channel members work together by an agreement
  - d) cooperation is weak between the members of the channel
  - 4. What is the typical floor size of supermarkets?
  - a) 500-2500m<sup>2</sup>
  - b) 2500-5000m<sup>2</sup>
  - c) 5000-50 000m<sup>2</sup>
  - d) over 50 thousand m<sup>2</sup>
- 5. Which of the following type of shops has already passed its peak?
  - a) department store
  - b) supermarket

- c) hypermarket
- d) shopping centre (mall)
- 6. What is the name of wholesalers having a wide product range?
  - a) cash & carry
  - b) general merchandise wholesaler
  - c) single-line wholesaler
  - d) specialty wholesaler
- 7. What is the main economic task of wholesalers?
  - a) distribution of products
  - b) warehousing of products
  - c) shipment of products
  - d) <u>creation of connection between production and</u> <u>consumption in space and time</u>
- 8. Marketing system is a wider concept than supply chain. True/False
- The main feature of direct marketing system is that only one marketing intermediary takes part in sending the product from the producer to the consumer. True/<u>False</u>
- 10. Retailers, just like any other company must segment the market, choose a target group and position itself and the product in the head of customers. True/False

## 11. Promotion - Communication

#### 11.1 OBJECTIVES AND COMPETENCES

In lesson 11 we deal with the 4th "P", promotion - known as marketing communication. 4Ps as we have mentioned is the best-known classification of marketing tools. The first three Ps are about the development of marketing offers, price and delivery of products to customers.

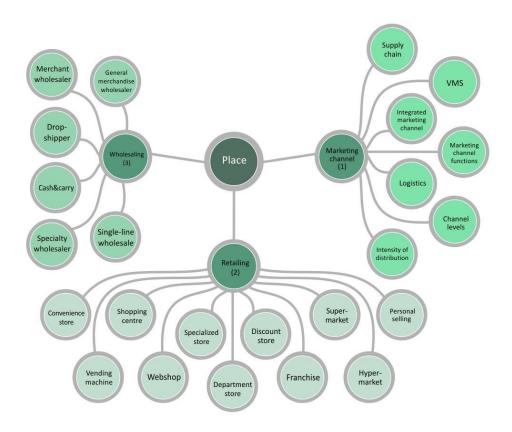
The fourth "P" is perhaps the most well-known of all, since organizations call attention by marketing communication to themselves and their products. Promotion is a cause of many misunderstandings in the context of marketing, primarily because laypeople identify all marketing activities with advertising and communication. But as we have seen, communication is only the tip of the iceberg: a small part of marketing, but the most visible and can fully be experienced by consumers.

Companies are trying to communicate convincingly their values and images. Communication is not only a tool but a combination of several tools. In the followings, firstly we present the basic theoretical context of the communication process, then traditional (advertising, sales promotion, public relations, direct marketing, personal selling) as well as new marketing communication tools (e.g. social media) are also presented. At the end of the chapter we show how to design an effective promotional message.

By the end of the lesson students will be able to

- define and characterize major promotional tools,
- understand the importance of integrated marketing communications.
- list the steps of effective marketing communication, and
- describe the composition of the communication mix and the main factors influencing the communication process.

The lesson also develops students' creativity, as the theoretical foundations of marketing communication are not enough to learn the design of successful communication. A good portion of creativity is also needed, which this lesson is trying to develop with a number of examples and tasks.

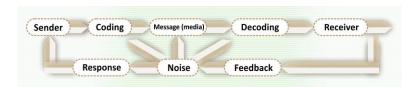


48. Figure: Concept map

#### 11.2 COURSE MATERIAL

#### 11.2.1 Communication theory

Before presenting the main promotion (communication) tools used by companies, let's have a look at the basic communication model. Below the figure we explain the process with an example.



49. Figure: The scheme of the communication process

In our example, the communication issuing organization is Hewlett-Packard (HP) who transforms ideas into symbols (meaningful sign or symbol) while coding. The message is a collection of symbols which itself is the commercial. The media is a communication channel, for example. a magazine, a website or a television channel, through which HP wants to send the advertising message to potential customers. The viewer / reader / user receives the encrypted message or interpret the symbols during decoding, that is the advertising (subjective interpretation). The reaction of the receiver is response to the message, which may be "a hundred different ones" from total indifference to instant shopping. The feedback, which is part of the receiver's response gets back to the sender (e.g. clicks on the internet on the advertisement or can also make a phone call, goes to the store). The noise can be many things, which disrupts the communication process (i.e. someone calls or talks to the consumer, switches over the TV, takes away the magazine, etc).



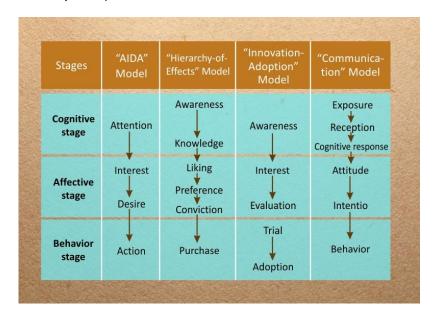
50. Figure: The commercial of HP promotes the company's products related to digital photography

□ Note: During the HP commercial song "Picture Book" was played by Kinks band in 1960. Adweek journal called it the advertising campaign of the year in 2005.

**Micro-models** of marketing communication observe the responses given to the marketing messages by consumers. Most models assume that customers go through three stages, as a result of communication: cognition, feelings and action.

 The "learn-feel-act" model is especially typical for the products that occupy a central place in the world of the customer, mainly because of its relatively high value (e.g. car,

- house). Between certain brands and product variants significant difference can be sensed by consumers.
- The "act-feel-learn" model also works for products considered important, but in this case the customer does not perceive any difference between the brands (e.g. flight ticket, computer).
- The "learn-act-feel" is relevant when customers are less interested in the product and do not sense the difference between the brands (e.g. battery, sugar, eggs and wooden spoons).



51. Figure: Response hierarchy models

When did you last buy a high-value product or service (e.g. computer, clothes and holidays)? Recall it and describe the details of the purchase with the help of the AIDA model. How did you notice the product? Why did you become interested in the message and the product? When did you feel the desire to buy it? Where did you purchase the product?

#### 11.2.2 Promotion mix

Advertising

Advertisement, which is mediated by mass media tools, is an impersonal message. Its types are motion picture, printed advertising, brochure, poster, point of sale advertising (POP), logo, etc.

Advertisement is an impersonal message, "message for the masses". It wants to induce rational and emotional effects from consumers. Its cost per customer is relatively cheap and frequent repetition is possible. Often enormous crowds can be achieved relatively easily and fast through advertisements in commercial breaks of high-rated TV programmes. It is useful for long-term image-building, lends credibility and prestige to the company (especially the TV commercial). The disadvantages are that they are impersonal, allow only one-way communication, there is no need to pay attention to it and it may be too expensive for small firms.

In case of advertisement, and of course in other ways of communication, cost-effectiveness, sending the message to appropriate number of customers relatively cheaply is important. To determine efficiency we must recognize four major metrics. Reach (R) shows the number of consumers reached in the advertisement campaign at least once. Frequency (F) shows the average number of times a consumer is reached by the message. Impact (I) is the quality characteristics of encountering the message (impact on the consumer). Exposure (E) is a function or a summary of the previous three indicators. The more consumers (R) the more times encounter the message (M) which has a great impact on them (I), the better the exposure is (the more effective the message is). Many companies think the most cost-effective medium is television, where exposure cost is relatively low, so many consumers can be achieved relatively cheaply.

As we have written in lesson 4, online advertising, e-mails, websites and social media presence are forms of online marketing.

Online advertisement and Internet banner ads are promotional tools conveying messages through the Internet to the target customer groups. It is worth mentioning search engines in connection with Internet advertising, which determine the order of sites appearing after entering the search words. One of the biggest advantages of online advertising, unlike traditional advertising, is that there are no geographical or time constraints. Invested advertisement costs return more efficiently, plus

online ads can be better customized to individuals. AdWords, Yahoo! Search Marketing and Google AdSense apps provide possibility to display the advertisement only on relevant pages or search lists.

## Sales promotion

The aim of sales promotion is increasing sales temporarily. Its types are consumer games (e.g. bottle cap collection, code submissions), gifts embedded in products, price discounts, product samples, coupons, rewards for repeat buyers, etc.).

Sales promotion is mostly a short-term incentive for raising attention, strong motivation for immediate purchase ("Buy Now!"). However, these are short-lived affections, for building long-term customer relationships it is not very suitable. The exception to this rule can be incentives programme for regular customers (collecting points), which may be effective in medium term, or even in long term.

#### Public Relations or PR

Public relations (PR) are a way of improving corporate image. The most important types of PR are press conferences, press releases, corporate speeches, written materials (annual reports, newsletters, brochures), audiovisual items (movies, TV shows) charity, lobbying, road shows, corporate identity elements (logo, stationery, uniforms, business cards, buildings, company cars, etc), website etc.

PR aims to build good relationships with the public, to create an attractive corporate image, proper treatment, recovery of unfavourable rumours, stories, and events. PR is an economical communication tool, because it is not like an advertisement, but news-like messages, so the cost is relatively low. Non-business organizations therefore use PR the most often as a communication tool. PR message is more believable than advertising because gives information in form of news.

Most textbooks distinguish internal and external PR. While the former one wants to increase commitment of the company's employees (e.g. newsletter) the latter one wants to improve the image of the organization and public opinion (i.e. press conference). Of course, it is often difficult to distinguish between the two target groups, because most of the PR elements reach both audiences (for example. image elements, charity).

# Personal selling

Personal selling is the face-to-face persuasion of customers in order to increase sales. Its main types are home or in-store product demonstrations, product samples and trade fairs. In many cases it is an informal, ad hoc discussion with the seller and thus can have a decisive role in the final purchase decision.

The goal of personal selling in addition to increase sales volume is building and strengthening customer relationships. Often it is the most effective tool to induce mainly preferences, beliefs and trigger purchase. It is the most important communication tool in business-to-business relationships. The seller must make the buyer feel that he is the most important person in the company. In case of personal contact with the customer it is greater urge for him to listen and respond. However, recruitment of appropriate sales personnel, training and motivation takes time and money. That is why personal selling is the most expensive promotional tool. In addition, it is less flexible, because long-term commitment to the organization is needed.

# Direct marketing (DM)

Direct marketing is an interactive company communication tool that focuses on the individual consumer. Its main types are personal mail, phone calls and e-mails, as well television product promotions expecting immediate response from viewers.

The purpose of DM is developing direct and immediate link to carefully selected customers and the establishment of long-term customer relationships (customer data for the databases). It includes a number of channels, for example television, telephone, mail and internet. Television product presentations (infomercial) are different from traditional advertising because they are broadcast outside prime time (e.g. at night or early in the morning) and may even be several hours long: they are repeated a lot, often fake experts, persuasive texts and picture sequences characterize them. The two most important features are that they are personalized (calls the potential buyer by name) and interactive, so immediate response is expected from the consumer.

# Events and Sponsorships

The events and sponsorship is presented separately because they can be connected to several communication tools (for example.

advertisement, public relations or even sales promotion). Events have become so frequent in recent times that event marketing and event organising are now independent marketing areas and have evolved even as a profession.

Event marketing is the organization and implementation of a program matching the image of a given organization.

The aim of the programme is to link the organization, brand or product to a positive experience to ensure guests an attractive picture of the product (creating image- and experience transfer between the event and the product) A good example is Coca-Cola Beach House, Bull's Blood Festival or EFEN Eger College Days. The events are not intended for direct sale, but the brand, the organization or the product also appears in a number of forms (either as decoration) so guests can meet the product directly. The more imaginative, more specific, distinct the event is, the more successful, as compared to other events, grabs the attention of the target group, creates an unforgettable experience for guests.

In business communication increasing emphasis is put on trust between the company and the target groups. In contrast, the effect of advertisements is getting weaker, because the immunity of recipients to direct selling intentions is increasing.

Sponsoring is a single or long-term financial or in-kind support of an event, organization, person, team or activity in order to improve the market position of the sponsor (e.g. image building, sales growth, positioning). While advertising is "quantitative" promotional tool, sponsoring is more of "quality" where the company is promoted in connection with the sponsored activity.

An important aspect of the sponsor (donator, donor)is that he communicates not in a normal commercial situation, by which he can bridge possible advertisement restrictions or prohibitions, economically can build long-term relationships (Mikulás 2002):

- The highest value sports sponsorship contracts were the following:
  - o golfer Tiger Woods and Nike: USD 105 million for 5 years
  - boxer George Foreman and Salton Inc. grill and manufacturer: USD 137.5 million (lifelong contract)
  - soccer star David Beckham and Adidas: USD 160 million (lifelong contract)

- Derrick Rose college basketball player and Adidas: USD 260 million for 10-years
- Rory McIlroy from Northern Ireland, golfer and Nike: \$ 250 million for 10-years

## Word-of-mouth advertising and guerrilla marketing

Although organizations are trying to apply more elements of the communication mix mentioned above the most powerful tool up today is the oldest, i.e., word of mouth. "Word of Mouth" refers to oral, written or electronic communication between customers.

Ipsos ASI (Hungary Probe Ipsos) investigated the sources of information to help consumers with their purchase decisions and the advertisement memories having remained in their minds. The survey found that most Hungarians before purchase consider the opinion of their relatives and friends, while they are the least likely to decide on the basis of product catalogues. Consumers mostly ask their relatives before purchasing home appliances or when they request financial services. The research has shown that about 90% of Hungarians rarely or never talk about advertisements. (Source: markeitnginfo.hu <a href="http://www.marketinginfo.hu/tanulmanyok/essay.php?id=570">http://www.marketinginfo.hu/tanulmanyok/essay.php?id=570</a>)

<u>nttp://www.marketingimo.nu/tandimanyolvessay.pnp:10=570</u> )

Word of mouth advertising, especially the artificially created "buzz" is nowadays part of guerrilla marketing (buzz is when talking about something or someone).

Buzz Marketing is the dissemination of striking, entertaining messages, news triggering widespread interest so that people start to talk about a specific product or brand.

Word of mouth advertising now is often generated and managed not by consumers, but by manufacturers: they give the information, stories into the mouth of customers, which, according to them, make the brand or product more marketable.

Guerrilla marketing is an untraditional, surprising, relatively low -cost marketing communication tool. Usually buzz marketing, viral marketing, ambient marketing, flashmob and astroturfing are included here.

The formation of guerrilla marketing can be traced back to the huge anti-advertisement attitude of consumers who became more resistant to

ads. This is non-conscious but instinctive and passive resistance for some people, while others are firmly and consciously avoid commercials. Guerrilla marketing is trying to do against them which may be used by small companies as well, if they are creative enough. In connection with guerrilla marketing the following ways of communication are often mentioned:

 Ambient Marketing: unique releases, cleverly integrated into the environment. It is often named as so-called "Street art". It surrounds consumers but does not aggressively promote the advertiser's brand name.



52. Figure: Ambient marketing

- □ Note: In the picture above you can see a social-oriented picture on a bus in Sao Paulo, which is a warning to people not to go across the streets where and whenever it comes to their minds.
  - Astroturfing: The word originally means artificial grass. It is based on this metaphor and describes an organization (or campaign), which is apparently created by a bottom-up civil initiative, but actually conveys a political-corporate message, posing as independent and impartial. Astroturfing is the opposite of "grassroots marketing". The grassroots organization is created by a civil initiative, and stands for a social cause, which is important for the society as a whole or its particular segment. Typically they are non-party and non-political organizations, and in the vast majority of cases they are not linked to corporate profits or interests. Their budget is usually low, their officials are often voluntary, and work motivated by their commitment to the cause.
  - Viral Marketing: the design, creation and dissemination of online born virus-like videos. When an online viral marketing campaign is launched it is left "unattended" by consumers. As the message is sent to the Internet, it starts an independent

- life: it is up to the receivers to interpret and transmit the message to other consumers.
- Flash mob is a pre-organized grouping of people. It is suddenly created in a public place, the participants do something out of the ordinary, typically a demonstration is carried out, then the group is dissolved very suddenly. It is intended as any other demonstration to raise awareness, to make ordinary people think about certain issues.
- "If you like badminton and want to be part of something great, you have to be there! More than 118 of the world's major cities badminton fans gather at the same time on well-known public places and in a few minutes show the world a simple choreography of their sport, then they dissolve." a badminton flash mob invitation in Budapest, 2012 September 29.

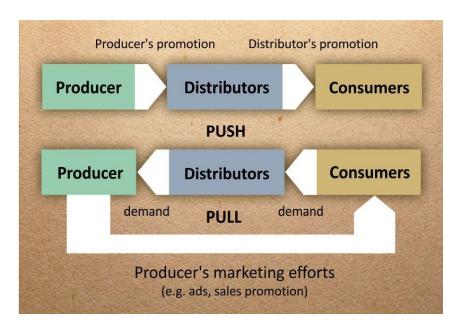
The listed tools of communication are usually used simultaneously by companies, but in any case, they should pay attention to the different instruments to support each other and the same image, values and messages should be reflected.

Integrated marketing communication (IMC) refers to the comprehensive coordination of a variety of communication channels (advertisement, personal selling, direct marketing, website etc.).

# Promotion mix strategies

Marketers have to choose between push and pull strategies. The push strategy of companies is trying to persuade members of the channel to promote and market their products. Many DIY manufacturing companies do very little promotion, they rather communicate with retail distributors who inform customers about the benefits of certain products and brands.

Pull strategy of companies wishes to convince final consumers. If the strategy is successful, the customers will look for the product in stores; consumer demand is going to drag the product through the marketing channel. Companies operating in consumer market, apply pull strategy, advertisement and sales promotion. In industrial markets primarily push strategy is applied, especially personal sales and dealer sales incentives. Many companies use both, consumers are persuaded with advertisement and sales promotions, while the sales crew; and their distributors strive to achieve that the stores stock the products, so when consumers go to the stores, they have the products available.



53. Figure: Promotional mix strategies

#### 11.2.3 Effective communication development

An effective communication message makes the buyer act, i.e. consider the product, read about it, try it, buy it, use it, talk about it and recommend it to others. The ideal message fulfils the following criteria:

- It finds the buyer at the right time and place, (when they are open to the message and the product)
- It attracts the customer's attention (pays attention to it)
- It is on the same level with the customer's thinking and behaviour (understands, feels it)
- It properly positions the brand (performs well in POD and POP dimensions, too; Points of Difference: unique brand attributes, associations, Points of Parity: Expected product attributes, associations),
- It motivates the buyer to buy the brand or envisages it,
- It creates strong brand-associations, positive feelings and ideas which the buyer will recall later as well.



## Steps of Effective communication development

54. Figure: Stages of effective communication

## 1. Identifying the target audience

The communication process - similarly to marketing process - always starts with the selection of the target audience. The target audience is mostly chosen after market segmentation. They can be either current or potential customers, households, businesses or even non-business organizations. Significant impact is made on the target audience by the message by what, how, when, where and by whom it is said.

#### 2. Defining the objectives

After definition of target groups, we need to set the purpose of communication which may take the following levels:

- Satisfying demands: solutions to unsatisfied demands ( for example portable library: e-book, e-reader)
- Brand awareness: the buyer should recognize, remember the brand during the purchase (e.g. Amazon Kindle.)
- Brand attitude: awareness of the customer about the brand's ability to satisfy needs; induction of positive attitude (practical use of e-book)

Purchase intent: convince the customer to buy

## 3. Planning the communication

Planning the communication or message is the most interesting, the most creative part of promotion. It is important to answer the following questions:

- (1) Strategy of the message: What to tell the customer? Our message could work on three basic lines: rational, affective, or moral. The rational-oriented messages impact on the brain quality, usefulness, performance or economy of the product is highlighted. (e.g. washing powder adverts, trade brands). Affective messages are mostly humorous messages, joy, cheerfulness, or perhaps shame, fear are provoked. They work with symbols like babies, puppies, popular music, frightening images (dental surgery, illness), sexual references, or beautiful people. moral advertising contrasts good behaviour with wrong actions (e.g. Anti-smoking campaign). Important is the form of message which largely depends on the media used: colours, shapes, signs, actors, movement, voice, facial expressions, gestures, scents, etc..
- (2) Creative strategy: How to interpret the message? Information appeal refers to reasonable product properties (e.g. "Advil immediately headaches!"). Product demonstration also represents information attraction, for example, when the advertisement shows you how detergents remove stubborn stains and how the dress will be brilliantly white. In many cases, the company invites a well-known person to report on the positive sides of the product. (for example, a top star praises the new deodorant). While in the past commercials themselves concluded conclusion of the message, according to recent research, it should be left to the customers, for example by asking them questions. In addition, vague wording does not exclude completely customer's circles from the product market: for example, the new sports car is not "for young people," but "youthfully dynamic people" by which everyone who wants to be youthful could be a potential customer. One-sided presentation of the product is often less effective than the message. which highlights the potential drawbacks as well. Bilateral presentation is a good choice if negative is not really negative, but it comes from the nature of the product, from excellent quality, or from the problem of its effectiveness, or it is not a serious problem. (e.g. Heinz ketchup is slowly good. Listerine tastes bad twice a day; Chokito is ugly but delicious). The order of presentation of the arguments is not entirely incidental. If firstly the strongest arguments are presented it will attract in no time the

attention of consumers - It is important if the audience is not usually present throughout the disclosure of the message. However, if it is easy to seduce the audience, the stronger arguments should be put at the end of the message. If the audience is against the product, slightly negative statements should be at the beginning, then introduce them gradually stronger and more positive arguments.

As opposed to information appeal, transformation appeal is not about product-centric benefits but conveys emotion and image. It points out the type of people who purchase the product or what experience is caused by the use of the brand. Transformation appeal has impact on emotions, information appeal has impact on the intellect.

Source of the message means who says the message to customers. An advertising actor, narrator, animated character or famous person can be applied. Choosing a famous person it is important to consider the following issues:

- What is the opinion of the viewers about the communicator? How likeable is his personality?
- How will be linked the brand and the advertiser's personality (which are the common traits)?
- How expert does the communicator seem about the product?
   In lesson 6 we showed the characteristics of personality traits by J.
   Aaker's brand. It is wise to choose a communicator who strengthens the personality of the brand and makes it attractive to the target group.
  - Think about your favourite product and its promotion. Which famous people are used by the company to promote its products? Do you think the product / brand personality is consistent with the famous person?

## 4. Choosing the communication channel

The following channels can be chosen depending on the character of the message, communicational aim and target group:

- 1) Personal communicational channels
  - Telephone, mail (DM), e-mail
  - Face-to-face communication
  - Word-of-mouth promotion, buzz marketing
  - Virus marketing
  - Internet social sites
- 2) Impersonal communicational channels
  - Traditional media
    - Printed press
    - Broadcast media (radio and TV)

- Public media (poster, billboard) and certain online tools (advertisement, website)
- Sales promotion (product sample, coupon, etc.)
- Atmosphere in the shop (designed environment)
- Public relations (PR)
- Events and sponsorship

The best known and most traditional media are television, radio and printed press. In case of TV communicational impact is substantial, because with audiovisual tools products and their advantages can be shown in a story-like, vivid form, full of actions and movements. The television can develop the image of a company, however, the concrete product or details of the offer often stay neglected. Numerous commercial blocks and advertising messages have already made consumers "immune", who do not or much less pay attention to commercials than at the appearance of the genre (selective attention).

Printed media (newspapers and magazines) are static and passive as opposed to motion picture, thus introducing a product during usage is more difficult. On the other hand it makes it possible that consumers deal with it in their own speed, conveniently, which considerably increases efficiency. Printed advertisements can more rely on imagination of consumers, however, quality of the print may have thorough impact on the success of the message.

Importance of web pages in online marketing has already been mentioned. An efficient website expresses vision, history, products of the company and makes getting in touch possible. The most important is that it be interesting the first sight and stimulate to repeated visits. Further features of a good homepage are:

- the buyer finds necessary information quickly,
- the starting page is simple and clear,
- it is easy to navigate to further pages,
- the information is not congested on the pages,
- the information is easy to read, the colours and graphics are tasteful
- downloading is fast.

One of the latest (internet) communication channel is social media. Certain community pages are created by consumers themselves related to their favourite product, brand or activity. Others are operated by companies, who communicate with their customers and club members through "posts" and "likes". Companies can on the one hand can learn characteristics of their sympathisers, on the other hand they can communicate, gather and provide information on the social sites which

also support B2C, C2C és B2B communication as well. Internet has modernised word-of-mouth promotion as well: a new way of word-of-mouth advertising is blog and online customer assessments (assessment of products and services).

For the final determination of media mix elements such factors must be taken into consideration as the type of market (consumer, business, non-business, international), willingness of customers to purchase the product (the majority are negative, indifferent, sympathizer or fan) and the life-cycle period of the product (introduction, growth, maturity, decline). Role of advertising and PR is really important when launching, popularizing the product and persuading the customer, while sales promotion and personal selling is rather dominant when ordering the goods and at repeated purchase, or when the product enters a mature period of its life-cycle.

#### 5. Planning the budget

"Half of the expenses I spend on advertisement is wasted money, the problem only is I do not know which half." – John Wanamaker. It can be seen well from the sentence that organizations often cannot decide how much they should spend on marketing communication.

The simplest solution is if an organization spends on communication as much as they can afford. However, this method often results in underspending and weak promotional activity. There are ones who determine a percentage of sales to use as promotional budget, which is a false aspect as it believes that turnover is the cause and not the effect of promotion. A lot of organizations simply try to spend similar amount as their competitors, but that is also a false approach that competitors know it better how much is worth spending on communication. The best and most efficient method starts from the objectives of communication: first communicational targets are set (e.g. make customers like the product) then tasks to achieve the target are determined and finally volume of promotional expenses is fixed. This method requires the biggest effort, but the most fruitful as well.

#### 6. Measuring the outcome

Following the coverage the company should also check the impact of the message and to learn what the opinion of consumers is about the message and the product (changing of feelings, attitudes after the advertisement). It is also worth checking quantity results as well: how many saw, when did they see, how many remember the content of the message, how many bought the product, did they buy the product repeatedly, etc. The results may seem as a contradiction as well. E.g.

relatively few of the target group saw the message, but many of them bought the product, few of them bought the product but many of them were satisfied and bought it again, or vice versa: many of them bought it but few were satisfied. The company can learn from all the results. It is possible that content of the communication or the media must be changed, or the product must be improved or modified.

## Socially responsible marketing communication

Finally, when determining promotion mix organizations must pay attention to legal-ethic questions, social responsibility. In Hungary it is Advertising Law which contains prohibitions and limitations in connection with advertisements. Some paragraphs from the law:

(1) Prohibited is the advertising which promotes violent behaviour endangering personal or public safety.(2) Prohibited is advertising which promotes behaviour spoiling the environment and nature.8. § (1). Prohibited is the advertising which may damage children and young people's physical, mental, emotional, and moral development. (...) 9. § (1) Prohibited is the advertising which represents sexuality with seriously obscene frankness particularly if sexual act or sexual organ is openly depicted (pornographic advertising) (...) 15. § Prohibited is advertising a dangerous dog defined in a specific regulation, as well as animal fighting.§ 16. Prohibited is advertising human organ or body tissue for any use.§ 17. Prohibited is advertising abortion, abortionperforming institutions, appropriate to it tools and procedures. § 18 (1) Prohibited is any advertising of alcoholic beverages for a) children and adolescents, b)represents children and adolescents (...) 19. § (1) Prohibited is any advertising of tobacco. (Source: 2008. year XLVIII. act,

http://net.jogtar.hu/jr/gen/hjegy\_doc.cgi?docid=A0800048.TV)

A really responsible company does not only avoid prohibitions, but with its products and by setting example it tries to encourage its customers to behave socially responsibly: to lead a healthy, environment friendly and community friendly way of life and consumption structure.

# 11.3 SUMMARY, QUESTIONS

#### **11.3.1** Summary

Marketing communication is obviously the most interesting part of marketing. In lesson 11 the basic model of communication and

promotional micro-models were shown, which describe the steps a consumer must follow by the influence of an advertisement or other communication message.

Then various communicational tools were listed with the help of which organizations can improve awareness of their company, raise the image of the organization. One of our major statements is that as opposed to traditional, mass media channels and tools, nowadays personal communication channels are more and more dominant and especially consumer communities and sub-cultures, customers' blogs and interactive product disseminating sites on the internet – thanks to social media. Besides word-of-mouth advertising the most important communicational tool is website the main virtue of which is that it is available 24 hours every day of the week and tempts for shopping.

Another important development in promotion is strengthening of consumer immunity and parallel with it spread of atypical ways of communication. Guerrilla marketing is one of the latest non-traditional trends in marketing which typically was first used by low-budget firms, however, nowadays it is increasingly general.

In the last section of the lesson, steps of creating efficient communication were discussed. Crucial point of the process is budget, since minor ventures are reluctant to promotional costs while larger companies tend to overspend. It was stated in connection with money spent on promotion that target-task method is the most successful, when the company does not start from money, but market objectives and necessary promotional tasks and expenses are determined accordingly.

At the end of the lesson, attention was called that companies take long term interests of consumers and society into consideration when planning and implementing communication and the whole of their market activity.

#### 11.3.2 Self-check questions

- 1. Describe theoretical scheme of communication process and say an example!
- 2. What are the sections for consumers to go through according to microcommunication models?
- 3. Compare advertising and sales promotion! Focus on similarities and differences!
- 4. What is "public relations" in marketing? What PR tools do you know? What is the difference between internal and external PR?
- 5. What is the connection of event-marketing and sponsorship?

- 6. What is the difference between guerrilla marketing and traditional marketing?
- 7. What is meant by integrated marketing communication and why is IMC important?
- 8. What is the difference between push- and pull communication strategies?
- 9. Which are the steps of efficient communication development?
- Why is socially responsible marketing communication important?
   Specify some examples, e.g. products, services, activities whose advertising is banned.

#### 11.3.3 Practice tests

- 1. Which communication scheme is valid for those products buyers are less interested in and do not realize any differences between the brands (e.g. battery, sugar)?
- a) knowledge action feel
- b) knowledge feel action
- c) feel knowledge action
- d) action knowledge feel
- 2. Which are the steps customers go through according to effect hierarchy model? Which is the right order of steps?
- a) awareness, knowledge, preference, liking, conviction, purchase
- b) <u>awareness, knowledge, liking, preference, conviction, purchase</u>
- c) purchase, knowledge, liking, preference, conviction, awareness
- d) awareness, knowledge, liking, preference, conviction, knowledge
  - 3. Which indicator shows efficiency of communication the best?
    - a. reach (R)
    - b. frequency (F)
    - c. influence quality (I)
    - d. exposition (E)
  - 4. Which promotional tool category do image elements belong to?
    - a. advertising
    - b. sales promotion
    - c. PR
    - d. personal selling

- 5. Which is the most expensive and also the least flexible way of communication?
  - a. advertising
  - b. sales promotion
  - c. PR
  - d. personal selling
- 6. Which of the following is true?: Individual, witty applications set in the environment, often referred to as "street art".
  - a) buzz marketing
  - b) virus marketing
  - c) ambient marketing
  - d) astroturfing
- 7. Which of the following is a personal communicational tool?
  - a. community media
  - b. television
  - c. street poster
  - d. PR
- 8. Personal relationship with customers is getting more important in business communication, while role of mass communication is weakening. T/F
- 9. Companies doing push promotion aim at end users with their promotional activity. T/F
- 10. Informative attraction of a message refers to what type of people buy the product and what experiences they gain when using the brand  $T/\underline{F}$

# 12. New directions and special areas of marketing

#### 12.1 OBJECTIVES AND COMPETENCES

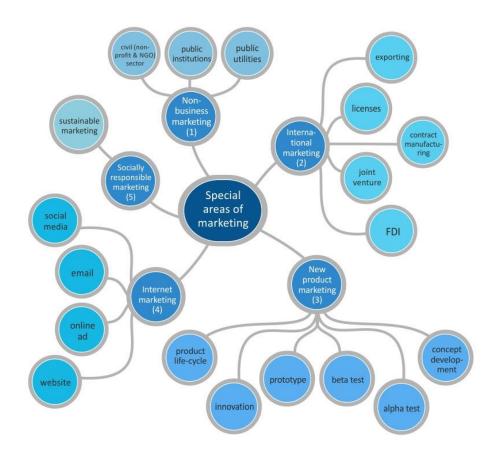
In the last part of the course material we focus on the special issues of marketing. Because of the abundance of content, we only touch a few areas, and we advice students to study the most interesting parts independently for themselves.

The changes in the past decades are illustrated in the way that marketing tools has entered non-business spheres, production has become globalized (Coca-Cola has 300 trademarks in 200 countries), and new communication technologies and social responsible business approaches has become widespread. These developments have led to new marketing areas:

- 1) non-business-marketing,
- 2) international marketing,
- 3) new product-marketing,
- 4) internet marketing and
- 5) socially responsible marketing.

Organizations must make use of new marketing technologies (most of all the possibilities given by the Internet) and global market opportunities, but we should not forget either about the continuously changing demands of costumers, ethical behaviour and social responsibility.

In lesson 12 the competency of continuous studying and the attitude to being open-minded and recipient is to be developed. The goal of the chapter is to show that the market and marketing is constantly changing. Who does not keep the up with the pace of new trends and areas will fall behind and fail competition. Therefore open-mindedness, sensitivity for changes in the environment is required of marketing managers, as well as continuous learning about the changing demands of costumers, marketing trends, and new technologies.



55. Figure: Concept map

#### 12.2 COURSE MATERIAL

#### 12.2.1 Non-business marketing

Marketing is specific to profit oriented companies but besides business markets there are so called non-business markets, too.

Non-business organizations aim at providing public services that the business sector do not or cannot provide efficiently. It includes public institutions (satisfaction of collective needs with public goods), public utilities (satisfying collective needs with affordable goods) and civil organizations (satisfaction of charitable, individual needs).

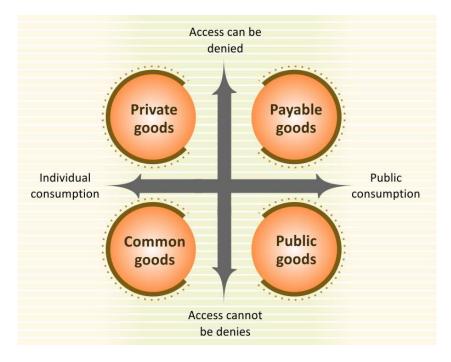
State funded **public institutions** financed from taxpayers' money are the following: ministries, hospitals, police or ambulance services. **Public utilities** satisfy collective needs, but the goal is profitable operation. Utilities are (water, sewage) and cultural institutions (museums). Public utilities are partly financed by public funds, for services the users have to play directly.

- Note: In many countries liberation of public utilities' market has been completed partly or totally, so there is market competition (e.g. electricity, gas service and telecommunication). However, high budget networks create monopoly situations on suppliers' side.
- Civil society refers to organizations (non-governmental corporations, foundations, associations) created through the self-organization of the society. The civil society is organized around needs unsatisfied by businesses and the government. It is often called the non-profit sector.
- A good example of the civil sphere is animal shelter created by animal-friendly citizens, in a form of foundation. Companies do not want to run animal shelters because they feel that it would not be a profitable business, and state does not consider the task of taking care, mediation of stray animals either. The main income of shelters is donations of citizens and businesses in cash and inkind as well as volunteer work.

If there is a profit goal, in case of non-business marketing it is always of secondary importance. Marketing tools used in the business sector such as 4Ps, are now increasingly used by non-business organizations too, to reach their goals, which in many cases are financing costs, since operation must be financed.

The business sector covers private assets, for which access may be restricted, but consumption is mostly done individually. Three types of non-business service-products are distinguished, however, the boundaries are not too sharp:

- Public goods (e.g. police, public lighting. Common consumption, no one can be excluded, its finance is done from taxes)
- Common goods (such as certain health care services. individual consumption, finance is done mainly from taxes)
- Payable goods (such as public education, public transportation, highway. – It is personal consumption financed from taxes and direct manner by customers)



56. Figure: Classification of products (Vágási 2007)

Note: Non-business marketing is now so much independent marketing- and science area that some scientific journals deal exclusively with this topic. International Review on Public and Nonprofit Marketing:

http://www.springer.com/business+%26+management/marketing/journal/12208

# 12.2.2 International marketing

Marketing has clearly crossed state borders, national frameworks. If a company may choose to operate only in one country, they also have to face foreign competitors, similar offers by foreign companies.

Globalization was completed at the end of the 20th century, as a result of rapid development in information and communication technologies and transportation. **Multinational companies** have taken a major role in globalization, because the whole world is seen by them as a market and their supply chain is organized so that each step (raw material procurement, production, sales) is done at the most ideal location, for maximum profit.

Companies have also realized that consumers need choice, they require products and brands manufactured abroad. In addition, to achieve scale economy and low unit costs companies require producing and selling goods in large volume, which in turn requires customers in foreign markets as well.

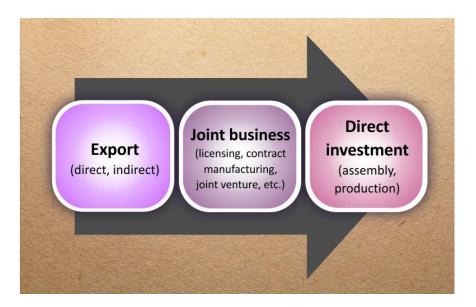
International trade has achieved proportions never seen before, and now has reached nearly one-third of GDP produced by all countries in the world. The increase in the number of multinational companies has resulted in a significant increase of trade as a direct consequence. There are about 65 thousand multinational companies operating in the world. In 2014, four out of 10 the world's most powerful companies are in the financial sector, three in the oil industry, one in the automotive industry (Toyota), and one is active in a variety of industries (General Electric). If we only look at the revenue, surprisingly, a retail chain, Wal-Mart's is the leader, which provides three times more products worldwide (USD 380 billion) than in Hungary all companies together. However, incomes Top 5 list is occupied by four oil companies. Most of the profits is acquired by oil companies, among them the first is ExxonMobil which was founded by John D. Rockefeller in 1870, successor of Standard Oil Company. Source: The world's largest companies (Forbes.com)

http://www.forbes.com/2008/04/02/worlds-largest-companies-biz-2000global08-cx sd 0402global land.html

The presence of the Internet has significantly facilitated the reach of foreign markets.

Most companies first export through a foreign company (indirect export), or may establish their own foreign trade centre (direct export). Further expansion alternatives are leasing production rights (**licensing**), contract manufacturing, starting a joint venture, and Foreign Direct Investment (FDI).

FDI (foreign direct investment) means that the company buys an existing factory or assembly plant (acquisition), or establishes a new one in the destination country.



57. Figure: Stages of entering foreign markets

Domestic market is no longer safe for domestic producers because due to liberalization of trade and capital flows, in several industries a lot of foreign competitors have appeared. So if a company does not expand in time to foreign markets, it will be very difficult in the future, and may find itself facing scale economics from capital-intensive large companies on the domestic market.

Foreign expansion also has its own risks. Risks come mainly from different currencies, commercial constraints (e.g. tariffs, protectionist policies) and consumer distrust in the foreign country. In the common market of the EU, companies are free to sell their products without any restrictions. The Great Depression has left a serious mark on trade in recent years (2008-10), it is the first time since the Second World War of such a sharp setback in the international traffic of goods and services.

In summary, we can say that multinational or global companies operate in more than one country, thus they can acquire production, marketing, financing and tax benefits, which are not available to domestic firms. Most companies sooner or later have to find answers to the following questions:

- Should we enter foreign markets, and if so, which countries?
- In which form to enter in a foreign market (export, joint venture, FDI)?

- What kind of position to be deployed in the domestic and foreign markets? Should we offer the same products or something else? What prices to use for our products in different markets? How to communicate the offer to foreign buyers?
- Who are our competitors and what are their global strategies?
- Where to produce, and where to sell our products?



58. Figure: McDonald's is the world's largest fast food restaurant chain, which serves around 68 million customers daily in 120 countries

In 1948, McDonald's switched over to the production of conveyor-like hamburger production, which significantly reduced waiting time. Today the company operates and employs more than 1.7 million people in more than 34 thousand restaurants in 118 countries. Currently, McDonald's is the world's seventh most valuable brand (Interbrand 2013).

## 12.2.3 New product marketing

New product marketing deals with designing, testing and launching new products to the market.

A new product may create a whole new market and customer base. Such was the market of personal computers, mobile phones and tablets. However, most innovations are small modifications to the product, which frequently result in the diversification of the brand. It is difficult to predict which innovations are revolutionary, however, continuous innovation not only creates new products, but also forces competitors to follow the company.

The Germany-based company HARIBO continuously improves gelatine products, with regard to their shape, taste, colour and packaging. For example, the MAOAM Stripes melting chewing gum is available in a gigantic 15 grams package – as the company has announced on its website.

Apple Inc. created the market for tablet computers, when it introduced iPad, which Time magazine in 2010 listed among the top 50 innovations. Apple does not collect and use information about consumers to develop products, the company is responsible for creating new demands. "It is not the consumers' job to know what they need, so we do not ask them." - explains deputy director Phil Schiller. This philosophy is anyway derived from Henry Ford, who said: "If I had asked customers about what they wanted, they would have said a faster horse" (source: beszeljukmac.com, Product Development Apple style).

The launch of the new products are not risk-free, experience has shown that half of them fail on the market. Bolder estimations say that nine out of ten products do not live up to the age of three. The reasons may be derived from strategic mistakes or tactical mishaps. Misunderstood customer demand, overrated market size, poor positioning, expensive development costs, inadequate design, price, distribution and communication may all contribute to it.

The steps of new product development are shown below. A range of products are developed in parallel by companies, in fact most of them are in different stages of development. The enormous number of product ideas are filtered and tested until finally only the most promising ones reach the market. The process does not always proceed linearly (step by step), often a former development phase is redone before moving on again. Market testing for example can show problems and the development phase may have to go one step back.

During the concept development and testing of the product (its description or prototype) information is collected about the idea from customers. The company is asking customers how they evaluate the benefits of the product, if they would purchase it, what other product meets the same requirements, or what price they would pay for it.

The research and development (R&D) department is responsible for the production of prototypes, which includes the most important product characteristics expressed in the product concept, fits the budget plan released by the management and safely meets customer needs.

The prototype is an early sample or model whose purpose is the product concept testing. The concept embodied by the prototype is submitted to technical and costumer tests.

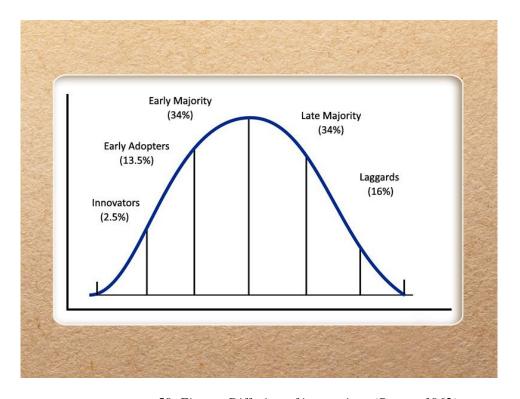
# Testing within the company is alpha testing, while beta test is conducted among customers.

Note: From consumers' point of view innovations satisfy a new need or an existing need in a new way. Some buyers are open to new products, while others are resistant. First, consumers learn about a new product, which if relevant, may raise their interests. Then they evaluate the product on the basis of competing brands, try it if possible, and finally may buy it. Most products become known slowly, then they grow quite quickly followed by a slowdown until they reach a peak. Then usually comes a fall back and finally the ending.

The figure below shows the **life-cycle of a new product**, based on how many customers buy it on the time scale. Customers may be divided into the following five groups according to their sensitivity to the new product:

- innovators (innovative "crazies for technology")
- early adopters (initiators of opinion looking for new products and competitive advantage gained by them)
- early majority (they only buy the product if it has been proven)
- late majority (they avoid risk, they are price-sensitive, afraid of new technology)
- laggards (they respect tradition and change for a new one only if there is no other way)

If the product is promising, and meets customers' functional and psychological needs, then it goes to the sales department and to the market.



*59. Figure: Diffusion of innovations (Rogers 1962)* 

The above categories are the same as most of the stages of the product life-cycle: introduction (only innovators purchase the product) growth (early adopters buy it), maturity (early and late majority buy it) and decline (laggards buy it).

According to Rogers' classification categorize your family members into certain groups. Are there innovators and laggards in your family?

Note: IRI regularly carries out reviews on innovations of packaged goods (CPG) in the American market. The report on the most successful food innovations of 2012 can be found on the following link: https://foodinstitute.com/images/media/iri/TTApr2013.pdf

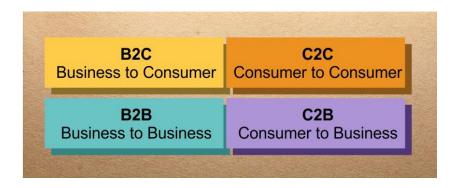
## 12.2.4 Internet marketing

Today, most deals are done via computer networks. Think of electronic stock exchanges, web stores or eBay. But not only the purchase can be online, the Internet is present at each step of the buying process. Internet advertising and corporate websites generate demand

as many people search for information and shop online and compare similar offerings and brands. The main advantage of the Internet is that it can be reached by everyone and is always available everywhere - think of smart-phones, which are slowly replacing computers.

Internet has a big impact on production and the supply of services: it helps companies create new, more effective ways to build customer value and customer relationships. Worldwide there are two billion Internet users and the estimated number of mobile Internet users is about a billion, meanwhile, it is growing exponentially. To achieve this huge and growing market most companies and organizations are engaged in online marketing activities. There are companies that operate only on the Internet (e.g. Amazon.com) and its products are forwarded directly to the customers (zero-level marketing channel). Many online companies offer services such as search engines (e.g. Google) and mediator companies (e.g. eBay), content providers (e.g. Wikipedia) or social networking sites (e.g. Facebook). According to the sales figures the most competitive companies are the ones that sell both online and in traditional ways, the so called **click-and-mortar** companies.

Online marketing is not only creating a link between the company and the consumer. Besides business to consumer and consumer to business communications, there are **B2B** (between businesses) and **C2C** (customer to customer) channels too.



60. Figure: Markets of online marketing

Although B2C channels are the best-known among customers, a number of companies sell to other companies. In addition to sales, online information services and customer support are also provided by organizations to each other, even in real time. C2C channels and markets are more common among consumers, such as online market

places (e.g. eBay). Today, customers can easily initiate contact with companies (C2B), for example by e-mail or product reviews.

- The hotel industry online assessment service is widely used, especially if it is chosen through an online reservation system (e.g. Booking.com, TripAdvisor.com, Hotels.com). Hotels that do not have a website and do not register to online sales portals have significant competitive disadvantage.
  - Note: Without a proper homepage an organization can hardly be successful. Therefore great care must be taken to the site design. The page should not only be attractive, but also need to ensure that customers find it, stay there and return regularly.



61. Figure: The main areas of online marketing

# 12.2.5 Socially responsible marketing

In lesson 3 we mentioned that organizations interact with their customers in different ways. According to the marketing concept, the company acts in the best way if it focuses on customers' current interests.

- An advanced marketing concept is societal marketing which says that not only the current interests, but the long-term interests of customers must also be considered.
- Sustainable marketing goes further than societal marketing and tries to realize the company's long-term goals and the long-term interests of consumers at the same time. A company with sustainable marketing tries to build relationships with customers in a long term.
- However, most of the companies care little about the long-term interests of consumers, and put their own interests to the foreground. Think of preservatives, artificial colours, sweeteners and trans-fat acids. Hormone and antibiotic-treated animals, plants treated with chemicals, industrial processing additives, amplified flavours, colours and extended-life food products in the long term are not in the interests of consumers. Many food companies distribute more and more consumer- and environmentally friendly products recognizing this new customer demand; however, the majority of customers choose products and brands based on flavour and price, and only take into account their impact on health and the environment afterwards.

Business marketing and firms are criticized in several ways nowadays. Due to socially irresponsible organizations, marketing has become a negative-attitude field for many. Too high prices and profit margins, misleading marketing techniques, violent methods of sale, poor quality of goods and pre-programmed products are frequently raised accusations. However, misleading the consumer does not work for long, because buyers in the long-term prefer reliable brands and companies.

Note: High prices are said to be caused by high distribution costs, too many marketing channels, high costs of advertising and unrealistically high margins. Companies say that the timely, convenient distribution of products and extensive networks require advanced logistics, which are costly to maintain. Advertising costs and higher margins serve the interests of consumers, as it calls attention to important product characteristics and safe, high-quality products.

Companies are also often accused of applying deceptive practices, which makes customers expect higher value than the product actually represents. For example, the price is discounted from a falsely raised retail price, the product features are described more positively than in reality, or the packaging gives a feeling that the product is of bigger weight or volume than it is in reality.

Organizations applying sustainable marketing try to gain profits in an ethical manner, and distribute products that not only provide pleasure, but also have long-term benefits to the consumer, society, and do not cause threat to the environment either.

McDonald's has been criticized in the past decade that they have unhealthy, low nutrient, but high-calorie menus to entice consumers including children. The company has tried to respond to criticism with new, healthier products (e.g. salads, fruits, grilled chicken products) and introduce lower-calorie menus. McDonald's, aiming at the title of the greenest restaurant, is proud to announce that there are three main areas they try to preserve environment: (1) efficient management of natural resources, (2) environmentally responsible packaging, (3) full recycling of different types (plastic, paper, organic) of waste. With the introduction of sustainable strategies the company has increased its turnover by 60% and profits have been tripled.

Products can be categorized on the basis whether they cause immediate pleasure or long-term benefits, or both. Wrong products, for example an ineffective drug, cause neither pleasure nor benefit. Pampering products may cause joy in the short-term, but in long term their excessive consumption can be harmful (e.g. pleasure products). In contrast, helmet is a useful product, it does not cause a lot of pleasure, but its long-term benefits can be huge, even people's life can be saved. The best alternative is the so-called desired product, which is both enjoyable and useful to consumers, therefore companies should aim to make the most of their products fall into this category. This can be a healthy and delicious breakfast or a safe, environmentally friendly and well-designed car.

Give examples of pampering, useful and desirable products. How would you make the pampering and useful products desirable?

# 12.3 SUMMARY AND QUESTIONS

# **12.3.1** Summary

In lesson 12, the specific areas of marketing were called attention to. A good example for summarizing the importance of these special areas is higher education. First, boundaries are blurred between non-business and business activities in the higher education sector, as an increasing proportion of the income of government owned universities is derived from the market (tuition fees, renting real estate, research services for companies, etc.). Second, universities enrol an increasing proportion of foreign students, which is the area of international marketing. Third, in order to adapt to changing market needs, new products such as new trainings should be introduced in foreign languages (new product marketing). Fourth, most domestic and foreign students get informed on the Internet about education opportunities, they will gain their first impressions about schools there, thus university websites are very important means of communication. And fifth, higher education institutions should also set an example by their responsiveness to problems of the natural environment and the society ("third mission").

## 12.3.2 Self-check questions

- 1. What kinds of organizations are included in the areas of non-business marketing?
- 2. What are non-business services/ products?
- 3. Which are the modes and types to enter a foreign country?
- 4. Due to globalization what questions are needed to be answered by most of the companies?
- 5. What are the steps of new product development?
- 6. How can customers be categorized by their susceptibility to new products?
- 7. What are the markets of online marketing?
- 8. Which are the main areas of online marketing?
- 9. What is the difference between societal and sustainable marketing?
- 10. What kind of criticism has marketing received nowadays and how do companies respond to these?

### 12.3.3 Practice Tests

- 1. What are the products covered by the non-business marketing?
- a) private goods, public goods and common goods
- b) public goods, common goods and payable goods
- c) common goods, payable goods, private goods
- d) common goods, public goods, unpayable goods
- 2. Which industry's companies are the largest in the world after their income?
- a) bank sector
- b) oil industry
- c) IT sector
- d) manufacturing industry
- 3. Which of the following is the biggest risk for international marketing activities and commitment?
- a) indirect export
- b) direct export
- c) licensed manufacturing rights
- d) <u>FDI</u>
- 3. Which list contains the good order of the steps in the new product development?
- a) <u>brainstorming, creation and testing of the concept, strategy</u> <u>development, market analysis, product development, market</u> <u>testing, sales</u>
- b) brainstorming, creation and testing of the concept, product development, strategy development, business analysis, market testing, sales
- brainstorming, creation and testing of the concept, business analysis, strategy development, product development, market testing, sales
- d) brainstorming, creation and testing of the concept, market testing, strategy development, business analysis, product development, sales

- 4. Rogers' new product acceptance stage model which stage the customers buy most products?
- a) the introduction stage
- b) the growth phase
- c) the maturity stage
- d) the decline stage
- 5. With technical terms on which market is eBay?
- a) B2C
- b) C2B
- c) C2C
- d) B2B
- 7. Which of the following is the most advanced enterprise orientation?
  - a) quality-orientation
  - b) sustainable marketing
  - c) social-centric marketing
  - d) marketing concept
  - 8 Which products provide only short-term benefits?
  - a) wrong products
  - b) pampering products
  - c) useful products
  - d) needed products
  - 9 Testing within the company is called alpha test, tests conducted among the clients are called beta test
  - a) true
  - b) false
  - 10 Multinational companies have assumed a major role in globalization, because the whole world is seen as the market for themselves.
  - a) true
  - b) false

# 13. SUMMARY OF THE COURSE MATERIAL

This course material presented the basics of marketing in 11 lessons, which were divided into three large modules. The first module gave an overview of the main concepts and activities of marketing. The second module dealt with how organizations formulate customer-oriented marketing strategies, while the third one discussed the details of how organizations can create market offerings that will establish mutually beneficial relationships with customers.

The underlying aim of **module 1** was to show the importance of marketing in both the business and non-business sectors. The scope and different areas of marketing were also reviewed, i.e. the types of market offerings and customer markets, while the fundamental concepts of marketing were also presented. The module also presented the steps of the marketing process, namely identifying customer needs, formulating customer-oriented marketing strategies, creating marketing programs (marketing mix strategy) and profitable customer relationships, and obtaining financial and other rewards from customers. The holistic approach of marketing draws attention to the fact that organizations can only be successful if they manage the various ways of interacting with the market in relation to each other.

In **module 2** we presented how companies should formulate marketing strategies. The marketing strategy – in theory – is based on the overall company strategy, i.e. the company's missions, goals and business portfolio. Creating a marketing strategy involves the understanding of the marketing environment and the needs and behaviour of customers, as well as target marketing, which includes market segmentation, market targeting and product positioning. An important part of the module was examining customer behaviour, which in fact is very hard to predict even by marketing professionals. Customer behaviour is shaped by cultural, social, personal and psychological factors, and influenced by the strategies and tactics of organizations.

In **module 3** we concentrated on marketing tactics. We presented the main decisions of marketing on the basis of the 4Ps and 7Ps models. These models include decisions about the features of products and services, their price, distribution, point-of-sale, communication, as well as the role of people in organizations, service processes and physical evidence. The module emphasized that products are only valuable to most customers because they provide some important benefits or a solution to a problem. Brands have a vital role in the success of companies as they represent everything a product/company means for

customers. Developing strong brands and an attractive brand image is thus one of the most important tasks of marketing managers. We ended the module and the course material by presenting the special areas of marketing (non-business, online, international, socially responsible and new product marketing), which are not so special any more.

As a final thought we emphasize that creative marketing communications is very important in an overcrowded marketplace with hundreds of brands and promotional messages, but companies will only become successful in the long-term if they create market offerings that satisfy their target customers better than competitors.

#### 13.1 CLOSING

Our closing remarks emphasize the role of two essential factors that shape marketing activities today. The role of Internet is growing in all areas of life, including marketing. Consumers organize an increasing proportion of their interactions with market actors online. They not only use the Internet in every step of the buying decision process, but also promote and sell products online. Companies have to accept this challenge and create user friendly, safe and motivating online environments.

Secondly, organizations cannot afford (or should not be afforded) today to concentrate on the short term interests of buyers only. They have to take care of the society and the natural environment as well. Instead of a consumer-oriented society, we should create a life-oriented society, in which organizations' offerings are evaluated on the basis of how much they support the most important values of life, i.e. people's mental and physical health, and the beauty and diversity of the Earth's natural environment.

## 14. APPENDICES

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http://www.underconsideration.com/brandnew/archives/new\_logo\_and\_identity\_by\_and\_for\_philips.php#.VKLDmcCA)

Model T history, http://www.history.com/topics/model-t

#### 14.3 GLOSSARY

- ADVERTISEMENT, which is mediated by mass media tools, is an impersonal message. Its types are motion picture, printed advertising, brochure, poster, point of sale advertising (POP), logo, etc
- ATTITUDE refers to a person's enduring favourable or unfavourable evaluations, emotional feelings, and action tendencies toward some object or idea. People have attitudes toward almost everything: religion, politics, clothes, music, food. (Kotler & Keller, 2012, p.168)
- BELIEF is the psychological state, in which an individual holds a presumption to be true. Belief is often associated with religion, however, people can have beliefs regarding many areas of life, for example brands, products or companies.

- BRAND EQUITY is the added-value of the brand name. Some consumers are willing to pay a premium of 20-40% for their favourite brand as compared to competitors.
- BRAND NAME is a term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors (Kotler & Keller 2012). The brand in a broad sense is everything that the product or company means for the customer. Brand building and brand management is thus the most important task of marketing.
- BRAND VALUATION is estimating the total financial value of the brand.
- BRANDS embrace every association, feeling and thought customers have in their minds about the given company and its products. The basic goal of all organizations is creating strong, favourable and unique brand associations in consumers' minds.
- BUSINESS PORTFOLIO refers to the sum of a company's products and services that are offered on the market for customers. Analyzing the business portfolio, i.e. evaluating the market strength of SBUs, is an important part of the strategic planning process carried out by managers.
- BUSINESS PURCHASE PROCESS. During the business purchase process, forprofit organizations decide on what products and services they need, seek and evaluate available suppliers and brands, and finally select the best alternative on the basis of multiple criteria.
- BUYING CENTRE refers to members of an organization who are responsible for making major purchase decisions. In a business setting, purchases typically require the input of different departments of the organization such as marketing, finance, purchasing and management.
- BUZZ MARKETING is the dissemination of striking, entertaining messages, news triggering widespread interest so that people start to talk about a specific product or brand.
- CIVIL SOCIETY refers to organizations (non-governmental corporations, foundations, associations) created through the self-organization of the society. The civil society is organized around needs unsatisfied by businesses and the government. It is often called the non-profit sector.
- CONCEPT DEVELOPMENT. During the concept development and testing of the product (its description or prototype) it is presented to customers to collect their views on it. The company is asking customers how they evaluate the benefits of the product, if they would purchase it, what other product meets the same requirements, or at what price they would buy the product.
- CONSUMER BEHAVIOUR describes why and how households and individuals purchase products and services.

- CONSUMER SEGMENT is the sum of customers who react similarly to the same marketing stimuli; whose behaviour can be influenced with the same combination of marketing tools.
- CULTURE includes values, norms, beliefs, customs, etc. that guide people's behaviour in their everyday lives, and which is developed in social institutions such as family, school, workplace, etc.
- CUSTOMER EQUITY is the sum of the CLVs of all the customers of a company.
- CUSTOMER LIFETIME VALUE. A loyal customer increases Customer Lifetime Value (CLV) that is the net present value of all the products and services the customer purchases at a given company.
- CUSTOMER ORIENTED COMPANIES aim at understanding and satisfying customer needs better than their competitors.
- CUSTOMER RELATIONSHIP MANAGEMENT. With the help of customer relationship management (CRM), companies can build databases about purchases and their interactions with customers. In a broad sense, CRM involves all activities that companies do in order to obtain, retain and grow the number of customers.
- DIFFERENTIATED TARGET MARKETING means that a company offers different products and benefits to different types of customers.
- DIRECT MARKETING is an interactive company communication tool that focuses on the individual consumer. Its main types are named postal letters, phone calls and e-mails, as well television product promotions expecting immediate response.
- DISSONANCE refers to the psychological discrepancy within the consumer, when a new belief conflicts with another previously held belief. It is a feeling of discomfort that results from holding two conflicting beliefs. To ease this frustrating situation something must be changed.
- EVENT MARKETING is the organization and implementation of a program matching the image of a given organization.
- EXCLUSIVE DUSTRIBUTION. Companies choosing exclusive distribution (e.g. luxury brands) select their intermediaries because they would like to have bigger control over distribution and raise prestige of the brand. A producer often assigns exclusive rights to certain sales companies hoping to be more dedicated in selling their products
- FDI (foreign direct investment) means that the company buys an existing factory or assembly plant (acquisition), or establishes a new one in the destination country.
- FREIGHT is organisation of the process of forwarding the product to its destination at the least possible cost, safest way, in the right time and optimal way. It is a branch of logistics.

- GUERRILLA MARKETING is an untraditional, surprising, relatively low -cost marketing communication activity. Usually, buzz marketing, viral marketing, ambient marketing, flash-mob and astroturfing are included in it.
- HYPERMARKET is a self-service retail establishment which offers a wide range of food stuff and other consumer goods, with a floor space of minimum 2500 m<sup>2</sup>, having usually a big parking lot. Wholesale stores, like METRO are not to be listed here.
- INTEGRATED MARKETING COMMUNICATION (IMC) refers to the comprehensive coordination of a variety of communication channels (advertisement, personal selling, direct marketing, website etc.).
- INTEGRATED MARKETING. According to the notion of integrated marketing, marketing tasks should be managed on the basis of their relation to each other, as the whole is always more than the sum of its parts.
- INTENSIVE DISTRIBIUTION. In the case of intensive distribution the producer involves as many sales points into the marketing channel of the product as he can, so that customers can buy the product wherever and whenever they need it (it is typical at soft drinks, mineral water, sweets, snacks, etc.).
- INTERNAL MARKETING is directed towards employees, as only satisfied workers will create superior customer value. Internal marketing includes activities such as recruitment, motivation and training.
- LEARNING is a relatively lasting change in behaviour that takes place as the result of experience (and not studying). For example, if the consumer is delighted by a certain brand based on experience gained by usage, he or she will continue buying it in the long term.
- LIFESTYLE refers to the way how people live their life, which reflects their activities, interests and opinions. People of the same age, occupation or social class can have completely different lifestyles, so marketers have to place increasing emphasis on customers' lifestyle when designing market offerings.
- LOGISTICS were originally used in military context, nowadays it is increasingly widespread in business as well. Logistics is management of purchasing, storage and flow of resources. In logistics management potential suppliers and marketing intermediaries are identified, their efficiency is assessed, and connection is made with those who offer the best combination of price and services. A lot of companies manage their logistics processes themselves if they think it is more economical than outsourcing it to subcontractors.
- MACRO-ENVIRONMENT refers to external forces that provide a broader framework for the decisions, performance and strategy of the

- organization. They involve economic, demographic, legal, political, social, technological and environmental forces.
- MARKET OFFERINGS are designed on the basis of a value proposition, which refers to all the benefits an organization offers to satisfy customer needs in the form of products and services.
- MARKETING CHANNEL (distribution channel) refers to the organizations (e.g. retailers, wholesalers, logistics firms) that closely cooperate with each other to connect the producer with the customers.
- MARKETING ENVIRONMENT embraces internal and external forces and factors that influence organizations in building customer relationships.
- MARKETING INFORMATION SYSTEM (MIS) is the sum of people, tools, methods and processes that serve to collect, systematize, analyze, evaluate and transfer data about an organization and its marketing environment accurately and in a timely manner.
- MARKETING INTERMEDIARIES assist a company in several ways, for example in promoting, selling and delivering the product. They embrace distributors (retailers and wholesalers), shipment and logistics companies, advertising agencies, financial intermediaries, etc.
- MARKETING PLANS show how marketing efforts will contribute to achieving the overall goals of a company. All divisions, products and brands have to create their own marketing plan.
- MARKETING ROI (return on marketing investments) refers to the profit generated by the marketing expenditures of a company as compared to the costs of those investments.
- MARKETING STRATEGY refers to higher level marketing decision-making that deals with choosing the target markets and formulating value propositions to meet customers' needs and wants.
- MARKETING. According to the American Marketing Association, marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. (July 2013).
- MICRO ENVIRONMENT embraces factors that are within close proximity to a company: the company itself, its employees, suppliers, distributors, customers, competitors and the public. The elements of the microenvironment can be influenced by the company.
- MICRO MARKETING. When marketing efforts are focused on a very small (smaller than in the case of niche marketing) group of consumers we call it micro-marketing. This strategy requires a company to define customers on the basis of a particular characteristic such as location or job title, and tailor campaigns accordingly.

- MISSION STATEMENT describes the fundamental goals of the organization, what it endeavours to achieve, what it wants to become within its broadly defined market environment. A market oriented mission statement defines the essence of a company in terms of its customers and their needs.
- MOTIVATION is a desire or want that energizes and directs our behaviour. A learned behaviour will only occur if it is energized.
- NEED is a state of deprivation, a desire that motivates consumers to act in order to obtain a product, service, etc. to ease or cease the desire.
- NEW PRODUCT MARKETING deals with designing, testing and launching new products to the market.
- NICHE MARKETING. In case of niche marketing, a company focuses on one or two smaller segments of the market (e.g. organic cosmetics, organic food), but aims to acquire the majority of those segments.
- NON-BUSINESS ORGANIZATIONS aim at providing public services that the business sector do not or cannot provide efficiently. It includes public institutions (satisfaction of collective needs with public goods), public utilities (satisfying collective needs with affordable goods) and civil organizations (satisfaction of charitable, individual needs).
- OPINION LEADER is a well-known individual or organization that has the ability to influence people on a specific subject matter. Opinion leaders can be politicians, business leaders, celebrities, sports stars, etc.
- ORGANIZATIONAL BUYING. Organizations purchase products and services that they do not consume themselves, but use for operational purposes, manufacturing, resale and rental. Wholesalers, retailers, governments and non-business organizations are all engaged in organizational buying.
- PARTNER RELATIONSHIP MANAGEMENT. Through partner relationship management (PRM) companies establish mutually fruitful and long-term relationships with the members of the supply chain (suppliers, distributors, advertising agencies and market research firms) in order to best satisfy the needs of their target customers.
- PERCEIVED CUSTOMER VALUE is difference between the total perceived benefits (functional, social, psychological, etc.) of the product and its total perceived costs (money, time and efforts to get it).
- PERCEPTION refers to how consumers recognize, interpret and respond to market information. It is a process where consumers take in sensory information from the environment, make something meaningful from it, and then use that information to interact with their environment.
- PERCEPTUAL OR POSITIONING MAPS help companies develop a market positioning strategy for their brands. As the maps are based on the perceptions of buyers, they are also called perceptual maps. They show where existing products and services are positioned in the market, so

- firms can decide where they would like to place their products in relation to competitors.
- PERFORMANCE MARKETING covers both financial indicators (e.g. revenue, profit and market share) and companies' non-financial impact on social and natural environments as well.
- PERSONAL SELLING is the face-to-face persuasion of customers in order to increase sales. Its main types are home or store product demonstrations and product information, product samples and trade fairs. In many cases it is informal, ad hoc discussion with the seller for example can have a decisive role in purchase decision.
- PERSONALITY is a unique combination of psychological traits that result in permanent and long-term reactions to the impulses coming from the environment.
- POSITIONING. Through Positioning a company tries to occupy a clear, unique and long-lasting position in consumers' heads by communicating the most valuable benefits of its offering towards them.
- PRICE in broader sense is the whole of those values which consumers exchange for the gains of owning or using a product or service. More simply price is a sum expressed in money which customers must pay to obtain a product, service, etc. (the value manifested by them).
- PRIMARY RESEARCH is the systematic planning and collection of data related to a specific marketing / business problem, as well as their transfer to decision makers.
- PRODUCT can be anything, an object, service, event, person, place, organization, idea or their mixture, which can be offered to consumers for satisfying their needs.
- PRODUCT LINE is a group of closely related products that fulfil a similar function, are sold to the same customers, or marketed through the same outlets.
- PRODUCT MIX (or assortment) is the set of all products and items a particular seller offers for sale (e.g. sporting goods).
- PRODUCT ORIENTED COMPANIES strive to create products of high quality, innovativeness and performance.
- PRODUCT SYSTEM is a group of diverse but related items that function in a compatible manner (e.g. tennis equipment).
- PRODUCTION ORIENTED COMPANIES aim to achieve mass production, which infers high productivity, low costs and intensive distribution.
- PROTOTYPE is an early sample or model whose purpose is the product concept testing. The concept embodied by the prototype is submitted to

- technical and costumer tests. Testing within the company is alpha testing, while beta test is conducted among customers.
- PUBLIC RELATIONS (PR) are a way of improving corporate image. The most important types of PR are press conferences, press releases, corporate speeches, written materials (annual reports, newsletters, brochures), audiovisual items (movies, TV shows) charity, lobbying, road shows, corporate identity elements (logo, stationery, uniforms, business cards, buildings, company cars, etc), website etc.
- REFERENCE GROUP is a group of individuals that the consumer tends to compare themselves to for the purpose of evaluating his or her own behaviour.
- RELATIONSHIP MARKETING. The goal of relationship marketing is to create and maintain long-term and mutually beneficial relationships with customers, employees and business partners (suppliers, distributors, shareholders, financial institutions, etc.).
- RETAIL TRADE covers all the activities the aim of which is to sell the product to the end users. The end user buys goods for his own personal use and not to process, sell or lease it to others. retail functions can be fulfilled by the producer itself or wholesalers, but normally firms specialized for it deal with retail (e.g. hyper- and supermarkets, corner shops, shops in shopping centres, etc.).
- SALES PROMOTION. The aim of sales promotion is increasing sales temporarily. Its types are consumer games (e.g. bottle cap collection, code submissions), gifts with product, price discounts, product samples, coupons, rewards for repeat buyers, etc.).
- SAMPLE is a relatively small group of consumers that is relevant for the research question, and whose characteristics approximate those of the population they are selected from.
- SECONDARY DATA have already been collected, analyzed and published. Secondary research relies on gathering secondary data.
- SEGMENTATION is when a company divides the market into homogeneous subgroups that have similar needs, wants and consumer behaviour. Most companies segment the market on the basis of geographic, demographic, psychographic (see AIO) and behavioural characteristics.
- SELECTIVE ATTENTION means that customers leave most marketing information unnoticed. Thus marketers have to work hard to attract consumers' notice.
- SELECTIVE DISTORTION is the tendency of consumers to interpret marketing information in a way that will fit their preconceptions and earlier experiences. Consumers often distort information about a market offering to make it consistent with prior brand and product beliefs.

- SELECTIVE DISTRIBUTION. In the case of selective distribution several (more than one) middlemen take part in sending the goods to the buyers (e.g. electronics goods).
- SELECTIVE RETENTION means that consumers tend to retain information that is consistent with their attitudes and beliefs. Due to selective retention, consumers will better remember the good points of a product they like and tend to forget about the good points of product they do not prefer. Strong brands can benefit the most from selective retention.
- SELLING ORIENTED COMPANIES make use of aggressive sales techniques to persuade consumers to buy the products and services they make.
- SERVICE is an activity performed by somebody to satisfy the needs of another person. As opposed to products, a service does not result in the ownership of an object.
- SOCIAL CLASS is a group of individuals who occupy a similar position in the society.
- SOCIETAL MARKETING. An advanced marketing concept is societal marketing approach which says that not only current customer interests, but long-term interests must also be considered. This will allow marketing to represent the company' responsibility to the society.
- SOCIETY ORIENTED COMPANIES devise marketing strategies that not only contribute the wellbeing of consumers, but also to that of the society. Socially responsible company strategies take the environmental, social and health aspects of production and consumption into consideration as well.
- SPONSORING is a single or long-term financial or in-kind support of an event, organization, person, team or activity in order to improve the market position of the sponsor (e.g. image building, sales growth, positioning). While advertising is "quantitative" promotional tool, sponsoring is more of "quality" where the company is promoted in connection with the sponsored activity.
- STATUS refers to what a person is in the society. The term may be used to refer to all of the different statuses an individual has, such as woman, mother, wife, sister, employee, etc. Role refers to the behaviour expected of people in a status. Sometimes the different roles of the same person are incompatible with each other, which leads to role conflict (e.g. caring mother versus hard-working employee).
- STRATEGIC BUSINESS UNIT (SBU) can be a company division, a product line within the division, a single product or brand.
- STRATEGIC PLANNING is followed by marketing tactics, which embraces decisions about the details of product features, pricing, distribution and promotion.

- SUBCULTURE refers to people who have similar (moral, ideological, social, etc.) values, share common experiences and life situations, which result in their distinctive use of style, including fashion, music, mannerisms and argot.
- SUPPLIERS deliver and rent production factors (supplies) to manufacturers (e.g. raw materials, component parts, equipment).
- SUPPLY CHAIN MANAGEMENT. Through supply chain management (SCM) companies purchase inputs for production (raw materials, component parts, equipment), manufacture goods and deliver them to their final destination.
- SUPPLY CHAIN refers to longer processes and more activities than the marketing channel. It starts with producing or purchasing raw materials and lasts until the final product is delivered to the customers. It includes both downstream and upstream processes such as cooperation with suppliers and with the members of the marketing channel.
- SUSTAINABLE MARKETING goes further than societal marketing and at the same time tries to realize the company's long-term goals, and also the long-term interests of consumers. A company with sustainable marketing tries to build relationships with customers in a long-term.
- TARGETING. Segmentation is followed by Targeting, by which a company evaluates the attractiveness of each segment and chooses one or more of them to serve with its products and services.
- TRANSPORTATION is a process that must be done for the sake of movement (locomotion) of the goods. The starting point of locomotion is the venue of production or storage (plant, workshop, mine, warehouse, etc.), while the target is the place of usage or destination.
- UNDIFFERENTIATED TARGET MARKETING means that a company offers the same products and benefits to the entire target audience.
- VERTICAL MARKETING SYSTEMS (VMS) unify the marketing channel. The system is directed by the head of the channel (e.g. producer) as distributors are owned by the head (corporate VMS) or controlled by the head (administered VMS). They can be equal members of the marketing system as well who work together on a contractual basis (contractual VMS).

## 15. Exams

## **15.1 PRACTICE TESTS**

Note:	30	test	questions,	30	marks/points	in	total.	Pass	is
reward	ded t	from '	18 marks.						

- 1. A principle goal of marketing is to...
  - a) produce cheap goods
  - b) understand customers
  - c) sell products
  - d) advertise market offerings
- 2. ..... is a need shaped by culture and personality.
  - a) Want
  - b) Customer value
  - c) Demand
  - d) Need
- 3. If want is accompanied by purchasing power it becomes .....
  - a) social need
  - b) demand
  - c) physical need
  - d) market transaction
- 4. Which company orientation focuses on high productivity and low costs?
  - a) production orientation
  - b) product orientation
  - c) selling orientation
  - d) marketing orientation
- 5. The societal marketing concept tries to find a balance between customers' short-term needs and .........
  - a) company costs
  - b) customers' health
  - c) long-term needs

# d) the society's long-term well-being

- 6. Which question does the marketing strategy answer?
  - a) How to achieve goals?
  - b) Which customers should we serve?
  - c) How can we profitably serve our customers?
  - d) All of the above are correct.
- 7. Diversification means...
  - a) selling on multiple markets
  - b) selling multiple products on one market
  - c) selling one type of a product
  - d) satisfying multiple customer needs
- 8. What is the correct order of strategic planning?
  - a) goals → mission → SBUs → functional strategies
  - b) goals → SBUs → mission → functional strategies
  - c) mission → SBUs → goals → functional strategies
  - d) mission → goals → SBUs → functional strategies
- 9. Who can be influenced by internal PR tools?
  - a) distributors
  - b) suppliers
  - c) employees
  - d) competitors
- 9. Which one is a correct list of marketing intermediaries?
  - a) distributors, shipping firms, financial intermediaries, competitors
  - b) distributors, shipping firms, banks, financial intermediaries
  - c) distributors, shipping firms, marketing service companies, customers
  - d) <u>distributors, shipping firms, marketing service</u> <u>companies, financial intermediaries</u>
- 10. What are the elements of the PESTLE model?

- a) demographic, economic, environmental, geographic, technological, cultural
- b) natural, geographic, technological, cultural, ethical
- c) demographic, cultural, economic, environmental, population, technological
- d) <u>social, economic, environmental, political, legal,</u> technological
- 11. On the basis of what factors does the AIO model categorize consumers?
  - a) hobbies, work, leisure
  - b) hobbies, work, friends
  - c) activities, interests, opportunities
  - d) activities, interests, opinions
- 12. According to the brand personality framework of Jennifer Aaker (1997), what is an exciting brand like?
  - a) upper-class, charming
  - b) reliable, intelligent, successful
  - c) daring, spirited, imaginative, up-to-date
  - d) outdoorsy, tough
- 13. Based on Maslow's hierarchy of needs, in what order do consumers satisfy their needs? (from left to right)
  - a) physiological, love, safety, esteem, self-actualization
  - b) love, physiological, safety, esteem, self-actualization
  - c) physiological, safety, love, self-actualization, esteem
  - d) physiological, safety, love, esteem, self-actualization
- 14. What consumer characteristics are combined in psychographic segmentation?
  - a) demography and psychology
  - b) demography and sociology
  - c) demography and geography
  - d) psychology and geography
- 15. What does "accessible" mean in case of market segmentation?

- a) It it easy to profile customers in the segment.
- b) It is profitable to satisfy segment needs.
- c) It is easy to reach the customers in the segment in the same way.
- d) It is easy to differentiate the customers in the segment from those of other segments.
- 16. One of the factors below is not a constituent of Porter's "five forces" model (but that of the "diamond" model). Which one?
  - a) threat of new entrants
  - b) bargaining power of suppliers
  - c) bargaining power of buyers
  - d) related and supporting industries
- 17. What are specialty goods?
  - a) Products purchased every day.
  - b) More expensive products, which consumers evaluate on the basis of various features such as price, quality and style.
  - c) Products with special features that make customers give up their regular buying process.
  - d) Unsought products.
- 18. From the lists below which contain solely industrial goods and services?
  - a) materials, components, buildings, machinery, unsought goods
  - b) materials, convenience goods, buildings, machinery, industrial services
  - c) shopping goods, component parts, buildings, machinery
  - d) <u>materials, capital items, supplies, parts and components,</u> <u>business services</u>
- 19. Which one of the followings cannot be a product in marketing?
  - a) persons
  - b) places
  - c) organizations
  - d) all of them can be a "product"

- 20. If price of a can of tennis balls rises by 1%, its demand will decrease by less than 1%. What kind of a product is a tennis ball?
  - a) price elastic
  - b) price inelastic
  - c) unit price elastic
  - d) inferior
- 21. What is value-based pricing?
  - a) pricing of the product is done by the value perceived by competitors
  - b) pricing of the product is done by the value perceived by the company
  - c) <u>pricing of the product is done by the value perceived by</u> customers
  - d) pricing of the product is done by the value perceived by traders
- 22. In which pricing strategy is price of the product decreased gradually after a high introductory price?
  - a) market skimming
  - b) market penetration
  - c) value-based pricing
  - d) cost-based pricing
- 23. What is so called corporate VMS?
  - a) intermediary firms are owned by the channel boss
  - b) the channel boss is somehow able to have power over the other channel members
  - c) the channel members work together by an agreement
  - d) cooperation is weak between the members of the channel
- 24. What is the typical floor size of supermarkets?
  - a) <u>500-25</u>00m<sup>2</sup>
  - b) 2500-5000m<sup>2</sup>
  - c) 5000-50 000m<sup>2</sup>
  - d) over 50 thousand m<sup>2</sup>
- 25. Which of the following type of shops has already passed its peak?

- a) department store
- b) supermarket
- c) hypermarket
- d) shopping centre (mall)
- 26. Which are the steps customers go through according to effect hierarchy model? Which is the right order of steps?
  - a) awareness, knowledge, preference, liking, conviction, purchase
  - b) <u>awareness, knowledge, liking, preference, conviction, purchase</u>
  - c) purchase, knowledge, liking, preference, conviction, awareness
  - d) awareness, knowledge, liking, preference, conviction, knowledge
- 27. Which indicator shows efficiency of communication the best?
  - a) reach (R)
  - b) frequency (F)
  - c) influence quality (I)
  - d) exposition (E)
- 28. Which communication scheme is valid for those products buyers are less interested in and do not realize any differences between the brands (e.g. battery, sugar)?
  - a) knowledge action feel
  - b) knowledge feel action
  - c) feel knowledge action
  - d) action knowledge feel
- 29. What is the name of wholesalers having a wide product range?
  - a) cash & carry
  - b) general merchandise wholesaler
  - c) single-line wholesaler
  - d) specialty wholesaler
- 30. What is the main economic task of wholesalers?
  - a) distribution of products
  - b) warehousing of products
  - c) shipment of products
  - d) <u>creation of connection between production and consumption in</u> space and time

15.2 NIOC	KEXAM
Note: 10 marks.	questions, 50 marks in total. Pass is rewarded from 30
1. Put the steps of	of marketing into proper order! (5)
1.	A. building customer relationships
2.	B. formulating the 4Ps
3.	C. obtaining reward from customers
4.	D. create customer-oriented strategy
5.	E. satisfying customer needs
market develop	tion A. selling existing products to new customers ment B. selling new products to existing customers pment C. selling new products on new markets
3. Make pairs (co Lifestyle Belief, attitude Reference g Personality Role Sub-culture Social class	

- A. A way of thinking which is based on knowledge, opinion or experience, and can have affective elements as well.
- B. People's way of life that is expressed in their free time activities, interests and opinions about the world.
- C. Ordered categories or groups of societies that have similar levels of income and education and often occupation.
- D. The group we want to be part of.
- E. People's unique psychological characteristics that result in permanent and similar responses to stimuli coming from the environment.
- F. Activities that are expected from people having a certain status.
- G. People having similar values, lifestyle and common experiences.

4. Make pairs (segmentatio	n)! (4)
demography	A. age, gender, income, family size, etc.
psychography	B. region, town, density, etc.
behavioural factors geographic factors	C. frequency of product usage, loyalty status, etc. D. social class, lifestyle, personality, etc.
5. Make pairs (pricing)! (7p	)
cost-plus pricing	
value-based pricing	
competition based prici	ng
market skimming	
market penetration	
<pre> optional product pricing psychological pricing</pre>	
psychological pricing	
A. setting high initial price "maximum" price out of each	and then gradually decreasing it, to squeeze the
•	e-quality ratio, i.e. acceptable quality at a reasonable
price	-quality ratio, i.e. acceptable quality at a reasonable
•	for optional product elements (extras) in order to
display a cheaper basic price	• • • • • • • • • • • • • • • • • • • •
	n buyers quickly and decrease average costs
	sure the price elasticity of demand, thus companies
tend to rely on the common v	· · · · · · · · · · · · · · · · · · ·
F. this pricing method relies of	on psychology rather than economics
G. adding a certain margin to	production costs
6. Make pairs (marketing co	ommunications)! (5)
ads, commercials	
sales promotion personal selling	
Public Relations	
direct marketing	
direct marketing	
	g corporate image and building good relations with
the public	
	antage is long-term image-building
C. it only works in the short-	run; it makes customers to buy the product as fast

D. the most expensive communication tool, inflexible and requires long term

commitment, however it is often the most effective

as they can

E. interactive communication tool, which is customized to the needs of consumer groups; it requires immediate feedback from customers and aims at creating long-term customer relationships

7. Make pairs (	(holistic marketing)! (4)
internal marl	keting
integrated m	arketing
performance	
relationship	marketing
	d non-financial results and impacts of an organization
•	otivating and training employees
	eas related to marketing have to be coordinated collectively
D. close coope	ration with customers, employees and business partners
3. Put the step	s of market segmentation in the correct order. (5)
1.	A. selecting one or more segments to target
2.	B. creating a marketing strategy for each segment
3.	C. defining the potential market
4.	D. profiling customer segments
5.	E. selecting bases for segmentation
A Make nairs (	target marketing)! (5)
undifferentia	
differentiated	
niche marke	
individual ma	
mass custor	
A. focuses on th	ne unique needs of a smaller customer segment
3. selecting sev	veral customer segments and targeting them with different market
offerings	
C. it takes all th	e unique needs of a customer into consideration
D. for example	e, assembling a bike based on individual needs from a large
	dard components
E. does not tak	e the differences between customers into consideration
10. Put the ste	ps of marketing management into the correct order. (4)
1.	A. planning
2.	B. implementation

\_\_\_\_ 3. C. analysis 4. D. control

Kev:

1. E, D, B, A, C

2. D, A, B, C

3. B, A, D, E, F, G, C

4. A, D, C, B

5. G, B, E, A, D, C, F

6. B, C, D, A, E

7. B, C, A, D

8. C, E, A, B, D

9. E, B, A, C, D

10. C, A, B, D

# 15.3 FINAL EXAM

- □ Note: 20 questions; 5 marks each; 100 total; pass from 50; The answers can be found in the text.
  - 1. What is marketing, and why is it important for organizations?
  - 2. What are the types of market offerings?
  - 3. What are the types of customer markets?
  - 4. What are the elements of the marketing mix?
  - 5. What are the main questions marketing managers have to answer concerning the product?
  - 6. How is the 4Cs model different from the 4Ps?
  - 7. What do we mean by STP in marketing?
  - 8. What are the main tasks of marketing managers?
  - 9. What is marketing ROI? Why is it important for companies to calculate MROI?
  - 10. What methods do you know for collecting information about the marketing environment of organizations? What is a good sample like in marketing research?
  - 11. What is the difference between selective attention, selective distortion and selective retention? How can marketing experts overcome them?

- 12. How would you interpret cognitive dissonance in consumer behaviour? How can companies decrease the feeling of cognitive dissonance?
- 13. Why can multi-base segmentation be useful?
- 14. What is a good market segment like?
- 15. What do the HIPI principles refer to?
- 16. What is the difference between the marketing mix of products and services?
- 17. What are the internal factors influencing price?
- 18. Why did vertical marketing systems (VMS) evolved?
- 19. Which are the steps of efficient communication development?
- 20. Due to globalization what questions are needed to be answered by most of the companies?