NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: MKT 823

COURSE TITLE: FUNDAMENTALS OF MARKETING

MKT 823: FUNDAMENTALS OF MARKETING

NATIONAL OPEN UNIVERSITY OF NIGERIA

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First Printed 2006
ISBN: 978-058-780-2

Printed by:
FEODEK CREATIONS LTD, LAGOS
for
National Open University of Nigeria

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UNIT 1: INTRODUCTION TO MARKETING

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1.0 INTRODUCTION

This first unit of Fundamentals of Marketing introduces you to the study of marketing, deals with identifying and meeting human and social needs. In fact, marketing people are involved in at least 10 types of entities; goods, services, experiences, events, persons, places, properties, organisations, information and ideas. One interesting thing about marketing is the several ways it has been defined by different authors. However, you do not need an exact definition. What you actually need is a sound understanding of what marketing means.

2.0 OBJECTIVES

After studying this unit, you should be able to:

(i) define the term marketing
(ii) Outline the concepts of needs, wants, and demands, value, satisfaction and quality; exchange, transactions and relationships, markets and marketers.
(iii) explain the exchange process and its importance in the marketing.

3.1 INTRODUCTION TO MARKETING

The economic system of any given society is made up of three basic elements. These are production, marketing and consumption. If the given society is a rudimentary or primitive and stagnant one, production and consumption often play prominent roles. Marketing, on

the other hand, remains inactive in such a primitive society since production is majorly at subsistence level. In this early stage of the society's economic development when production is still the problem, the marketing problem focuses chiefly on the physical distribution of goods. Consumers as such, do not constitute much of a problem.
However, as the society advances to successively higher stages of economic development, production capacity catches up with and, even gets to be larger than market demand. The basic business (and marketing) problem is then one of activating consumers as individuals and as members of groups into buyers. Increasing attention is thus paid to the power of the consumer. Hence, as an economy of scarcity evolves into one of plenty, business shifts its emphasis from production problems to marketing problems. In the process, marketing receives recognition as the mechanism responsible both for initiating and maintaining the flow of income into the business. It should be noted that this flow of business income is also the result of the outward flow of goods and services from producers to consumers, which marketing again, initiates and maintains.
Furthermore, in an economy of plenty, most people have to satisfy their material wants through outside sources. Whenever these wants are being satisfied, the people discover that they must take part in various activities related to obtaining needed good and services from outside sources of supply:
In the first place, they shop for the goods and services they need. Secondly, they read, listen to advertisements on billboards, handbills, newspapers, magazines, radio and television sets. Some even look around stores and markets, thereby performing what is generally known as window-shopping. This is done in order to find out what is available, and in which qualities at what process. Thirdly they continually decide among shops, products, brands and models.
Apart from actively or passively participating in the processes of satisfying their wants, consumers are also the targets of many activities performed by different groups of business people. One of such groups are advertisers, who devote their time and efforts to getting information across to them. Another group conducts studies on them on the likely marketability of some existing or new products. Yet another set of business people gets the goods and services to them, and finally "selling" them. The result of these consumer performed and a business-performed activity is a flow of goods and services from producers to consumers.

3.2 DEFINITION AND MEANING OF MARKETING

The term 'marketing' has been defined in many ways by different authorities. It is useful for us to pause for a while and consult some of these definitions:
(i)The management function that organizes and directs all business activities involved in assessing and converting consumer purchasing power into effective demand for a specific product or service, and in moving it to the final consumer or user so as to achieve the profit target or other objectives set up by the company (British Institute of Marketing).

(ii) Marketing consists of the performance of business activities that direct the flow of goods and services from producer to consumer or user. (American Marketing Association).

(iii)Marketing is the business process by which products are matched with markets and through which transfer of ownership are effected (Cundiff and Still, 1964).

(ii) Marketing is a total system of business activities designed to plan, price, promote, and distribute want-satisfying goods and services to present and potential customers

(Stanton, 1964).

(iii) Marketing is human activity directed at satisfying needs and wants through exchange process, while also aspiring to achieve the market's objectives (Olufokunbi, 1993).

(iv) Marketing is social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with other. (Kotler, 1984).

(v) Marketing is the function that assesses consumer needs and then satisfies them by creating an effective demand for, and providing, the goods and services at a profit (Johnson, 1982).

(vi) Marketing is the business function that identifies customers needs and wants, determines which target markets the organisation can serve best, and designs appropriate products, services, and programmes to serve, these markets (Kotler and Armstrong, 1996).

It is very clear from these definitions that the term 'marketing' is open to varying definitions as each authority thinks fit, hence no particular one has universal acceptance. However, the common theme is that marketing is more than selling; it is the whole process that occurs between the production of any surplus goods or services and their consumption or use, and it is consumer-oriented. In actual fact, the most important need of the student is not an exact definition, but to acquire sound understanding of what marketing means.

Perhaps as a way of getting a better understanding of the term, we may reexamine the definition given by Stanton (1964):

'Marketing is a total system of business activities designed to plan, price, promote and distribute want-satisfying goods and services to present and potential customers".

This definition given by Stanton has some significant implications. Firstly, it connotes that the entire system of business action should be market - or customer-oriented. That is, customers' wants must be recognised and satisfied effectively. Secondly, it suggests that marketing is a dynamic business process - a total, integrated process-rather than a fragmented assortment of institutions and functions. Thus marketing is not any one activity, nor is exactly the sum of several; rather it is the result of the interaction of many activities.

Thirdly, the marketing programme starts with a product idea and does not end until the customer's wants are completely satisfied, which may be some time after the sale is made. Fourthly, the definition implies that to be successful, marketing must maximise profitable sales over the long run. Thus, customers must be satisfied in order for a company to get the repeat purchase, which ordinarily is so vital to success.

What do we gain from the above analysis? Evidently, it should be clear to us that marketing is much more than just an isolated business function. As Kotler and Armstrong put it, "it is a philosophy that guides the whole organisation... its goal is to create customer satisfaction profitably by building value-laden relationships with customers". We can also reason that the marketing department cannot accomplish this goal by itself. Consequently, it necessarily needs to work closely with other departments in the company, as well as forge some working relationship with other organisations throughout its entire value-delivery system to provide superior values to customers.

From the systems view therefore, marketing involves the whole company, since everyone in the organisation should be seen to be involved in selling and satisfying customers.

Everyone should also be seen to be making the highest profit for the enterprise, and using the resources of the company as efficiently as possible. It is thus important to stress that no section of the company should arrogate this marketing responsibility to itself. This is because the concept of marketing is a corporate affair, and the philosophy behind it must be understood by management at all levels. To this end therefore, marketing may be said to involve finance, production, research, development, merchandising, and advertising, promotion, distribution and selling procedures.

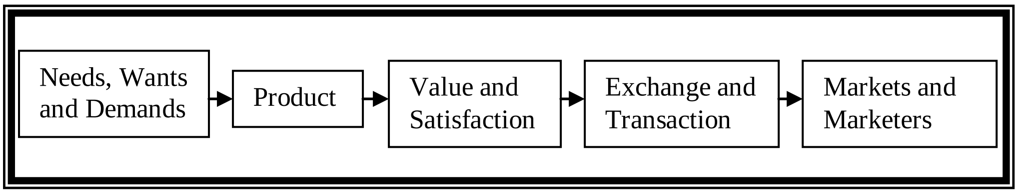
3.3 THE BUILDING BLOCKS OF MARKETING

From our analysis of the definitions in section 3.2, we may view marketing generally as resting on six inter-connected platforms. These are: needs, wants, and demands; products; value and satisfaction: exchange, transactions and relationships; market; marketing and marketers. These inter-connected platforms are illustrated in Figure 1. We shall attempt to run through each of these platforms.

3.3.1 NEEDS, WANTS, AND DEMANDS

Lets us start by differentiating between needs, wants and demands. The purpose of this is to shed light on the frequent accusations by marketing critics that "marketers get people to buy things they don't want". We should get it clear that marketers do not create needs. In actual fact, needs pre-exist marketers. However, marketers, along with other influential's in the society, influence wants. For Stance, they may suggest that a particular type of car such as a Mercedes Benz V-boot would satisfy a person's need for social status. In this case, marketers do not create the need for social status, but try to point out how a particular good would satisfy that need. Thus, marketers try to influence demand by making the product attractive, affordable and easily available.

Figure 1: The Inter-connected Platforms Of Marketing



We now go to the distinction between needs, wants and demands:

A human need is a state of felt deprivation of some basic satisfaction. Out of necessity, people require food, clothing, shelter, safety, belonging, esteem, and a few other things for survival. Note that these needs are not created by the society or by marketers. They naturally exist in the composition of human biology and human condition.

Human wants are desires for specific satisfaction of these deeper needs. For example, a man in the city might need food and wants fried rice and chickens; needs clothing and wants a French suit; needs esteem and buys a Mercedes Benz car. In another environment, these needs are satisfied differently. For instance, in a typical rural environment, a man might satisfy his hunger with pap or eko or alcamu; his clothing needs with simple buba and sokoto; and his esteem with a shell necklace. People's needs many be few, but their wants are many. These wants are continually being shaped and re-shaped by social forces

and institutions such as churches, schools, families, and business corporations.

Demands are wants for specific products that are backed up by an ability and •

willingness to buy them. Hence, wants become demands only when backed up by purchasing power. For example, many people desire Mercedes Benz cars, but only a few, are really able and willing to buy one. It is therefore imperative for companies to measure not only how many people want their product, but more importantly, how many of them would actually be willing and able to buy it.

3.3.2 PRODUCTS

People normally satisfy their needs and wants with products. Products can be defined broadly to cover anything that can be offered to someone to satisfy a need or want. Normally, we conceive of a product as a physical object, such as a car, a radio or is t.v set. However, we often use the expression products and services to distinguish between physical objects and intangible ones.

If one critically looks at physical products, one realizes that their importance lies not so much in owning them as in using them to satisfy our wants. For example, we don't buy a car just to admire it, but because it is a source of service called transportation. Hence, physical products are really vehicles that deliver services to us.

3.3.3 VALUE AND SATISFACTION

Very often, consumers face a wide variety of products and services that might satisfy a given need. How then do they choose among these variety of goods and services: Normally, consumers make buying choices based on their perceptions of the value that various products and services deliver.

Customer value is the difference between the values the customer gains from owning and using a product and the costs of obtaining the product. For example, DHL customers gain a number of benefits. The most obvious are fast and reliable package delivery.

In addition, these customers may also receive some status and image values. For example, using DHL usually makes both the package sender and the receiver feel more important. However, when deciding whether to send a package through DHL, customers often weigh these and other values against the money, effort, and psychic costs of using the service. Furthermore, they will compare the value of using DHL against the value of using other courier services such as EMS, Red star and Fedex, and then select the one that gives them the greatest desired value.

Customer satisfaction is the extent to which a product's perceived performance matches a buyer's expectation. If the products performance falls short of expectations, the buyer is dissatisfied. If performance matches or exceeds expectations, the buyer is satisfied or delighted. Business — minded marketing companies usually go out of their way to keep their customers satisfied. You should note that satisfied customers make repeat purchases, and they tell others about their good experiences with the product. The key is to match customer expectations with company performance. This is why smart companies aim to delight customers by promising only what they can deliver, then delivering more than they promise.

3.34 EXCHANGE AND TRANSACTION AND RELATIONSHIPS The mere fact that people have needs and wants, and can place value on products is necessary, but not sufficient to define marketing. You should realize that marketing exists when people decide to satisfy needs and wants in a certain way that is called exchange. Exchange is one of the four different ways in which a person can obtain a product he or she wants.

The first way is self-production. For instance, a hungry person can relieve hunger through hunting, fishing, or fruit gathering. The person does not have to interact with anyone else.

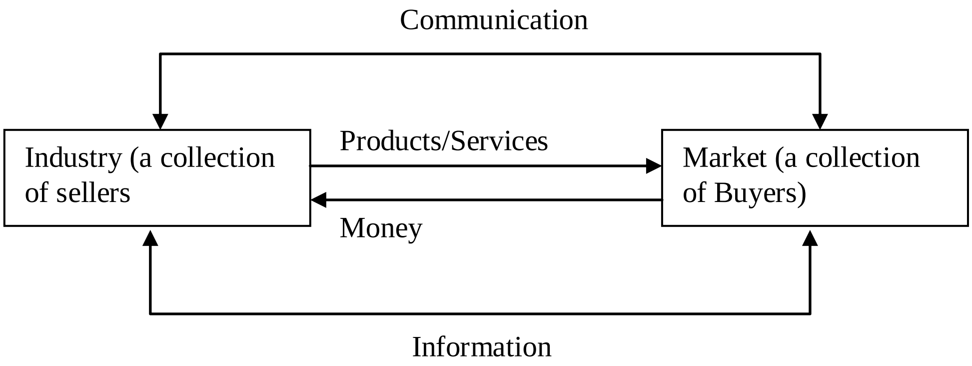
In this particular case therefore, there is no market and no marketing.
The second way is coercion. Here, the hungry person can wrest food from another person forcefully. Hence, no benefit is offered to the other party.
The third way is begging. In this instance, the hungry person can approach someone and beg for food. The supplicant has nothing tangible to offer except gratitude.
The fourth way is exchange. Here, the hungry person can approach someone who has food and offer some resource in exchange, such as money, another good or some service (as in trade by barter).
Marketing evolves from this last approach to acquiring products i.e. exchange. Formally stated, exchange is the act of obtaining a desired product from someone by offering something in return. Thus, exchange is the defining concept underlying marketing. For exchange to take place, Kotler (1984), lists five conditions that must be satisfied:
(i)There are at least two parties;
(ii)Each party has something that might be of value to the other party.
(iii)Each party is capable of communication and delivery
(iv)Each party is free to accept or reject the offer.
(v) Each party believes it is appropriate or desirable to deal with the other party

These five conditions make exchange possible. Whether exchange actually takes place however, depends on the parties coming to an agreement. If they agree, it is often concluded that the act of exchange has left both of them better off, or at least not worse off. This is in the sense that each was free to reject or accept the offer. Hence, exchange creates value just as production creates value. It gives people more consumption possibilities.
Whereas exchange is the core concept of marketing, a transaction consists of a trade of values between two parties. In a transaction, for instance, we should be able to say that one party gives X to another party and gets Yin return.
Transaction marketing is pail of the larger idea of relationship marketing. Aside from creating short-term transactions, marketers need to build long-term relationships with valued customers, distributors, dealers, and suppliers. They need to build strong economic and social ties by promising and consistently delivering high-quality products, good service, and fair prices. Marketing is rapidly shifting from trying to maximise the profit on each individual transaction to maximizing mutually beneficial relationships with consumers and other parties. Here, the operating assumption is: build good relationships and profitable transactions will follow

3.3.5 MARKETS

A market is the set of actual and potential buyers of a product. Generally, these buyers share a particular need or want that can be satisfied through exchange. It is thus clear that the size of a market depends on the number of people who exhibit the need, have the resources to engage in exchange, and are willing to offer these resources in exchange for what they want.
The term market, originally stood for the place where buyers and sellers gathered to exchange their goods, such as a village square. Economists often use the term to refer to a collection of buyers and sellers who transact in a particular product class, as in the yam market, the cattle market or the grain market. However, marketers see the sellers as constituting an industry and the buyers as constituting a market.
Figure 2 shows the relationship between the industry and the market.

Figure 2: A simple marketing system



Source: Adapted from Kotler, P. and G. Armstrong (1996): Principles of Marketing. Seventh Edition, Englewood Cliffs, New Jersey, Prentice Hall, Inc. P. 12.

You can observe from the figure that sellers and buyers are connected by four arrows. The sellers send products, services, and communications to the market: in return, they receive money and information. The inner loop shows an exchange of money for goods: the outer loop shows an exchange of information. This concept of markets finally brings us full circle to the concept of marketing.

3.3.6 MARKETING AND MARKETERS

Marketing means managing markets to bring about exchanges for the purposes of satisfying human needs and wants. If one party is more actively seeking an exchange than the other party, we call the first a marketer, and the second party a prospect. A marketer is someone seeking a resource from someone else and willing to offer something of value in exchange. Usually, the marketer is seeking a response from the other party, either to sell something or buy something. Hence, the marketer can be a seller or buyer. Let us imagine that several persons want to buy a very attractive house that has just been put up for sale. You will notice that each would-be buyer will try to market himself or herself to be the one the seller selects. Thus, these buyers are doing the marketing. It could so happen that both the seller and the buyer are actively seeking an exchange, and in this instance, it is said that both of them are marketers. This situation is then referred to as one of mutual marketing.

Normally, exchange processes involve some work. For example, sellers need to search for buyers, identify their needs, design good products and services, set prices for them, promote these goods and services, as well as store and deliver them. Activities such as product development, research, communication, distribution, pricing and service are core-marketing activities.

Market (a collection of Buyers)

Products/Services

Industry (a collection of sellers)

Money

Information

3.4 MARKETING FUNCTIONS

Marketing is made up of a number of activities known as marketing functions. Ordinarily, identifying these functions might look simple since it would appear necessary only to itemise the various activities required to move goods and services from producers to consumers. The difficulty of determining exactly where marketing begins and ends however, complicates the task of identifying and classifying marketing functions. Though one may oversimplify issues by assuming marketing activities are only concerned with the flow of goods and services, yet it is obvious that, to achieve maximum efficiency in marketing, there must also be a flow of information in the other direction i.e. from the market to the producer. This information gathering activity may actually take place before the product is planned or produced. It is therefore reasonable to think of the marketing process as beginning and ending with the consumer, with information from the consumer to the producer and, goods flowing back to the consumer from the producer.

Marketing is involved in all business functions. And, as already viewed from the systems perspectives, there are no clear-cut lines separating it from production, personnel, and many other business functions. It is also not restricted within a single business enterprise. Rather, it overlaps and is spread among producers, other businesses engaged in marketing known as marketing institutions, and consumers. In the same vein, the marketing of almost every commodity or service is subject to varying application of different marketing, and non-marketing functions and is carried on by diverse groups of institutions.

The activities most easily identified as marketing functions are those concerned with bringing goods into contact with markets. Selling is one of these. However, buying, the complementary side of selling is not so easy to identify as a marketing function. The identification depends on who is buying. For example, a retail store is primarily involved in marketing, as opposed to producing; hence most of its activities are clearly concerned with marketing. Buying merchandise for resale is one of the retailer's most important tasks. He must buy those items the consumer needs and wants, in order to achieve the aim of selling goods to the consumer.

In the case of a manufacturers firm, buying is so clearly seen as a marketing function. In some instances, the manufacturing buying decision is influenced by the effect his purchase has on the marketability of his product. Yet in other instances, it is influenced by the effect on product cost. For example, the selection and purchase of containers/packaging materials for beverages and food drinks mainly affects the marketability of the finished product, whereas the selection and purchase of the various ingredients for the formulation of the food drink is majorly a production problem. In most cases however, the purchasing agent is influenced by both marketing and production needs. In this regard, most manufactures view buying as a marketing function whose performance is frequently conditioned by production considerations.

Most commonly, activities not directly concerned with bringing goods into contact with markets are more difficult to identify as marketing function. This is the reason why manufacturers' buying activities are often considered as a productive responsibility.

Marketing is also concerned with product planning and design since a product must suit the needs and wants of the consumer. Therefore, the manufacturer must discover these needs and wants in an early stage of product development work.

Marketing functions are often performed by the consumer himself For example, he shops for the goods and services he needs. He reads and listens to advertisement (look around stores, and talks with sales peoples and do window shopping) to fmd out what is available in which quantities and at what prices. In addition, he is continually deciding among stores, products, brands and models. Furthermore, the consumer also performs storage functions by storing goods in his room, store, fridge, freezer etc.

3.5 A CLASSIFICATION OF MARKETING FUNCTION

It is of utmost importance to attempt a classification of marketing functions since this would make it easier to analyse specific marketing situations. The identification of separate activities common to large number of businesses engaged in marketing makes it possible to compare and analyse marketing policies and decisions in different organisations. For instance, a marketing manager might not know where to make corrections if he were merely informed that his firm is inferior to that of a competitor. If he however learns that his transportation costs are higher than the average for the industry, or that his advertising expenditures are excessive in terms of results, he knows where to particularly direct his efforts toward improvement.

For obvious reason, no general classification of marketing functions can be used to analyse the marketing situations of all firms. Such a system must first be modified to fit the specific marketing circumstances of any firm. With this in our mind, we may thus classify marketing activities into three categories containing nine functions in all:

A. Merchandising Function.

1.Product planning and development
2.Standardizing and grading
3.Buying and assembling
4.Selling

B. Physical Distribution Functions

5. Storage
6.Transportation

C. Auxiliary Function

7.Marketing financing

8.Risk bearing

9.Market information

As can be seen from this classification, the merchandising category starts with an analysis of market needs and development or procurement of products or services to fill these needs, and ends with the activities necessary to create a demand for these products and services. The physical distribution category is concerned with the activities necessary to make these products and services available at the time and place where the consumer needs them. The last category includes the supporting activities necessary to the effective performance of the merchandising and physical distribution functions.

4.0 CONCLUSION

You have learned in this unit that marketing occurs when through a process of exchange. When values are actually traded between two parties, a transaction occurs. If a series of transactions occurs between the same parties, a longterm relationship develops.

5.0 SUMMARY

Although many factors may contribute to business success, today's successful companies share a strong customer focus and a heavy commitment to marketing. Marketing is a total system of business activities designed to plan, price, promote and distribute want-satisfying products to target markets to achieve organisational objectives.

Self — Assessed Questions

1.Explain the concept of an exchange, including the conditions that must exist for an exchange to occur, and give an example of an exchange that does not involve money.

2.Attempt a classification of marketing functions.

6.0 TUTOR-MARKED ASSIGNMENT

Question:

Communication between buyers and sellers in a market is a two way process. Explain.

7.0 FURTHER READING

Bovee, C.L. and J.V. Thill (1992): Marketing New York,: McGraw — Hill, Inc. Stanton, W.J. M.J. Etzal and B.J. Wallcen (1994): Fundamentals of marketing. V' ed. New York.; McGraw — Hill, Inc.

UNIT 2: MARKETING MANAGEMENT AND DEMAND MANAGEMENT

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1.0 INTRODUCTION:

This unit introduces you to marketing management, which is the process by which marketers achieve their organisational objectives. It will also expose you to the various demand situations that marketing management has to cope with. Finally, it examines the five different philosophies guiding companies' marketing efforts.

2.0 OBJECTIVES

After studying this unit, you should be able to :

(i) define and explain marketing management
(ii) outline the eight different common states of demand and the corresponding tasks facing marketing managers
(iii) describe the five philosophies guiding marketing efforts.
(iv) Compare and contrast the selling and marketing concepts.

3.1 MARKETING AND DEMAND MANAGEMENT Marketing management can be defined as the analysis, planning, implementation, and control of programmes designed to create, build, and maintain beneficial exchanges with target buyers for the purpose of achieving organisational objectives.

The common impression people often have of the marketing manager is to stimulate demand for the company's products. This is however, a small bit of the range of marketing tasks carried out by marketing managers. The actual situation is that marketing management has the task of influencing the level, timing, and composition of demand in a way that will help the organisation achieve its objectives. That is, marketing management

is demand management.
It is usual for an organisation to form an idea of a desired level of transactions with a target market. One may then find that at times, the actual demand level may be below, equal to, or above the desired level. This in effect means, there may be no demand, weak demand, adequate demand, and excessive demand. Marketing management therefore has to cope with these different demand situations.
There are actually eight different common states of demand and the corresponding tasks facing marketing managers. These are discussed below under section 3.4.1. Marketing managers usually cope with these tasks by carrying out marketing research, marketing planning, marketing implementation, and marketing control. Within marketing planning, for example, marketers must make decisions on target markets, market positioning, product development, pricing, channel of distribution, physical distribution, communication, and promotion.

3.2 DIFFERENT DEMAND SITUATIONS AND THE CORRESPONDING MARKETING TASKS

The eight different common states of demand together with the corresponding tasks facing marketing managers include the following:

3.2.1 NEGATIVE DEMAND

A market is said to be in a state of negative demand if a major part of the market dislikes the product, and may actually offer to pay a price in order to avoid it. For example, people have negative demand for surgical operations for hernia, catarract, etc. In addition, employers generally feel a negative demand for ex-convicts and alcoholic employees. The marketing task under this negative demand situation therefore, is to analyse why the market dislikes the product or service, and then determine whether a marketing programme through product re-design, lower prices, and more positive promotion can change the market's beliefs and attitudes.

3.2.2 NO DEMAND

Under the situation of no demand, the target consumers may not be interested in or indifferent to the product. For examples, farmers may not be interested in changing from their traditional farming methods to improved ones. Similarly, college students are usually not interested in mathematics.
The marketing task here, is thus to find ways to connect the benefits of the product or service with the persons natural needs and interest.

3.2.3 LATENT OR HIDDEN OR CONCEALED DEMAND

A latent demand is one that is not visible or undeveloped, but definitely capable of being developed. For instance, a substantial number of consumers may hold a strong desire for something that cannot be satisfied by an existing product or service. For instance, there is a strong latent demand for safer neighbouhoods and more-fuel-efficient cars. The marketing task therefore, is to measure the size of the potential market and develop effective goods and services that would satisfy the demand.

3.2.4 FALLING DEMAND

Every organisation, sooner or later, faces falling demand for one or more of it's products. For example, some churches have witnessed their memberships decline. Similarly, certain hospitals and colleges have also experienced dwindling patronages. The task of marketing management here is to analyse the causes of market decline and to determine whether demand can be re-stimulated through finding new target markets, or changing the product's features, or developing more effective communication. The efforts are to reverse the declining demand through creative re-marketing of the product.

3.2.5 IRREGULAR DEMAND

An irregular demand varies on a seasonal, daily or even hourly basis, thereby causing the twin problems of idle capacity or overworked capacity. In mess transit systems, for example, much of the fleet of vehicles is idle during the peak hours. The marketing task is to find ways to alter the time pattern of demand through flexible pricing, promotion, and other incentives.

3.2.6 FULL DEMAND

An organisation is said to face full demand when it is pleased with its amount of business. That is, its actual demand level tallies with the desired level of transactions with its target market. The marketing task is to maintain the current level of demand in the face of changing consumer preferences and increasing competition. The organisation needs to carefully keep up its quality and continually measure consumer satisfaction to make sure it is still doing a good job.

3.2.7 OVERALL DEMAND

It happens at times, that an organisation faces a demand level that is higher than they can or want to handle. The major concern here is that facilities may be overstretched, and may result in dangerous consequences. For example, the National Stadium often witnesses huge crowd of football spectators during international matches between the National team and foreign teams. The marketing task, called de-marketing, requires finding ways to reduce the demand temporally or permanently. General de-marketing seeks to discourage overall demand and consists of such steps as raising prices and reducing promotion and service. Selective de-marketing consists of trying to reduce the demand coming from those parts of the market that are less profitable or less in need of the service. Please note that de - marketing does not aim to destroy demand but only reduce its level.

3.2.8 UNWHOLESOME DEMAND

The demand for something is said to be unwholesome if that particular thing is perceived to be unsound, tainted in health, taste or morals. Hence, unwholesome products usually attract organised efforts to discourage their consumption. For example, fierce campaigns are being carried against cigarettes, alcohol, hard drugs and commercial sex hawking. The marketing task is to set people who engage in the consumption or practice of the particular vice to give it up, using such tools as fear communication, price hikes, and reduced availability.

3.3 MARKETING MANAGEMENT PHILOSOPHIES

In section 3.1, you were made to understand that marketing management involves carrying out tasks to achieve desired exchanges with target market. The question then is, what philosophy do we use to guide these marketing effects?. Again, what weight should we give to the interests of the organisation, customers, and the society in this process of trying to achieve the desired exchanges with the market?. These interests often clash on a number of occasions.

Generally, there are five alternative concepts or philosophies under which organisations can conduct their marketing activities. These are: the production, product, selling, marketing, and societal marketing concepts.

3.3.1 THE PRODUCTION CONCEPT

This is one of the oldest philosophies guiding marketers. It is of the opinion that consumers will always favour those products that are widely available and highly affordable. Thus, business organisations that reason along this line usually concentrate their efforts on achieving high production efficiency and wide distribution coverage.

It has been observed that this concept is appropriate under two situations. The first is where the demand for a product exceeds supply. This makes customers to be more interested in considering the core product rather than its five points. The major task confronting the firm here is to look for ways of increasing production.

The second situation is where the cost of production is high and has to be brought down through increased productivity to expand the market.

Some companies have been making use of this philosophy of increased production and lower costs in order to bring down prices, so as to capture more shares of the market. However, the adoptions of this philosophy often lead to the risk of focusing too narrowly on their own operations. Hence, such organisations are often accused of impersonality and consumer insentivity. For instance, the low-priced goods being produced may not be attractive enough to a large section of the market.

3.3.2 THE PRODUCT CONCEPT

The underlying philosophy here is that consumers will favour those products that offer the best in terms of quality, performance, and innovative features. Management in these product-oriented organisations usually focus their energy on making good products and improving upon them over time. In this way, it may be said that an undue concentration is placed on product rather than the needs of the consumer and his ability to make an effective demand for such high quality products.

3.3.3 THE SELLING CONCEPT (OR SALES CONCEPT) The selling concept holds that customers, if left alone, will ordinarily not buy enough of the organisation's products. The organisation must therefore undertake an aggressive selling and promotion efforts. It is assumed that consumers typically show buying resistance and have to be coaxed into buying more. This concept is undertaken most aggressively with unsought goods. Most firms also practice the selling concept when they have over-capacity. Their aim is to sell what they make rather than make what the market wants. Hence, marketing based on hard selling carries high risks. For instance, it focuses on creating sales transactions instead of building long-term, profitable reiationsmos witn customers. Once me customers are dissatisfied, they may not buy from such organisations again.

3.3.4 THE MARKETING CONCEPT

The marketing concept holds that the key to achieving organisational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors.

The concept starts with the company's target customers and their needs and wants The company then integrates and coordinates all the activities that will affect customer satisfaction. The achievement of the company's profit goal is made through creating and maintaining customer satisfaction.

The marketing concept expresses the company's commitment to consumer sovereignty. chat is, the determination of what is to be produced should not be in the hands of the companies or in the hands of government but in the hands of consumers themselves.

3.3.5 THE SOCIETAL MARKETING CONCEPT

Recent developments all over the world, especially with respect to environmental degradation, resource shortages, explosive population growth, worid-wide inflation, and neglected social services have questioned the aimropriateitess of the organisational goals of the marketing concept. The feeling Dere •s tnat the concept sidetracks the potential conflicts between censumers. asatner interests, and long-run societal welfare

Because of such matters, a call has been made for a new concept to revise or rep taco Inc marKeting concept. This has led to the emergence of the societal matte:ring tioncept. The concept folds that the organisation's task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the customers and society s well-being. The societal marketing concept calls upon marketers to balance three considerations in setting their marketing policies, viz coninany profit, consumer want-satisfaction, and society interests.

4.0 CONCLUSION

Marketing management is the process by which marketers achieve their organisational objectives. The core or this process is managing the level, timing and composition of demand and by retaining current customers and attracting new ones. This is done by developing marketing programmes for the target market through a process of analysis. planning, implementation, and control. When properly done, this will result in long-term profitable customer eiations hips.

5.0 SUMMARY

Marketing management can be guided by five different philosophies. The production concept is based on the idea that low cost is of the highest importance, and the task of management is to concentrate on production volume and efficiency to bring down costs and prices. The. product concept holds that consumers favour quality products, and that if products are good enough little promotional efforts will be required. The selling concept assumes that heavy selling and promotional efforts are needed to stimulate adequate demand for the product. The marketing concept holds that a company gains competitive advantage by understanding the needs and wants of a clearly defined target market, and using this understanding to do a superior job of delivering satisfaction to these customers. The societal marketing concept expands on marketing concept by stressing that a company should seek to generate customer goodwill, but must also enhance long-term societal well-being.

Seif— Assessed Question

Is **mere** a contradiction between marketing something that has negative demand and practicing the marketing concept?

6.0 TUTOR - MARKED ASSIGNMENT

Question:

Contrast the selling and the marketing cone

7.0 FURTHER READING

Bovee, C.L. and J.V. Thill (1992): Marketing New York,: McGraw — Hill, Inc.

UNIT 3: FORCES OPERATING IN THE MARKETING SYSTEM

Table Of Content

1.0 INTRODUCTION

From previous discussions in unit 1, we have defined marketing as a total system of business activities designed to plan, price, promote and distribute want - satisfying goods and services to present and potential customers. A system itself can be viewed as a "regularly interacting or interdependent group of items forming a unified whole". This unit focuses on the forces operating in the marketing system.

2.0 OBJECTIVES

After studying this unit, you should be able to:

(i) Differentiate between the internal and external forces operating in the marketing system.
(ii) Discuss the importance of environmental scanning and environmental analysis
(iii)Describe a company's micro and macro environments.
(iv)Explain the meaning of "marketing mix".

3.1 ANALYSIS OF THE MARKETING ENVIRONMENT Every move a marketer makes is affected by, and has some effect on his marketing environment. This could happen on a small scale, such as between a manufacturer and a retailer. It could also happen on a larger scale involving entire industries and governments. Very often, changes in the elements within the environment create new opportunities and eliminate old ones. These changes can be exciting, frustrating, confusing, irritating and invigorating. They can establish entire industries as well as drive some other companies into bankruptcy.

In order to better understand the marketing environment, 8 companies that want to be successful must continually evaluate all environmental factors, by first gathering and then analyzing market information. The essence is to understand how the various factors affect products, pricing, promotion and distribution, both currently and into the future. Monitoring environmental changes helps discover emerging opportunities such as growth markets and unfilled market needs. Armed with such information, marketers can develop strategies suited to the changing environment.

On the other hand, firms who fail to keep up with environmental changes risk missing interactive opportunities. In actual fact, they may lose their place in the market as competitors identify the same opportunities and introduce products that take advantage of them. In the extreme situation, the unaware firm is forced out of business completely.

3.2 ENVIRONMENTAL SCANNING AND ENVIRONMENTAL ANALYSIS

The process of gathering information on various aspects of the marketing environment is called environmental scanning. This information can be collected from salespeople, dealers, distributors, suppliers, government agencies, magazines, publications, newspapers, books etc.

Environmental analysis is the interpretation of all this information. Marketers evaluate the data collected in environmental scanning with an eye to their own business, considering how the various trends could affect them both now and in the future. By so doing, they can create marketing strategies adapted to the dynamic marketing environment.

3.3 APPROACHES TO THE MARKETING ENVIRONMENT

One can respond to his marketing environment in two ways. The first way is through reactive marketing, in which the environmental forces are viewed as being uncontrollable, and one simply try to adjust to them. The second method is via proactive marketing, whereby steps are adequately taken to change the marketing environment and this make it more conducive to one's activities.

Let us see how the two approaches are different. For instance, when confronted with new legislation banning some of their products, reactive marketers might abandon. Those offerings and concentrate on developing new products in unregulated areas.

A proactive marketer facing the same external threat would probably join an industry coalition to lobby legislators and raise public support for the industry's point of view. However, you should note that neither the reactive nor the proactive approach is inherently better. Whatever approach is chosen depends on organisational goals, ethical and legal constraints, and other circumstances. Note also, that this does mean that a marketer always has a choice. For instance, one might be affected by a sudden change in the marketing environment and just left with no alterative but to react. However hard one might study the environment, the behaviour of nature, governments, competitors, or customers may not be accurately predicted. But every little bit helps. Therefore, by understanding the environment and playing active role in one's indushy, there is a reduced chance of being at the mercy of outside forces.

3.4 THE MARKETING FORCES

A company's marketing system often operates within the framework of forces, which constitutes the system's environment. Such forces are either <u>external</u> or <u>internal</u> to the firm.

3.4.1 EXTERNAL FORCES: THE MARKETING ENVIRONMENT The external variables (also known as the marketing environment) generally are not controllable by the organisation. Formally stated, a company's marketing environment consists of the actors and forces external to the marketing management function of the firm that impinge on the marketing manager is ability to develop and maintain successful transactions with its target customers.

These "non-controllable" factors are constantly spinning out new marketing opportunities. They also set the limits within which firms may apply the "controllable" factors in their efforts to capitalise on marketing opportunities. In turn, the impact of differing applications of controllable factors makes for further changes in the non-controllable factors. The result is that every aspect of marketing is characterised by endless changes.

Although the individual marketing manager can exert little influence over the non-controllable factors, he must know a good deal about them: Apart from being familiar with their general nature, he must also be consistently alert for changes in them which might affect the application of marketing factors he can control. It should be observed that changes in the non-controllable factors, and in the way they interact mean not only changes in markets but changes in his marketing problems. Changes of this kind may even result in significant alterations in the operations of wholesale and retail marketing institutions. The marketing environment (or the non-controllable factors) may be divided into two groups: MICRO-ENVIRONMENT (so called because they affect a particular firm) and MACRO-ENVIRONMENT (so called because they affect all firms).

3.4.1.1 MICRO-ENVIRONMENT.

The micro-environment consists of the actors in the company's immediate environment that affects its ability to serve its market. This includes the company, suppliers, marketing intermediaries, customers, competitors, and publics. While generally classified as non-controllable forces, these elements in the micro-environments are probably susceptible to a greater degree of influence than the macro group is. For example, a marketing organisation may be able to exert some pressure on its suppliers or middlemen. It should also be expected that a firm's advertising efforts will have some influence on its present and potential competitors.

Company: The important actors here include top management (e.g. Chairmen/ Managing Directors, Executive Directors, Board of Directors, etc), which sets the company's mission objectives, broad strategies, and policies. As a rule, marketing managers must make their decisioa within the limited context set by these higher levels of management. We should also note that their marketing proposals must be approved by top management before they can be implemented.

In addition, marketing managers need to work closely with other functional departments within the organisation. These include finance, R&D, purchasing, maiarfacturing and accounting. The success or failure of the marketing manager depends on how well he interacts with these various internal actors.

Suppliers: These are business firms and individuals who provide resources needed by the company and its competitors to produce the particular goods and services. Since development in this environment can have effects on the company's marketing operations, it is essential for the marketing manager to monitor

(i)price trends

(ii)supply availability - supply shortages, strike actions by labour unions, etc.

Marketing Intermediaries: These are firms that aid the company in promoting, selling and distributing its goods to the final buyers. They include the following:

(i) Middlemen e.g. agent middlemen & merchant middlemen
(ii) Physical distribution firms e.g warehousing firms, transportation firms
(iii) Marketing service agencies e.g marketing research firms, advertising agencies,

media firms, marketing consulting firms.

(iv) Financial intermediaries e.g banks, credit companies, insurance companies.

Customers: A company's target market can be one (or more) of the following types of customer markets:

(i) **Consumer markets:** individuals and households who buy goods and services for personal consumption

(ii) **Industrial markets:** organisations that buy goods and services needed for producing other products and services for the purpose of making profits and/or achieving other objectives

(iii) **Reseller markets:** organistions that buy goods and services in order to resell them at a profit

(iv) **Government markets:** Government agencies that buy goods and services in order to produce public services, or transfer these goods and services to others who need them.

(v) **International markets:** Buyers found abroad, including foreign consumers, producers, resellers, and government.

Competitors: Competition is often a strong environmental force to be reckoned with in virtually all socio-economic systems. It should therefore be expected that a company's marketing system will be surrounded and influenced/ attacked by lots of competitors. It is therefore imperative that these competitors be identified, monitored, and outmaneuvered in order to gain and maintain customer loyalty. Apart from the presence of other companies, the competitive environment also consists of more basic things.

Publics: A public is any group that has an actual or potential interest or impact on an organisation's ability to achieve its objectives. In-as-much as publics can substantially influence an organisation's fortunes, the best thing to do is to spend some time monitoring these publics, anticipating their moves, and dealing with them in constructive ways. There are seven types of such publics:

(i) **Financial publics.** These influence the company's ability to obtain funds. Examples here include banks, finance houses, stock brokerage *firms*, and other stockholders.

(ii) **Media publics.** Media publics are organisations that carry news, features, and editorial opinions. Examples include newspapers, magazines, and radio and television stations.

(iii) **Government publics.** These have to do with the regulatory activities of government agencies/departments. Examples, NAFDAC, FEPA, National/State Assemblies, NNPC, PPMC, etc.

(iv) **Citizen-action publics/Consumerism.** These are an organised movement of citizens and government to enhance the rights and powers of buyers in relation to sellers. Consumerists' groups seek, through company persuasion and legislation, to increase the amount of consumer information, education, and protection.

(v) **Local publics.** These are neighbourhood residents and community organistions.

(vi) **General public.** Though the general public does not act in an organised way toward the company, the public's image of the company affects its patronage. Hence a company needs to be concerned with the general public's attitude towards its products and activities.

(vii) **Internal publics.** These include blue-collar workers, white-collar workers, managers, and the board of directors.

3.4.1.2 MACRO-ENVIRONMENT

The following six inter-related macro-environmental forces impinge considerably on any company's marketing system. Like their micro-environment counterparts, they are also not controllable by management.

They are:

(i)Demography
(ii)Economic conditions
(iii)Physical environment
(iv)Technological
(v)Political/legal forces
(vi)Socio/cultural forces

Demography. Demography is the statistical study of human population. Marketers are keenly interested in the size of the population of a place; its geographical distribution; density; mobility trends; age distribution; birth/ marriage, and death rates; and racial, ethnic, and religious structures.

Demography is especially important to marketing executives, because people (together with money to spend and the willingness to spend it) are what constitute markets. The above listed distribution characteristics can be properly monitored to bring out useful demographic trends and their implications for marketing.

Economic conditions. The condition of the economy is a significant force which affects the marketing system. The marketing manager must therefore consider all potential fluctuations in the level of economic activity in the country or countries making up his target markets. Some of the important economic variables to be monitored and analysed include:

(i)disposable personal income
(ii)discretionary income
(iii)income distribution
(iv)average income
(v)geographical income variation
(vi)level of inflation
(vii)interest rates
(viii)money supply
(ix)consumer savings & debt patterns
(x)availability of credit
(xi)consumer expenditure patterns

Physical environment. The concern here is on marketing's impact on the environment and the costs of serving these needs and wants. For instance, environmentalists are not against marketing and consumption; they simply want them to operate on more ecological principles. They are of the opinion that the goal of the marketing system should be to maximise life quality. And, life quality means not only the quantity and quality of consumer goods and services, but also the quality of the environment. Marketing managers therefore need to pay attention to the physical environment in terms of obtaining needed resources and also of avoiding damage to the physical environment. In this regard, marketers need to be aware of the threats and opportunities associated with four trends in the physical environment:

(i) <u>Impending shortages of certain raw materials especially finite renewable resources</u>

(e.g forests and food) and finite nonrenewable resources (e.g oil, coal and other minerals). The marketing implications of these shortages are two-fold: In the first instance, firms making use of these scarce minerals face substantial costs increases, even if the materials remain available. Secondly, they may not fmd it easy to pass these cost increases on to the consumer. Hence, only firms that engage in research and development and exploration have vast opportunities to develop valuable new sources and materials.

(ii) Increased cost of energy. Crude petroleum remains world's major source of energy for industrial activities. Its price however continues to leap jump. This has created a frantic search for alternative forms of energy: coal, solar, nuclear, wind, etc.

(iii) Increased levels of pollution. The quality of the natural environment has been remarkably impacted upon by the following industrial/economic activities:

(a) dumping of chemical and nuclear wastes into streams, rivers, oceans;
(b) application of heavy doses of chemicals in agriculture, leading to the presence of chemical pollutants in the soil and food supply
(c) littering of the environment with non-biodegradable bottles, plastics, and other packaging materials.

Protests and public outcries about the gradual destruction of the natural environment in the manners cited above can create marketing opportunities for smart companies. For instances, there is the creation of a large market for pollution - control solutions such as scrubbers and recycling centers. It also leads to a search for alternative ways to produce and package goods that do not cause environmental damage.

(iv) Strong government intervention in natural - Resource management Here, various government agencies [such as the Federal Environmental Protection Agency (FEPA) and States' Environ mental Protection Agencies] play active roles inzzenvironmental protection. Companies are made to comply with some environmental regulations.

Technological Environment. Technology has a tremendous impact on people's lives -e.g life-styles, consumption patterns and economic well-being. It has been a major factor underlying the economic growth in the developed countries. However, major technological breakthroughs carry a threefold market impact:

(a)They can start an entirely new industry - e.g computers, airplane

(b)They can radically alter, or virtually destroy, existing industries. For example, television crippled the radio and movie industries, wash-and-wear fabrics hurt commercial laundries and dry cleaners; digital watches are turning the traditional watch business upside down.

(c)They can stimulate new markets and industries in fields not related to the new technology. For instance, new home appliances and frozen foods gave home-makers additional time, thereby allowing them to engage in other gainful activities.

It is therefore necessary for the marketing manager to understand the changing technological environment and how technologies can serve human needs. They • need to work closely with the research and development people to encourage more market - oriented research. More importantly, they must be alert to the negative aspects of any innovation that might harm the users and thus bring about distrust and opposition.

Political and Legal Forces:

To a very large extent, a company's conduct is being influenced by the political-legal processes in our society. This environment is made up of laws, government agencies and pressure groups.

Legislation at the federal, state and local government levels exercise more influence on the marketing activities of a firm than on any other phase of its operations. These legislations have a number of purposes.

(i)To protect companies from each other

(ii)To protect consumers from unfair business practices.

(iii)To protect the larger interests of society against unbridled business behaviour

A serous marketing manager should, out of necessity, have a good working knowledge of the major laws protecting competition, consumers and the larger interests of the society.

We noted earlier that macro-environmental forces are not controllable by management. However, in limited areas in the political - legal area, a large firm or an industry working through its lobbyists and trade association may have some influence in shaping a piece of legislation or a regulation from government agencies.

Socio/Cultural Environment

The economic, political-legal and technological forces just reviewed actually make up the socio-cultural environment. In order words, our people and their socio-cultural customs and beliefs are fundamentally what shape our economy, political-legal system, and technology. For instance, social pressures against air and water pollution have led to legislation and government regulation, which in turn stimulated new technology to reduce pollution.

In addition, cultural patterns, such as life-styles, social values, beliefs and desires are changing much faster than ever before. Examples of these changes include:

- From a thrift and savings ethic to spending freely and buying on credit
- From a work ethic to self-indulgence and having fun
- From sexual chastity to sexual freedom
- From a husband-dominated family to equality in husband-wife roles; or in a broader context, the changing role of women,.
- From emphasis on quantity of goods to quality of life
- From the artificial to the natural (e.g "braless" look)

All these changes pose serious marketing challenges to marketing executives.

3.5 INTERNAL FORCES: CONTROLLABLE 1WARICETING VARIABLES OR THE MARKETING MIX

The second set of forces that make marketing an endlessly changing activity is put in motion by individual enterprises when they make continual adjustments in the controllable marketing factors. These forces are known as the marketing mix.

Though there are a multitude of these controllable variables, Jerome McCarthy has popularised a four-factor classification, now commonly known as the **4Ps: Product, Place, Promotion, and Price.**

Definitionally, marketing mix is the mixture of controllable marketing variables that the firm uses to pursue the sought levels of sales in the target market.

The 4Ps give the marketing manager a framework within which he can operate on a cost-effective manner. His eventual success will be determined by the wisdom of his choices, his ability to modify his mix in the face of uncertainty and change, and his determination to make his strategy work.

Under the first P, which stands for the product, the company **con'ldam** all the problems of

developing the product or service which it plans to offer the target market.
Such problems include:
(i)selecting a product or product lines;
(ii)adding or dropping items in the product line;
(iii)branding;
(iv)packaging; and
(v)Standardising and grading

In a nutshell, the product area is concerned with developing the right product to the target market.

A product (or a service) is not of any use to the consumer if it is not available when and where he wants it. Therefore, the company must consider where, when, how and by whom the goods and services are to be offered for sale. Sometimes, for example, complicated channels of distribution are necessary, while at the times, very simple methods can be used effectively. Wholesaling, retailing, transportation, and storage play a part in the distribution of most goods and services. Hence the second P (for place) is concerned with all problems, functions and institutions involved in getting the right product to the target market.

The third P (for promotion) has to do with the methods of communicating to the target market, the "right product" that will be sold in the "right place" and "price". Here, all the problems of sales promotion, advertising and the development, training, and utilization of a sales force are usually covered. Advertising, sales promotion and personal selling are to be considered as complementary methods of communicating with customers.

While the marketing manager is developing the "right" product, place, and promotion, he must also decide on the "right" price, i.e the one which will make his total marketing mix attractive. Before setting the price, the marketing manager considers the nature of competition in his target market, as well as the existing practices on mark-ups, discounts, and terms of trade. Ili some instances, he must also consider legal restrictions affecting prices. In summary, price is concerned with determining the "right price" to move the "right product" to the "right place" with the "right promotion" for the target market.

By varying each of these controllable marketing variables, a marketing mi can be selected from a great number of possibilities. Though this framework may appear simple, the task of making choices within it is fairly cumbersome. For instance, each of these four controllable marketing variables has man¯, potential variations, thereby making the number of possible marketing mixes very large. Let us assume that there are five (5) variations of each of the variables (i.e 5 products, 5 places, 5 promotions and 5 different prices), there would be 625 possible different marketing mixes!. And, it could be more. Hence, as the number of variations increases the number of possible mixes which must be considered by the marketing manager increases geometrically.

We must stress here that no human mind is quite capable of currently evaluating all the possible marketing mixes. What is practicable a progressive elimination of the least desirable, such that the problem can be reduced to manageable proportions.

Generally, there is only one "best" strategy at any given time. However, since conditions, often change in the market situations, there may be many good ones. Even then, a good strategy will need to be altered as consumer behaviour, competitors' behaviour, and other non controllable variable change.

4.0 CONCLUSION

You have learned in this unit that environmental forces influence an organisational marketing. The marketing environment presents an unending series of opportunities and threats. The major responsibility for identifying changes in the macro environment falls to a company's marketer. Environmental scanning and analysis are particularly important here.

5.0 SUMMARY

Various environmental forces influence an organisation's marketing activities. Some are external to the firm and are largely uncontrollable by the organisation. Other forces are within the firm and are generally controllable by management. A company manages its marketing system within this external and internal environments.

Self — Assessed Question

I. Explain how government regulations can affect a company's marketing plans

6.0 TUTOR — MARKED ASSIGNMENT

Question:

Describe how technology can change both the products that a company sells and the way in which the company markets them.

7.0 FURTHER READING

Bovee, CI. and J.V. Thill (1992): Marketing New York,: McGraw — Hill, Inc. Kotler. P (2000): Marketing Management. The millennium Edition. New Delhi, Pretice —Hall of India.

UNIT 4 MARKET-ORIENTED STRATEGIC PLANNING Table Of Content

1.0 INTRODUCTION

In the first two units of this course, it was made clear to you that companies that want to compete successfully in the market place must show sufficient commitment to creating and retaining satisfied customers. One additional fact you will soon learn in this unit is that successful companies should know how to adapt to a continually changing marketplace. This is achieved by practicing the art of market — oriented strategic planning

2.0 OBJECTIVES

After studying this unit, you should be able to:

(i) Identity the two primary dimensions of strategic marketing planning
(ii) Discuss the levels at which planning takes place in an organization and the types of plans that are made at each level
(iii) Outline the activities that take place in the process of developing strategic objectives

3.1 STRATEGIC MARKETING PLANNING

Companies that adopt the marketing concept realize that marketing efforts are more successful when they are carefully planned. Strategic marketing planning is the process of examining a company's market opportunities, allocating resources to capitalize on those opportunities, and predicting market and financial performance that is likely to occur. From this definition, you should understand that the aim of strategic planning is to shape the company's businesses and products so that they yield target profits and growth.

3.1.1 THE DIMENSIONS OF STRATEGIC PLANNING

The strategic planning process rests on two important concepts. In the first place, the scope of strategic planning is broad. For instance, it considers all the products a company offers and all the markets the company serves. Strategic planning considers both environment factors on the outside and organizational factors on the inside. Like marketing concept, strategic planning also implies functional integration. In this manner, strategic planning incorporates production, research, finance and the organizational elements necessary for success.

In the second place, strategic planning looks beyond immediate circumstances, trying to project market conditions five or ten years into the future. It is therefore important for marketers to be prepared for changes in the marketing environment, whether the changes are political, cultural, technological, or economic. Any organization that is aiming at a shorter span, say only 6 or 12 months down runs the risk of being caught off guard, and hence might not be able to respond to environmental changes before competitors do

Let us look at another side to this long — term perspective: As a strategic marketer, you will not only consider where the world is going to be in 5 or 10 years, you should also weigh the long-term consequences of the decisions you make today. This may actually mean skipping an immediate market opportunity that might box you in later on, or perhaps you will have to forgo short-term profits to invest in long-term technologies.

3.1.2 LEVELS OF PLANNING

Strategic planning does not happen in isolation at the top layer in the
• organization. It is supported by planning and execution throughout the organization. As illustrated by Figure 3.1, there are three levels of marketing planning: Operational planning looks at the shortest time frame and has the narrowest scope; and strategic planning takes the longest and broadest view: while tactical planning falls between the two.

Figure 3.1: Levels of Planning

Long
TIME
FRAME
Short

Narrow Broad
SCOPE

As already explained, tactical planning is of narrower scope and shorter time frame than strategic planning, and it is usually the responsibility of middle management. Although tactical planning looks at the performance of specific products or markets over a shorter period of time than strategic planning, it must actually be tied to strategic planning.

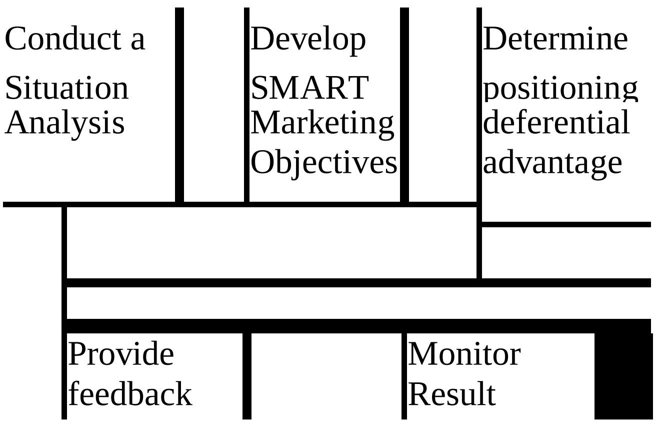
Moving closer to the customer, supervisory managers engage in operational planning, which is narrowest in scope and concerned with matters of the shortest duration of all the formal planning activities of the business. Operational planning focuses on meeting objective such as immediate improvement of the market position of a particular size of product or improvement of the current period's sales of a single product.

Within the business world, the use of the terms "top-down planning" and "bottom-up planning" are used to refer to planning processes that start as the top and the bottom of the organization, respectively. Each of these has its advantages. Top-down plans are usually developed by the people in the organization with the broadest perspective and the most experience. Bottom-up planning, on the other hand, is started by people on the "front line" of the organization. It has the advantage of being close to where action is. For instance, people in sales and customer service positions, who interact most frequently with customers, have the best idea of what customers are thinking and doing. The ideal planning process combines both the top-down and bottom-up approaches, which consequently results in plans that take advantage of an organization's experience, and which also respond to customer needs and expectations.

It is a fact that the marketing group has the primary responsibility for analyzing the environment and understanding customers. However, as we already noted under the marketing concept, everybody in a market-driven firm should be aware of customers and competitors. Hence, for the firm to be successful, all the departments must be coordinated by an overall strategic business plan. In this regard therefore, other departments in the company should also have planning processes similar to the one in marketing. For instance, the fmsnce department needs to engage in broad, long-range planning to make sure the 'company stays financially healthy from year to year.

3.2 THE STRATEGIC MARKETING PLANNING PROCESS As illustrated by Figure 4.2, strategic marketing planning is a five-step process that assesses current performance; establishes specific marketing objectives; determines positioning and differential advantage; selects target markets and measures market demand, and designs strategic marketing mix. With the plans in place, the marketing programmes are implemented, while the results are monitored. If the Plans work well, the feedback provides the good news. However, if the marketing programme does not meet expectations, the feedback mechanism helps marketers adjust the processes. You should realize that strategic marketing planning is a controlling process, not a one-time event. Therefore, continuous monitoring and feedback is the surest way to stay in touch with dynamic market conditions.

Figure 4.2 The Strategic Marketing Planning process



Let us briefly examine what the term "strategy" means before proceeding to explore the various steps in the strategic planning process. Of course, there are various definitions of strategy. For instance, the Advanced Learners' Dictionary gives two of such:

-□1111111□P

Select target markets marketing
measure demand ar

Design a strategic
Shift

Implement Programme

(i) "the art of planning operations in a way, especially of the movements of armies and navies into favourable positions for fighting"

(ii) "skill in managing any affair"

We will however adopt the definition used by aerospace and service conglomerate TRW (as quoted by Bovee and Thill (1992). This definition is simple and quite insightful: <u>your strategy defines where and how you plan to compete.</u> With this definition therefore, having a strategy means that you have analysed your environment, set some goals, and then made decisions about deploying the various resources at your disposal. Apart from the elements of the marketing mix, a business strategy also encompasses product research and development, manufacturing methods, financial investments, and personnel management. You will need to keep these factors in mind as we explore the marketing planning process.

We have already noted that strategic marketing planning is a five-step process as listed below:

(i)Conduct a situation analysis.
(ii)Develop marketing objectives.
(iii)Determine positioning and differential advantage.
(iv)Select target markets and measure market demand.
(v)Design a strategic marketing mix

Let us carefully discuss each as there steps:

3.2.1 SITUATION ANALYSIS

Situation analysis is the first step in a strategic marketing planning. It usually involves analysis where the company's marketing programme has been, how it has been performing and what is likely to face in the years ahead. This step allows management to determine the necessity of revising the old plans or devise new ones to realise the company's objectives.

Situation analysis normally covers external environmental forces and internal marketing resources (e.g. R & D. capabilities, finances, and skills together with the experience levels of personnel) surrounding the marketing programme. In addition, situation analysis considers the groups of consumers served by the company, the strategy adopted to satisfy them, and key measures of marketing performance.

From the foregoing, you would see that as a basis for planning decisions, situation analysis is quite critical. You would also agree that is can be very costly, time-consuming, and at times, frustrating. For example, it is usually difficult to extract timely, accurate information from the huge pile of data accumulated during a situation analysis. Furthermore, some valuable information, such as sales or market-share figures for competition, is often not available.

In continuation of a situation analysis, many marketers often combine several stages of examination in a technique called SWOT analysis, from an acronym of strengths, weaknesses, opportunities, and threats. Once they have analysed both themselves and their competitors using SWOT analysis, they have a good idea of what their strategic objectives should be, as well as what their competitors' objectives might be. The application of SWOT analysis to competitors is part of a lager effort known as competitor intelligence, which is a systematic process of understanding competitions and their influence on your markets.

3.2.2 MARKETING OBJECTIVES

This is the second step in strategic marketing planning. Very often, marketing goals should be closely related to company — wide goals and strategies. Actually, a company strategy usually translates into a marketing goal. For example, in order to reach an organizational objective of a 25 percent return on investment next year, one company strategy might be to reduce marketing costs by 20 percent. Thus, this company strategy could become a marketing goal.

Earlier on, you were made to understand that strategic management involves matching an organisation's resources with its market opportunities. In this regard therefore, each objective should be assigned a priority based on its urgency and potential impact on the marketing area, and, in turn, the organization. These priorities should be the basis for allocating the company's resource. Generally, it is recommended that each objective should be SMART, an acronym for Specific, Measurerable, Attainable, Realistic, and Time-bound.

3.2.3 POSITIONING AND DIFFERENTIAL ADVANTAGE Two complementary decisions are involved in the third step of strategic marketing planning: how to position a product in the market place, and how to distinguish it from competitors. These will be discussed in detail under product-mix strategies. The process of achieving a desired position in the mind of the market is called positioning. For instance, you can position your company, your products, your technologies, or any other entity that commands customer attention.

After the product in positioned, a viable differential advantage has to be identified. Here, differential advantage refers to any features of an organization or brand perceived by customers to be desirable and different from those of competition.

3.2.4 TARGET MARKET AND MARKET DEMAND

The fourth step in strategic marketing planning is the selection of target markets. We have already defined a market as consisting of people or organizations with needs to satisfy, money to spend, and the willingness to spend it. This market may be large, and usually consist of a number of segments (i.e parts of markets) with differential needs. Ordinarily, it might be impossible for a firm to satisfy all segments with different needs. It is therefore better for a company to target its efforts on one or more of these segments. Hence, a target market refers to a group of people or organizations at which a firm directs a marketing programme. Details of target markets are described under market segmentation and target-market strategies.

In a new firm, it is necessary for management to analyse markets in detail to identify potential target markets. With regard to an existing firm, management should routinely examine any changes in the characteristic of its target markets and alternative markets. Consequently, management should decide to what extent and in what manner to divide up total markets and then pursue only those segments that are more promising for successful

marketing.
It has been suggested that target markets must be selected on the basis of opportunities. In order to analyse these opportunities, a firm needs to forecast demand or sales in its target markets. The results of such demand forecasting will indicate whether the firm's targets are worth pursuing, or whether alternatives need to be identified.

3.2.5 MARKETING MIX

The last step in the strategic marketing planning process is the design of an appropriate marketing mix, i.e the combination of product, price, promotion and distribution (place). These four elements should collectively satisfy the needs of the organisation's target markets and, at the same time achieving marketing objectives.
We shall briefly examine the four elements together with some of the concepts as well as relevant strategies applicable to each: Details are covered in latter units

(i)Product: Strategies are needed for managing existing product over time, adding new ones, and dropping failed products. Strategic decisions must also be made regarding branding, packaging, quality levels, design, and other product features such as warranty, after-sales service etc.

(ii)Price: Here, the necessary strategies relate to the locations of customers, price flexibility, related items within a product line, and terms of sales. In addition, pricing strategies for entering a market, especially with a new product, must be designed.

(iii)Distribution: The relevant consideration with respect to distribution involve the management of the channel(s) by which ownership of products is transferred from producer to customerand, in many cases, the system(s) by which goods are moved from where they are produced to where they are purchased by the final customer. Consequently, the necessary strategies applicable to middlemen (wholesalers and retailers) must be designed.

(iv)Promotion: Coordinated campaign strategies are needed to blend individual promotion methods such as advertising, personal selling, sales promotion and publicity. Furthermore, it is necessary to adjust promotional strategies as a product moves from the early stages to the later stages of its Hein summary, if the analysis of a potential market is promising enough to make it a good target, management should develop a marketing mix that will appeal to this market. For example, it should assemble a combination of product characteristics that closely matches what the customers in the target market are looking for. Next, it should create a structure of prices that will make product purchase feasible for market members. Furthermore, management should put together a distribution system that assures goods are made available where and when they are wanted. Finally, it is necessary for management to assemble a promotional mix of advertising and other tools that will communicate the benefits of the offer to the target market.

3.3 ANNUAL MARKETING PLANNING

Apart from the basic strategic planning spanning several years into the future, it is also necessary to develop a more specific, and shorter — term marketing plan. Hence, strategic marketing planning in an organization leads to the preparation of an annual marketing plan. Annual marketing plan is the master bluepint for a year's marketing activity for a specified organizational division or major product. It is usually a written document.

3.3.1 PURPOSES AND RESPONSIBILITIES OF AN ANNUAL MARKETING PLAN

An annual marketing plan serves at least three purposes:

(i) It summarizes the marketing strategies and tactics that will be used to achieve specified objectives in the upcoming year. Thus it serves as a "how-to-do-it" document that guides executives and other employees involved in marketing.

(ii) The plan also points to what needs to be done with respect to the other steps in the management process, such as implementation and evaluation of the marketing programme.

(iii) The annual market plan also outlines who is responsible for which activities, when they are expected to be carried out, and how much time and money can be spent. Very often, the executive responsible for the division or product covered by the plan typically is he task to subordinates.

3.3.2 CONTENTS OF AN ANNUAL MARKETING PLAN The following are the contents of an annual marketing plan:

(i)<u>Executive Summary and Table of Contents:</u>

The marketing plan usually opens with a brief summary of the plan's main goals and recommendations. The executive summary permits senior management to grasp the plan's major thrust. A table of contents follows the executive summary.

(ii)<u>Current marketing situation:</u>

This section presents relevant background data on sales, costs, profits, the markets, competitors, distribution, and the macro environment. The data are drawn from a product fact book maintained by the product manager.

(iii)<u>Opportunity and issue analysis:</u>

After summarizing the current marketing situation, the product manager goes ahead to identify the major opportunities/threats, strengths and weaknesses, as well as issues facing the product line.

(iv)Objectives:

With the summary of the issues given, the product manager must decide on the plan's financial and marketing objectives.

(v)<u>Marketing strategy:</u>

In this section, the product manager outlines the broad marketing strategy or "game plan" to accomplish the marketing plan's objectives. In developing the strategy, the product manager often discusses with the purchasing and production personnel to confirm that they will be able to buy enough materials and produce enough units to meet the target sales volume levels. In addition, the product manager needs to discuss with the sales manger in order to obtain sufficient sales force support. Furthermore, he should discuss with the accountant to obtain sufficient funds for advertising and promotion.

(vi)<u>Action programmes:</u>

The marketing plan must specify the broad marketing programme for achieving the business objectives. Each marketing strategy element must be elaborated to answer such questions as: what will be done? When will it be done? Who will do it? How much will it cost?

(vii) Projected profit-and —loss statement:
This section usually includes two kinds of financial information: On the revenue side, this budget shows forecasted sales volume in units and the average price. On the expense side, it shows the cost of production, physical distribution, and marketing, broken down into finer categories. The difference between these two sides is the projected profit. With its approval, the budget is the basis for developing plans and schedules for material procurement, production scheduling, employee recruitment, and marketing operations.

(viii) Controls:
The last section of the marketing plan outlines the controls for monitoring the plan. Typically, the goals and budget are spelled out for each month or quarter. The results for each period are reviewed by senior management. Some control sections often include contingency plans, which outlines the appropriate steps to be taken by management with respect to specific adverse developments, such as price wars or strikes.

4.0 CONCLUSION

You have learned in this unit that, a company that want to compete successfully in the marketplace must show sufficient commitment to creating and retaining satisfied customers. The company must also know how to adapt to a continually changing marketplace.

5.0 SUMMARY

Market — oriented strategic planning is the managerial process of developing and maintaining a viable fit between the organisation's objectives, skills and resources, and its changing market opportunities. The main good of strategic planning is to held a company select and organize its businesses in a way that will keep the company healthy even when unexpected events adversely affect any of its specific businesses or product lines.

Self — Assessed Question

Outline and discuss the strategic marketing planning process

6.0 TUTOR - MARKED ASSIGNMENT

Question:

1. a. What are the purposes of an annual marketing plan?
b. List the contents of an annual marketing plan.

7.0 FURTHER READING

Bovee, C.L. and EV. mill (1992): Marketing New York,: McGraw — Hill, Inc.
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UNIT 5: MARKET SEGMENTATION AND TARGET-MARKET SRATEGIES

Table of Content

1.0 INTRODUCTION

From our previous discussion, especially in unit 1, you learned that organizations wishing to be successful in the discharge of theft responsibilities should be oriented towards satisfying their customers. Again, you have learned that strategic planning is the process of matching an organization's resources with its market opportunities. With this point at the back of your mind, it is reasonable therefore, to say that an organization must determine who its potential customers are. It is only after these customers are identified that the firm's management can develop a marketing mix to satisfy their wants. For instance, a firm cannot serve all customers in a broad market such as television sets or soft drinks. The customers are too numerous and diverse in their buying requirements. Hence, the firm needs to identify the market segments that it can serve more effectively and efficiently. It is for this reason, that we shall be looking at market segmentation and target market strategies.

2.0 OBJECTIVES

After studying this unit, you should be able to explain:
(i)the concepts of market segmentation and target markets;
(ii)the process of market segmentation;
(iii)the benefits of market segmentation;
(iv)bases for segmenting consumer and business markets
(v)three target-market strategies.

3.1 AN OVERVIEW OF MARKETS AND TARGET MARKET In our treatment of the building blocks of marketing in unit one, we defined a market as the collection of people or organizations with (a) needs to satisfy (b) money to spend, and (c) the willingness to spend it. You should however understand that, within a total market, there is usually some differences among the buyers. For instance, not all consumers who own cars want to buy Peugeot brands, and not everyone who wears skirt suits wants to pay the same price or purchase them from boutiques. While some Consumers visit the beach in order to rest and relax, others do so for adventure and excitement.

The illustrations above show that within the same general market, there are groups of customers with different needs, buying preferences or product — use behaviour. We may discover that in some markets, these differences are relatively minor. Here, the primary benefit sought by consumers can be satisfied with a single marketing mix. In other markets, however, customers' interest may not be completely satisfied by a single marketing mix. Consequently, alternative marketing mixes are required to cover the entire market. Whatever its size, the group of customers for whom the seller designs a particular marketing mix is a target market.

Generally, there are two alternative target-market strategies. The first alternative is to treat the total market as a single unit, that is, as one mass, aggregate market. This strategy is premised on the assumption that, in spite of their differences, everyone in the market can be adequately satisfied with one marketing mix. Hence in mass marketing, the seller engages in mass production, mass distribution, and mass promotion of one product for all buyers. Thus, the argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. This strategy employs a "short run" approach (i.e. are programme, broad target) in marketing activities.

In the second alternative, the total market is seen to consist of several smaller segments with differences significant enough to the extent that one marketing mix will not satisfy everyone or even a majority of the market. In situation like this, since the firm typically cannot meet the needs of all these submarkets, one or more are often selected as target markets. This is sometimes described as a" rifle" approach (i.e separate programmes, pinpointed targets).

The truth, is that the notion of an aggregate market is relatively uncommon. For instance, the proliferation of advertising media and distribution channels in making it difficult to practice "one size ¯fits all" marketing. It has even been claimed that mass marketing is dying. It is not surprising therefore, that many firms are turning to micromarketing at one of four levels: segments, niches, local areas, and individuals. We shall be looking at these levels of market segmentation under the section that follows.

3.2 MARKET SEGMENTATION

What we have been stressing up to this point is that, markets consist of buyers, and these buyers differ in one or more respects. For instance they may differ in their wants, resources, geographical locations, buying attitudes, and buying practices. Customer-oriented firms take these differences unto consideration. However, you should note that these firms, usually cannot afford to tailor-make a different marketing mix for every customer. In this regard, most marketing mix for all and a different one for each customer. This usually involves market segmentation, which is a process of dividing the total market for a good or service into several smaller groups, such that the members of each group are similar with respect to the factors that influence demand. It has been found that a major element in a firm's success is the ability to segment its market effectively.

3.2.1 BENEFITS OF MARKET SEGMENTATION

Since market segmentation is customer-oriented, it can be said to be consistent with the marketing concept. For instance, when segmenting the needs of customers within a submarket are first identified, before deciding if it is practical to develop a marketing mix to satisfy those needs.

In general, market segmentation have been found to be valuable technique for a number of reasons:

(i)Efficient use of Marketing Resources

By matching marketing programmes with individual market segments, management can do a better marketing job thereby making more efficient use of its marketing resources. For instance, small firm with limited resources might compete very efficiently in one or two small market segments, whereas, the same firm would be overpowered by the competition if it aimed for a major segment. Even the largest firms are also constrained in one way or the other: they don't have enough marketing personnel, advertising money, new products and other resources to reach the entire world. Thus, by using market segmentation, they can deploy resources efficiently to create variations of the marketing mix that fit only the most attractive market subsets. The result is more efficient marketing, which saves money and increases sales.

(ii)Better understanding of customer needs

There is no doubt that, it is pretty difficult to attempt to understand customer needs in a large and diffuses market. However, through market segmentation, it is possible to split or divide the market into segments whose needs are easier to define. Efforts can then be geared toward satisfying these needs.

(iii)Better understanding of the competition situation

Firms who target individual marketing segments can see more clearly who their competitors are, and the tactics each uses in that segment.

(iv)Accurate measurement of goals and performance

Market segmentation also allows accurate measurement of goals and performance. For instance, a recording company might set sales goals and measure performance by the number of records, tapes, or compact discs it sells, but wont know how it is doing in comparison with competitors. If, however, the company specializes on the reggae music market, it can define its goals more specifically. One objective might be to sell enough of a single album to break into the listing of top 100 best selling albums. The company might also want to measure how many of its records make the bestseller chart in a given year. Because the company has defined its segment as reggae music, rather than as music in general, the company has an objective way of setting standards and measuring achievement. This can be likened to the popular saying of" Jack of all trades, master of none".

In a nutshell, the benefit of marketing segmentation is that it leads to more satisfying marketing results. For instance, once you have analysed a market and analysed its natural division, you can pick out the segments that are most likely to lead to marketing success. Though segmentation may take a little longer time than just rushing to the market, its rewards are worth the extra time.

3.2.2 CONDITIONS FOR EFFECTIVE SEGMENTATION Market segmentation involves more than just thinking of a segment to target. As you should now understand, the purpose of using market segmentation is to end up with segments in which marketing can be conducted more efficiently and effectively. Three conditions help marketers move toward this goal:

(i)The basis for segmenting, i.e. the characteristics used to describe what segment customers fall into must be measurable. The data describing these characteristics must also be obtainable. For example, the age of customers is both measurable and obtainable. Though another variable such as the "desire for ecologically compatible products" may be useful in segmenting the market for disposal drapers that are biodegradable. It is neither easily measurable nor the data easily obtainable.

(ii)A segment is meaningful only if it can be reached with a marketing programme. Hence, the market segment should be accessible through existing marketing institution (such as middlemen, advertising media, company sales force) with a minimum of cost and wasted effort.

(iii)Each segment should be large enough to be profitable. The point here is that organization should always consider operating in profitable segments. Viewed from a customer-oriented perspective, the ideal method for segmenting a market should be on the basis of customers' desired benefits. This position is consistent with the idea that a firm should be marketing benefit and not just the physical characteristics of a product. However, in many cases, the benefits desired by customers do not met the first condition described above (i.e. measurability and obtainability of the characteristics used in describing segments). This is because customers are not willing or unable to reveal them. For example, what benefits do people derive from taking beer? Put in another way, why do others refuse to take beer?

At times when benefits are identified, as in focus-group studies, it is often difficult to determine how widely they exist in the market.

Consequently, a variety of indirect indicators of benefits are often used to describe segments. These indicators, such as age, are not the reason customers buy, but they are easily measured characteristics that people seeking the same benefit frequently have in common. For example, middle —aged people are more likely to read financial standard than teenagers, not because they are middle aged but because the content of the paper is more directly relevant to their lives. Hence, marketers of financial standard will find it easier to measure age than relevance, so age becomes a segmentation variable. In the sections that follow, we shall be discussing many of these commonly used, indirect bases for segmentation.

3.2.3 ULTIMATE CONSUMERS AND INDUSTRIAL MARKETS A company can segment its market in many different ways. Usually, the bases for segmentation vary from one product to another. The broadest market division is that which separates a potential market into two categories: ultimate consumers and industrial users. The sole criterion of this segmentation is the customers reason for buying

Ultimate consumers buy goods or services for their own personal or household use, and are satisfied strictly non-business wants. They constitute what is known as the "consumer market"

Industrial users on the other hand, are business, industrial, or institutional organizations that buy goods or services to use in their own organizations, to resell, or to make other products.

3.2.3.1 DIFFERENCE BETWEEN ULTIMATE CONSUMERS AND INDUSTRIAL USERS

There are important differences between ultimate consumers and industrial users, their ways and means of purchasing differs considerably. Only a few of the many difference will be considered here:

Ultimate consumers buy in much smaller quantities and generally for consumption over much shorter time periods than do industrial buyers. More importantly, ultimate consumers are not usually as systematic in their buying as are industrial users. Some industrial users are business enterprises which exist to make points, thus encouraging them to adopt systematic purchasing procedures. Though other industrial users are non-profit institutions (e.g government agencies, schools, hospitals, clubs, societies, etc), their operations are audited and reviewed by outside authorities. These also make them adopt systematic purchasing procedures. In addition, ultimate consumers spend only part of their time buying, whereas the industrial user employs professionals who devote all of their time and effort to purchasing. Furthermore, the ultimate consumer spread all his buying skill over a wide range of goods and services, whereas the professional tends to specialize and, therefore, has more opportunity to perfect his purchasing skills.

These few differences clearly illustrate the point that marketers must use significantly different approaches in marketing goods and services to each of the two broad classifications of markets.

3.3 SEGMENTING THE CONSUMER MARKET

There is no single way to segment a market. A marketer has to try different segmentation variables, singly and in combination, hoping to find an insightful way to view the market structure. In this section, we shall examine the major geographic, demographic, psychographics and behavouristic variables used in segmenting consumer markets. In using these characteristics as bases for segmenting consumer markets, you should bear several points in mind:

(i)Buying behaviour is hardly traceable to only one characteristics. Hence, useful segmentation is developed by including several characteristics. At the same time, you should be careful in adding too many variables, since this may result in the identified segments being smaller than necessary. The first characteristic to choose should be the one that provides the clearest and most distinctive division of the market. Others should then follow in the order of how well they discriminate among the segments.

(ii)you need to be aware of the interrelationships among these characteristics, especially among the demographic variables. For instance, age and income are often related. Income in turn, depends on the level of education and occupation. Hence, for a particular product or service, the segments resulting from divisions according to income, education, and occupation may be very similar. Whenever this occurs, it is better to use only that attribute for which the data are easiest to obtain.

(iii)There are no rules for the number and range of categories used for most characteristics. For example, in Table 1, the first age category spans 6 years, the second category includes 7 years, the fourth cover 15 years while the last category is open-ended. Depending on the situation, it might be appropriate to use fewer or more categories or to have each category the same size. Considerable trial and error experimentation may be needed for determining the category structure that provides the best segment descriptions. 48

Table 1 Segmentation bases for consumer markets

Segmentation basis	Typical market segments
Geographic: Region	South-West middle belt North East and other census regions
City size	Under 25,000; 25,001 -100,001-500,000; 500,001 -
Urba-rural	Urban; suburban, rural
Climate	Cool, warn;
Demographic: Income	Under 10,000; $10,000 -25,000; $25,001-$35,000; N35,001 - $50,000; over N50,000
Age	Under 6,6-12,13 -19,20 - 34,35-49, 50-64,65 and over
Gender	Male, female
Family life cycle	Young single; young, married, no children; etc.
Social class	Upper class, upper middle, lower middle, upper lower, etc
Education	Primary school, high school graduate, University graduate
Occupation	Professional, manager, clerical, craftsman, sales, student, Homemaker, unemployed
Religion	Christianity, Islamic, others
Ethnic background	African, Asian, European, Hispanic, Middle Eastern, etc.
Psychological: Personality	Ambitious, self- confident, aggressive, introverted, extroverted, Sociable, etc.
Life style	Conservative, liberal, Health and fitness oriented,
Psycho logic:	VALS, VALS2, LOV
Behavioural Benefits desired	Examples vary widely depending on product: appliance-cost, quality, operating life; toothpaste-no cavities, plague control, bright teeth, good taste, low price.
Usage rate	Nonuser, light user, heavy user

3.3.1 GEOGRAPHIC SEGMENTATION

Geographic segmentation calls for dividing the market into different geographical units such as countries, regions, states, local government areas, cities, towns or neighbourhoods. Note that this is one of the widely used bases for segmentation. It is premised on the assumption that consumers' want and product usage often are related to one or more of

these subcategories. In addition, geographic characteristics are also measurable and accessible.
Marketers consider a wide variety of elements when they use geographic segmentation. Population patterns, transportation, climate, growth patterns, and government of just a few examples. These elements are important because they influence and sometimes dictate the marketing mix for a given geographical segment.

3.3.2 DEMOGRAPHIC SEGMENTATION

This is the most common basis for segmenting consumer markets. Marketers use demographic segmentation when they market on the basis of information about the size, composition, and distribution of a population, including age, sex, race, religion, national origin, family size, marital status, occupation, social class, income and education. Information about demographic variables is generally available to marketers through government publications and other studies, thus making demographic segmentation a practical way of looking at the market. It is interesting to know that many products can be naturally and realistically targeted to segments defined by demographic variables. However, you should note that people are moving targets whose demographics are constantly changing. It is therefore important to monitor these changes. There is usually the need to forecast the changes so that you can be ready with marketing mixes that fit the demographic trends of the present and the future. The family life cycle is the sequence of events in adult lives starting with the unmarried stage and then moving through such stages as marriage, children, divorce, and remarriage.
Frequently, the main factor accounting for differences in consumption patterns between two people of the same age and gender is that they are in different life-cycle stages.
There are nine distinct life cycle stages:
(i)Bachelor stage: young, single people.
(ii)Young married: couples with no children
(iii)Full nest I: young married couples with children.
(iv)Single parents: young or middle —aged people with dependent children
(v)Divorced and alone: divorced without dependent children
(vi)Middle-aged married: middle aged married couples without children.
(vii)Full nest II: middle aged married couples with dependent children.
(viii)Empty nest: Older married couples with no children living with them
(ix)Older single: single people still working or retired.
You should realize that family life-cycle stage is a major determinant of buyer behaviour, and thus can be a very useful basis for segmenting consumer markets. For instance, marketers can target specific needs that customarily arise in each stage of the family cycle, from wedding invitations to drapers to legal advice.
Income is another component of the demographic segmentation. Ordinarily, people alone do not make a market- they must have money to spend. This is the reason marketers should analyse the spending patterns of people at different income levels. Actually, income segmentation has been a long standing practice in such product and service categories as automobiles, clothing, cosmetics, and travel.
The market for certain consumer products is influenced by such factors as education, occupation, religion, and ethnic origin. For example, with an increasing number of people attaining higher levels of education, there may be changes in product preferences, as well as buyers with higher incomes and more discriminating tastes. Instead of income,

occupation may turn out to be more meaningful for segmenting some markets. For instance, commercial bus drivers and auto mechanics may, on the average, earn as much as young marketing executives or secondary school teachers. However, the buying patterns of the first two are likely to be different from the second two because of attitudes and interests.

Figure 1 demonstrates the traditional family cycle and the many possible stages in the family life cycle.

Middle-aged
Divorced
Without Children
The modern family life cycle.

Today's family life cycle can take many paths compared with the traditional family cycle, and marketers must consider these changes when segmenting their market

Youn g single	•Young Married Without Childre	Young Married With Children	Middle -aged Marrie d	Middle aged Married dependent	Older Married	4_ -4, Older unmarried
		• Young Divorced With Children	Middle -aged Divorce d	Middle- aged Divorced Without		

—I, Usual Flow —* Recycled Flow

*** TRADITIONAL FAMILY FLOW**

In the case of certain products, it might be better to segment on the basis of
Middle-aged
Divorced without Children religion or ethnic origin. In Nigeria today, some states have started operating the Sharia legal system, which forbids the production, sale and consumption of alcoholic drinks. That legal system also imposes some other restrictions on the citizenry, which ultimately affect the conduct of business activities in such area where the Sharia code is operated.

3.3.3 PSYCHOLOGICAL SEGMENTATION

Marketers use psychological segmentation when they segment their markets according to personality and life styles thereby seeking to group people with similar life-styles or interests. Usually, when demographics and psychographics factors are combined, richer descriptions of segments are
produced.

An individuals personality characteristics are usually described on the basis of traits that influence behaviour. Therefore, we ordinarily assume they should be a good basis for segmenting markets. For instance, compulsory people buy differently from cautious consumers, similarly, quiet introverts neither buys the same things nor in the same way as gregarious outgoing people (extroverts). Fortunately, personality, characteristics have some problems that limit their usefulness in practical market segmentation.

In the first place, the presence and strength of these characteristics in the population are virtually impossible to measure. For example, how would you classify people on the basis of aggressiveness? The second problem is associated with the accessibility condition of segmentation./ there is no advertising medium that provides unique access to a particular personality type. For example, access to newspapers, the radio, televisions. etc. reach introverts as well as extroverts, aggressive people as well as timid people. Hence, one of the major goals of segmentation, i.e., avoidance of wasted marketing effort, is not likely to be achieved using personality characteristics. In spite of this limitation, many firms have been found to tailor their advertising messages to appeal to certain personality traits.

Life-styles relates to activities, interests, and opinions. Generally, the lifestyle of a person reflects how he spends his time and what his beliefs are on various social, economic and political issues. A person's, life-style, affect what product he buys and what brand he prefers. It is for this reasons their marketers attempt to segment their markets on the basis of life-style characteristics. Life-style segmentation also similar limitation faced by segmentation based on personality traits.

3.3.4 BEHAVIOURAL SEGMENTATION

In behavioural segmentation, buyers are divided into groups on the basis of their knowledge of, attitude toward, use of, or response to a product. The belief here is that behavioural variables, such as occasions, benefits, user status, usage rate, loyalty status, buyer readiness stage, and attitude, are the best starting points for constructing market segments. We shall briefly examine each of these variables.

(i)**Occasions :** Buyers can be differentiated on the basis of the occasions they develop a need, purchase a product, or use a product. For example, air travel may be neccesited by occasion related to business, vacation, or family. In this way therefore, an airline can specialize in servicing people for whom one of these occasions dominates.

Occasion segmentation can be used to expand product usage. For example, if it is discovered that orange juice is usually consumed at breakfast, an orange juice company can try to promote drinking orange juice on other occasions such as midday, lunch, and dinner.

(ii)**Benefits:** Benefit segmentation divides the market according to the benefits consumers seek from a product or product category. Some researchers belief that benefit segmentation variables are more accurate than demographic or usage segmentation. Variable in determine consumer behaviour. Their argument is that the benefits that people seek are the real basis for their response to a product.

(iii)**User status:** Market can be segmented into non-users, ex-users, potential users, first-time users, and regular users of a product. By making use of these classifications, organization can conduct their activities more effectively and efficiently. For instance, blood banks should not rely only on regular donors to supply blood, instead, they must recruit new first-time donor and contact ex-donors. Each of these groups will definite requires a different marketing strategy

(iv)**Usage Rate:** Markets can be segmented into light, medium, and heavy product users. Very often, heavy users are a small percentage of total consumption.

(v)**Loyal Status:** consumers have varying degrees of loyalty to specific brands, stores, and other entities. Buyers can be divided into four groups according to loyalty status

aHard-core loyal, i.e., consumers who buy one brand all the time

bSpit loyals, i.e. consumers who are loyal to two or three brands

cShifting loyals, i.e. consumers who shift from one brand to another.
dSwitchers, i.e. consumers who show no loyalty to any brand. By analyzing the degrees of brand loyalty, a company can learn a lot about the market. For instance, by studying its hard-core loyals, the company can identify its product's strength. In addition, by studying its split loyals, the company can pinpoint which brands are most competitive with its own. Furthermore, by looking at customers who are shifting away from its brands, the company can learn about its marketing weaknesses and attempt to correct them.

(vi)Buyer-Readiness Stage:

A market generally consists of people in different stages of readiness to buy a product or service. Some of these people are unaware of the product, some are aware, some are informed, some are interested. Some desire the product, while some intend to buy. The relative numbers for the various categories often make a big difference in designing the marketing programme.

(vii)**Attitude:** An attitude is a manner of feeling or behaving. Five attitude group can be found in a market:- enthusiastic, positive, indifferent, negative, and hostile.

3.4 SEGMENTING INDUSTRIAL MARKETS

Industrial markets can be segmented into some variable employed in consumer market segmentation.

Such variables include geographic, benefits sought, and usage rate. Apart from these, several other variables can also be employed. For instance, Bonoma and Shapiro (1983) have suggested segmenting the business market with the variables shown in Table 2. The demographic variables are the most important, filled by the operating variables, then, down to the personal characteristics of the buyer.

Table 2

You **will** observe that the table lists major questions that business marketers should ask in determining which segments and customers to serve. For instance, a tyre manufacturing company should first decode which industries it wants to serve. The company can sell tyres to manufacturers of automobiles, trucks, farm tractors, forklift trucks, or aircraft. From a chosen target industry, it can

Demographic

1.Industry: which industries should we serve?
2.Company size: What size companies should we serve?
3.Location: What geographical areas should we serve? **Operating Variables**
4. Technology: What customer technologies should we focus on?
5. User or nonuser status: Should we serve heavy users, medium users, light users, or nonusers?
6.Customer capabilities: Should we serve customers needing many or few services?

Purchasing Approaches

4. Purchasing-function organization: Should we serve companies with highly centralized or decentralized purchasing organizations?
5. Power structure: Should we serve companies that are engineering dominated, financially dominated, and so on?
6. Nature of existing relationships: Should we serve companies with which we have

strong relationships or simply go after the most Desirable companies?

7. General purchase policies: should we serve-companies that prefer leasing? Service contracts? System purchases? Sealed bidding?
8. Purchasing criteria: Should we serve companies that are seeking quality? Service ? Price?

Situational Factors

6.Urgency: should we serve companies that need quick and sudden delivery or service?

7. Specific application: should we focus on certain applications or our product rather than all applications?

8.Size of order: Should we focus or small orders?

Personal Characteristics

9. Buyer-seller similarity: Should we serve companies whose people and values are similar to ours?
10. Attitude toward risk: Should we serve risk-taking or risk avoiding customers?
11. Loyalty: Should we serve companies that show high loyalty to their supplier?

Major Segmentation variables for Business markets further segment by customer size. For example the company might set up separate operations to sell to both large and small customers.

3.5 TARGET-MARKET STRATEGIES

Once a company has segmented the total market for its product, the next thing is for it to decide how many and which ones to decide. In order to arrive at a good decision, management has to evaluate all the market segments, by following some guidelines in selecting the target market(s).

3.5.1 EVALUATING THE MARKET SEGMENTS

In evaluating different market segments, management need to consider some factors, which act as guidelines for target market selection. Generally, the firm must ask whether a potential segment has the characteristic that make it generally attractive, such as size, growth, profitability, scale economics, and low risk. In addition, the firms must consider whether investing in the segment makes sense vis-a vis the firms' objectives and resources. On these bases, some attractive segments could be dismissed for lack of compatibility with the firms long run objectives. Furthermore, a seemingly attractive segment could be dismissed if the firm lacks one or more necessary competences to offer superior value.

3.5.2 GUIDELINES IN SELECTING A TARGET MARKET From the general premises laid down in section 3.5.1, four guidelines can be followed in determining which segments should be the target markets:

(i) the target market(s) should compatible with the organization goals and image;

(ii) the market opportunity represented in the target market(s) should match the company's resources;

(iii) the target market(s) should generate sufficient sales volume at a low enough cost to result in a profit and

(iv) the target market(s) should have the least and smallest competitors. Ordinarily, a seller should not enter a market that is already saturated with competition unless it has some overriding differential advantage that will enable it to take customers from existing firms.

3.5.3 TARGET MARKET STRATEGIES

After thoroughly evaluating the different segments, the company can follow one of three strategies: market aggregation, single segment concentration, or multiple-segments targeting (see figure -2)

MARKET AGGREGATION

Single marketing mix --•

SINGLE- SEGMENT STRATEGY

The three target market strategies

One mass,
undifferentiated
market

Market segment A
Market segment B
Market segment C
Market segment A
Market segment B
Market segment C

Single marketing mix --•

MULTIPLE SEGMENT STRATEGY

Marketing mix A --•
Marketing mix B --•
Marketing mix C --•

3.5.3.1 AGGREGATION STRATEGY

The market-aggregation strategy is also known as a mass market or an undifferentiated market strategy. Here, a seller treats its total market as a single segment. This strategy is not very common. However, it is usually selected after a firm has examined a market for segments and came to the conclusion that the majority of customers in the total market are likely to respond in very similar fashion to one marketing mix. In which case the company develops a single product for this mass audience; develops one pricing structure and one distribution system for its product; and uses a single promotional programme aimed at the entire market. This strategy is appropriate for firms that are marketing an undifferentiated, staple product such as salt or sugar.

One important advantage of a market aggregation strategy is found in its cost minimization. For instance, it enables a company to produce, distribute, and promote it products very efficiently.

Very often, the market aggregation strategy is typically accompanied by the strategy of product differentiation in a company's marketing programme. Product differentiation occurs when in the eyes of customers, one firm distinguishes its product from competitive brands offered to the same aggregate market. With appropriate distinguishing strategies, a company can create the perception that its product is better than the competitors brands.

3.5.3.2 SINGLE-SEGMENT STRATEGY

A single-segment (or concentration) strategy involves selecting one segment from within the total market as the target market. Through concentrated marketing, the firm gains a strong knowledge of the segment's needs and achieves a strong market presence. Furthermore, the firm enjoys operating economies through specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment.

However, this strategy involves high than normal risks. For instance, if the market potential in that single segment declines, the seller can suffer considerably. In addition, a seller with a strong name and reputation in one segment may find it difficult to expand into another segment.

3.5.3.3 MULTIPLE — SEGMENT STRATEGY

This strategy involves the identification of two or more different groups of potential customers as target markets. A separate marketing mix is then developed for each segment.

Usually, an organization adopting a multiple segment strategy develops a different version of the basic product for each segment. At times, market segmentation can also be accomplished with no change in the product, but rather with separate distribution channels or promotional appeals, each tailored to a given market segment.

This strategy normally results in a greater sales volume than a single-segment strategy. In addition, it is useful for an organization facing seasonal demand. For instance, due to lower summer enrolments, many universities in the United States market their empty dormitory space to tourists (i.e another market segment). Furthermore, a firm with excess production capacity may well seek additional market segments to absorb the excess.

In spite of the benefits that multiple-segments strategy possesses, it has some limitations with respect to costs and market coverage. For instance, marketing to multiple segments can be expensive in both for the production and marketing of products.

4.0 CONCLUSION

You have learned that the importance and segmentation can not be over emphasized. In today's increasingly crowded markets. By identifying clear targets, the process of segmentation helps organization to increase the effectiveness of nearly every aspect of the marketing efforts.

5.0 SUMMARY

A market consists of people or organizations with wants, money to spend, and the willingness to spend it. However, within most markets the buyers' needs are not identical. Therefore, a single marketing programme for the entire market is unlikely to be successful. A sound marketing programme stands by identifying the differences that exist within a market, through market segmentation, and then decoding which segments will be selected as target markets.

Self Assessed Question

Discuss the role of market segmentation

Solution

(i) Market segmentation is the process of dividing a large market into smaller groupings of consumer's or organizations with similar characteristics, needs, wants, or behaviours.

(ii) People and business have extremely diverse needs, and its usually not advisable to treat ever body as part of one big market.

(iii) That is why marketers use market segmentation to select just those markets whose needs they can understand and fulfill.

(iv) Each market can then be targeted using a specific variation of the marketing mix

(v) Market segmentation helps markets use their resources more efficiently, identify markets and understand their specific needs, gain a better understanding of the competitive environment, and set sales goals and measure performance more accurately.

6.0 TUTOR-MARKED ASSIGNMENT

Explain the relationship between segmentation and the marketing mix.

7.0 FURTHER READING

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UNIT 6: CONSUMER BUYING BEHAVIOUR

Table of Content

1.0 INTRODUCTION

The aim of marketing is to meet and satisfy customers' needs and wants. The field of consumer behaviour studies how individuals, groups, and organizations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and desires. Understanding consumer behaviour and "knowing customers" are never simple. Customers may say one thing but do another. They may not be in touch with their deeper motivations. They may respond to influence that change their mind at the last minute. Small companies stand to profit from understanding how and why their customers buy.. In this unit we will consider their willingness to buy as determined by information sources, social environment, psychological forces and situational factors.

2.0 OBJECTIVES

After going through this unit, you should be able to explain:
•The process consumers go through on making purchase decisions.
•How commercial and social information sources influence buying decisions.

- The influence of culture, subcultures, social class, membership, and reference groups on buying behavior.
- How buying decision extend beyond the individual to the family and the household
- The roles of motivation, perception, learning, personality, and attitudes in shaping consumer behavior.

•The importance of situational factors in buying.

3.1 DECISIONS MAKING AS PROBLEM SOLVING

To deal with the marketing environment and make purchases, consumers engage in a decision process. One way to look at that process is to view it as problem solving. When faced with a problem that can be resolved through a purchase ("I' m bored. How do I satisfy my need for entertainment"), the consumer goes through a series of logical stages to arrive at a decision.

The six stages of the buying- decision process are:

1. **Need recognition:** The consumer is moved by a need.
2. **Choice of an involvement level:** The consumer decides how much time and effort to invest in an attempt to satisfy the need.
3. **Identification of alternatives:** The consumer identifies alternative products and brands and collects information about them.
4. **Evaluation of alternatives:** The consumer weights the pros and cons of the alternative identified.
5. **Decision:** The consumer decides to buy or not to buy and makes other decisions related to the purchase

6. **Post purchase behavior**: The consumer seeks reassurance that the choice made was the correct one.

Purchase decision may not involve all the stages:

1.The consumer can withdraw at any stage prior to the actual purchase. If, for example the need diminishes or no satisfactory alternatives are available, the process will come to an abrupt end.

2.It is not uncommon for some stages to be skipped. All six stages are likely to be used only in certain buying situations — for instance, when buying high-priced, infrequently purchased items.

3.The stages are not necessarily of the same length. When a mechanic tells you that your car's engine needs an overhaul, it may take only a moment to recognize the need for a new car. However, the identification and evaluation of alternative models may go on for weeks.

4.Some stages may be performed consciously in certain purchase situations
- and subconsciously in others. For example, we don't consciously calculate for every purchase the amount of time and effort we will put forth.

In the following discussion, assume that the six-stage process generally characterizes buying decisions: However, keep in mind that the stage may have to be adjusted to fit the circumstance of a particular purchase situation.

3.1.1 RECOGNITION OF AN UNSATISFIED NEED

The process of deciding what to buy begins when a need that can be satisfied through consumption become strong enough to motivate a person. This need recognition may arise internally (for example when you feel hungry). Or the need may be dormant until it is aroused by an external stimulus, such as an ad or the sight of a product or the depletion of an existing product (your pen runs out of ink)

3.1.2 CHOICE OF AN INVOLVEMENT LEVEL

After recognizing a need, the consumer consciously or unconsciously decides how much effort to exert in satisfying it. Sometimes when a need arise a consumer is dissatisfied with the quality of information about the purchase situation and decides to actively collect and evaluate more. These are high — involvement purchase that entail all six stages of the buying decision process. If, on the other hand, a consumer is comfortable with the information and alternatives readily available, the purchase situation is low involvement. In such cases, the buyer will likely skip directly from need recognition to a decision, ignoring the stages in between.

Some difference in consumer behavior in high and involvement situations are:

Behavior	**High involvement**	**Low involvement**
Time invested	Large amount	Small amount
Information search	Active	Little or none
Response to information	Critically evaluate	Ignore or accept evaluation
Brand evaluations	Clear and distinct	Vague and general
Likelihood of bread loyalty	Strong	Weak Developing

Involvement trends to be greater under any of the following conditions:

- The consumer lacks information about alternatives for satisfying the need.
- A large amount of money is involved.
- The product has considerable social importance.
- The product is seen as having a potential for providing significant benefits.

Since they rarely any of these conditions, most buying decisions for relatively low priced products that have close substitutes would be low involvement. Typical examples are the majority of items sold in supermarkets, variety stores and hardware store. Involvement must be viewed form the perspective of the consumer, not the product. **Impulse buying** or purchasing with little or no advance planning is a from of low involvement decision-making.

3.1.3 IDENTIFICATION OF ALTERNATIVES

Once a need has been recognized and the level of involvement is selected, the consumer must next identify the alternatives capable of satisfying the need. The search for alternatives is influenced by : (i) How much information the consumer already has from past experiences and other sources. (ii) The consumer's confidence in that information. (iii) The expected value of additional information.

3.1.4 EVALUATION OF ALTERNATIVES

Once all the reasonable alternative have been identified, the consumer must evaluate them before making a decision. The evaluation involves establishing some criteria against which each alternative is compared.

The criteria that consumer use in the evaluation result from their past experience and feeling toward various brands, as well as the opinions of family members and friends.

3.1.5 PURCHASE AND RELATED DECISIONS

After searching and evaluating, the consumer must decide whether to buy. Thus the first outcome is the decision to purchase or not to purchase the alternative evaluated as most desirable. If the decision is to buy, a series of related decisions must be make regarding features, where and when to make the actual transaction, how to take delivery or possession, the method of payment and other issues.

3.1.6 POST PURCHASE BEHAVIOR

What a consumer learns from going through the buying process has an influence on how he or she will behave the next time the same need arises.

Having gathered information evaluated alternative, and arrived at a decision, the consumer has acquired additional knowledge about the product and various brands. Furthermore, new opinions and beliefs have been formed and old ones have been revised. Something else often occurs following a purchase. Have you ever gone through a careful decision process for a major purchase (say, a set of tyres for your car or an expensive item of clothing), selected what you thought as the best alternative, but then had doubts about your choice after the purchase? What you were experiencing is post purchase cognitive dissonance- a state of anxiety brought on by the difficulty of choosing from among several alternatives.

Dissonance typically increases (1) the higher the value of the purchase (2) the greater the similarity between the item selected item(s) rejected: and (3) the greater the importance of the purchase decision. Thus buying a house creates more dissonance than buying a fan. With this background on the buying — decision process, we can examine what influences buying behaviour.

3.2 INFORMATION AND PURCHASE DECISIONS Consumer must find out what products and brands are available. Without this market information there wouldn't be a decision process because there wouldn't be decision to make.

What are the sources and types of information that exist-in the buying environment? The commercial environment and the social environment are the two sources. The commercial information environment consists of all marketing manufacturers, retailers, advertisers, and sales people whenever any of them are engaged in efforts to inform or persuade. The social environment is comprised of family, friends, and acquaintances who directly provide information about products. Advertising is the most familiar type of commercial information. The normal kind of social information is word — of-mouth communication — two or more people discussing a product. To understand how the consumer functions, we will begin by examining the social and group forces that influence the individual's psychological makeup and also play a role in specific buying decisions

3.3 SOCIAL AND GROUP FORCES

The ways in which we think, believe, and act are determined to a great extent by social forces and groups. And our individual buying decisions — including the needs we experience, the alternatives we consider, and the way in which we evaluate them — are affected by the social forces that surround us. Our description begin with culture, the force with the most indirect impact, and moves to the force with the most direct, the household.

3.3.1 CULTURAL INFLUENCE
Culture is a complex of symbols and artifacts created by a society and handed down from generation to generation as determinants and regulation of behavior. The symbols may be intangible (attitudes, belief, values, language) or tangible (tools. Housing products, work of art) It does not include instinctive acts. However, the way people perform instinctive biological acts such as eating is culturally influenced. Thus everybody gets hungry, but what, when and how people eat vary among cultures
Cultures do change overtime, as old patterns gradually give way to the new
- Time has become as valuable as money

  Two — income families are the norm.

  Gender roles are losing their identity

  Your health is in, and sick is out.

3.3.2 INFLUENCE OF SUBCULTURES
In any social as heterogeneous as the one in Nigeria there are bound to be subcultures. Subcultures are [coups in a culture that exhibit characteristic behavior patterns sufficient to distinguish them from other groups within the same culture. The behavior patterns that distinguish subcultures are based on factors such as race, nationality, religion, and urban identification.
A subculture take on importance in marketing if it constitutes a significant part of the population and specific purchasing patterns can be traced to it.
3.3.3 SOCIAL CLASS INFLUENCES
Social class is a ranking within a society determined by the members of the society.. People's buying behavior is often strongly influenced by the class to which they belong or which they aspire.
The conclusions from social research that are significant for marketing are:
- A social class system exists in virtually all societies
- There are substantial differences among classes with respect to buying behaviour.
- Because of the diversity, different social classes are likely to respond differently to a seller's marketing program. Thus it may be necessary to design marketing programs tailored to specific social classes

3.3.4 REFERENCE —GROUP INFLUENCES
Each group in a society develops it's own standard of behavior that then serve as guides or frames of reference , for the individual members. Families and a circle of friends are such groups. Members share values and are expected to conform to the group's behavioral patterns. But one does not have to be a member of a group before you can be influenced by it. There are groups we aspire to join (a campus society or club) and groups that we admire even though membership may be impossible (a professional athletic team). All of these are potential reference groups — groups of people who influence a person's attitudes, values and behavior.
Advertisers are relying on reference —group influence when they use celebrity spokespersons. Professional athletes, musician, and actors can influence people who would like to be associated with them in some way.
3.3.5 FAMILY AND HOUSEHOLD INFLUENCES
A family is a group of two or more people related by blood, marriage, or adoption living together in a household. The birth family primarily determines core values and attitudes. The marriage family size is important in the purchase of a car.

A household is a broader concept that relates to a dwelling rather than a relationship. A household consists of a single person, a family or any group of unrelated persons who occupy a housing unit.

Sensitivity to household structure is important in designing marketing strategy. In addition to the direct, immediate impact households have on the purchase behavior of members, it is also interesting to consider the buying behavior of the household as a unit. Who does the buying for a household? Marketers should treat this question as four separate ones, because each may call for different strategies:

- Who influence the buying decision?
- Who makes the buying decision?
- Who makes actual purchase?
- Who uses the product?

Different household members may assume these various roles or one individual may play several roles in a particular purchase. In families, for many years the female did most of the day-to-day buying. However, this behavior has changed as more women have entered the work force, and men and children have assumed greater household responsibility.

3.4 PSYCHOLOGICAL FACTORS

One or more motives within a person activate goal — oriented behavior. One such behavior is perception — that is, the collection and processing of information. Other important psychological activities that play a role in buying decisions are learning, attitude formation, personality and self—concept.

3.4.1 MOTIVATION — THE STARTING POINT

To understand why consumers behave as they do we must first ask why a person acts at all. The answer is, "Because he or she experiences a need. "All behavior starts with a need. Security, social acceptance and prestige are examples of needs. A need must be aroused or stimulated before it becomes a motive.

Thus, a motive is a need sufficiently stimulated to move an individual to seek satisfaction. At one level buyers are quite willing to talk about their motives for buying common everyday products. At a second level, they are aware of their reasons for buying but will not admit them to others. Third level, where even the buyers cannot explain the factors motivating their buying actions. Purchase is often the result of multiple motives.

Classification of Motives. Motives can be grouped into two broad categories:

* Needs aroused from physiological state of tension (such as the need for sleep)
  Needs aroused from psychological state of tension (such as the needs for affection and self—respect).

3.4.2 PERCEPTION

A motive is an aroused need, it in turn, activates behavior intended to satisfy the aroused need. The process of receiving, organizing and assigning meaning to information or stimuli steered by our five senses is known as perception. Perception plays a major role in the stage of the buying —decision process where alternatives are identified.

What we perceive- the meaning we give something sensed — depends on the object and our experience. In an instant the mind is capable of receiving information, comparing it to a huge store of images in memory and providing an interpretation. Perception occurs quickly and often with very little infor-mation but it is a powerful factor in decision making. Scents for example, are powerful behavior triggers.

Every day we come in contact with an enormous number of marketing stimuli. However the perceptual process is selective in very specific ways. Consider that:

- We pay attention by exception. That is of all marketing stimuli our senses are exposed to, only those with the power to capture and hold our attention have the potential of being perceived. This phenomenon is called selective attention.
- As part of perception, new information is compared with a person's existing store of knowledge, or frame of reference. If an inconsistency is discovered the new information will be distorted to conform to the established beliefs.
- We retain only part of what we have selectively perceived.

3.4.3 LEARNING

Learning is changes in behavior resulting from observation and experience. According to **stimulus response theory,** learning occurs as a person (1) responds to some stimulus by behaving in a particular way and (2) is rewarded for a correct response or penalized for an incorrect one. When same correct response is repeated in reaction to the same stimulus a behavior pattern or learning is established.

Five factors are fundamental to learning

- Drive: Internal or external forces that require person to respond in some way.

Cues: Signals from the environment that determine the pattern of response.

Responses: Behavioral reactions to the drive and cues

Reinforcement: Results when the response is rewarding. Reinforcement can be either positive or negative. Positive reinforcement involves experiencing a desirable outcome as a result of engaging in the behavior. Negative reinforcement occurs when a behavior allows a person to avoid an undesirable outcome.

- **Punishment:** A penalty inflicted for incorrect behavior.

3.4.4 PERSONALITY

The study of human personality has given rise to many, widely divergent, schools of psychological thought. In this discussion, personality is defined broadly as an individual's pattern of traits that influence behavioral response. We speak of people as being self-confident, aggressive, shy, domineering, flexible, and / or friendly and as being influenced (but not controlled) by these that personality traits do influence in their responses to situations..

The self — concept: Your self- concept or self —image is the way you see yourself. At the same it is the picture you think other have of you.

Studies of purchases show that generally prefer brands and products that are compatible with their self— concept.

3.4.5 ATTITUDES

An attitude is a learned predisposition to respond to an object or class of Objects in a consistently favorable or unfavorable way. Numerous studies have reported a relationship between consumers' attitudes and their buying behavior regarding both products selected and brands chosen. Surely, then it is a marketer's best interest to understand how attitudes are formed, the functions they perform and how they can be changed.

All attitudes have the following characteristics in common

(i)Attitudes are learned.

(ii)Attitudes have an object. By definition we can hold attitude only toward Something

(ii)attitudes have direction and intensity : Our attitudes are either favorable or unfavorable toward the object. They cannot be neutral. This factor is important for marketers since both strongly held favorable and strongly held unfavorable attitudes are difficult to change.

(iv) Finally attitudes tend to be stable and generalizable. Once formed, attitudes usually endure and the longer they held, the more resistance to change they become. It can be extremely difficult to change strongly held attitudes. Consequently when the marketer is faced with negative or unfavorable attitudes, there are two options:

- Try to change the attitude to be compatible with the produdt
- Determine what the consumers; attitudes are and then change the product to match those attitudes.

3.5 SITUATIONAL INFLUENCES

Often the situations in which we find ourselves play a large part in determining how we behave. Students, for example, act differently in a classroom than they do when they are in a stadium watching a football game. The same holds true of buying behavior. Situational influences tend to be less significant when the consumer is very loyal to a brand and when the consumer is highly involved in the purchase. The five categories of situational influences are related to when, where, how and why consumers buy as well as the conditions under which they buy.

3.5.1 WHEN CONSUMERS BUY — THE DIMENSION Marketers should be able to answer at least three time questions about consumer buying:

- How is it influenced by the season, week, day or hour?
- What impact do past and present events have on the purchase decision?
- How much time does the consumer have to make the purchase and consume the product?

The time dimension of buying has implications for promotions scheduling. Promotional messages must reach consumers when they are in a decision — making frame of mind. It also influences pricing decision, as when marketers adjust prices in an attempt to even out demand. For instance, Mr. Bigg can charge lower prices in the evening for its foods.

The second question concerns the impact of past or future events. Forexample the length of time since you last went out to dinner at a nice restaurant may influence a decision on where to go tonight.

3.5.2 WHERE CONSUMERS BUY — THE PHYSICAL AND SURROUNDINGS

Physical surrounding are the features of a situation that are apparent to the senses. Think of the importance of atmosphere in a restaurant.

The social surroundings are the number, mix and actions of other people at the purchase site. You probably would not go into a strange restaurant that has an empty parking lot at dinnertime.

353 HOW CONSUMERS BUY—THE TERMS OF THE PURCHASE Terms and conditions of sale as well as the transaction —related activities that buyers are willing to perform affect consumer buying.

3.5.4 WHY CONSUMER BUY — THE OBJECTIVE OF THE PURCHASE

The intent or reason for a purchase affects the choice made. We are likely to behave very differently when buying a product for a gift as opposed to buying the same product for ourselves. When purchasing a wristwatch for personal use, a consumer may be most interested in one that will provide accurate time at a reasonable price. However, the appearance of a watch bought as a graduation present can be very important.

3.5.5 CONDITIONS UNDER WHICH CONSUMERS BUY- STATES AND MOODS

Sometimes consumers are in a temporary state that influence their buying decisions. When you are ill or rushed, you may be unwilling to wait in line or to take the time or care that a particular purchase deserves. Moods can also influence purchase. Feelings such as anger or excitement can result in purchase that otherwise would not have been made. Sales people must be trained to recognize consumers' moods and adjust their presentations accordingly.

4.0 CONCLUSION

You have learned and understand the factors influencing consumer buying behaviour and how consumer buying decision relates to marketing strategy to be adopted by marketers.

5.0 SUMMARY

The buying behavior of ultimate consumers can be examined using a five — part model: the buying — decision process, information, social and group forces, psychological forces and situational factors.

The buying decision process is composed of six stages consumers go through in making purchases The stages are need recognition, choice of involvement level, identification of alternatives, evaluation and post purchase behavior. Information fuels the buying — decision process. Without it there would be no decisions. There are two categories of information sources: commercial and social. Commercial sources include advertising, personal selling, selling by phone, and personal involvement with a product owned by someone else social sources.

Social and group forces are composed of culture, subculture, social class, reference groups, family and households. Culture has the broadest and most general influence on buying behavior while a person and group forces has a direct impact on individual purchase decisions as well as a person's psycho-logical makeup.

Psychological forces that impact buying decisions are motivation, perception, learning personality need. Perception is the way we interpret the world around us and is subject to three types of selectivity: attention, distorting, and retention. Learning is a change in behavior as a result of experience. Stimulus response learning involves drives, cues, responses, reinforcement, and punishment. Continued reinforcement leads to habitual buying and brand loyalty

Personality is the sum of an individual's traits that influence behavioral responses. The Freudian psychoanalytic theory of personality has had a significant impact on marketing, it has caused marketers to realize that the true motives for behavior are often hidden. The self concept is related to realize that the true motives for behavior are often hidden. The self concept is related to personality. Because purchasing and consumption are very expressive actions, they allow us to communicate to the world our actual ideal self concepts

Attitudes are learned predisposition to respond to an object or class of objects in a consistent fashion. Besides being learned, all attitudes are difficult to change. Situational influences deals with when, where how and why consumers buy, and the consumer's personal condition at the time of purchase. Situational influences are often so powerful that they can override all of the other forces in the buying —decision process.

Self Assessed Questions

1 a Explain stimulus response theory

b What are the fundamental factors responsible for learning?

6.0 TUTOR-MARKED ASSIGNMENT

1 a. How does family and household influence the choice of a consumers' purchase ?

b. List and explain the stages of a buying —decision process.

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UNIT 7: BUSINESS BUYING BEHAVIOUR

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1.0 INTRODUCTION

Business organizations do not only sell, they also buy vast quantities of raw materials, manufactured components, plant and equipment, supplies, and business services. Sellers of these products need to understand these organizations' needs, resources, policies, and buying procedures. Whatever marketing strategies the marketers want to adopt, one thing is clear. The target markets for their products are business firms that will use them in making other products. These are business products marketed to business users in the business market. The business market is big, rich, and widely diversified. It employs millions of workers in thousands of different jobs.

In many ways business markets are to the consumer markets, but there are also important differences. After studying this unit, you should be able to explain:

(i) The nature and scope of the business market.

(ii) The components of the business market.
(iii) The characteristics of business market demand.
(iv) The determinants of business market demand.
(v) The buying motive, buying processes, and buying patterns in business markets.

2.0 OBJECTIVES

We will examine five questions:

i. What is the business market and how does it differ from the consumer market?
What buying situations do organization buyers face?
Who participates in the business buying process?
iv.What are the major influences on organization buyers?
v.How do business buyers make their decisions?

3.1 NATURE AND SCOPE OF THE BUSINESS MARKET

The business market consists of all business users, organizations that buy goods and services for one of the following purposes:

(i)To make other goods and services. FFF buys wood to make furniture.
(ii)To resell to other business users or to consumers.
(iii)To conduct the organization's operations. The Obafemi Awolowo University buys office supplies and electronic office equipment for use in registrar's office, and her Teaching Hospital buys supplies to use in the surgical operating rooms.

In the business market we deal with both consumer products and business products. Business marketing, then, is the marketing of goods and services to business users, as contrasted to ultimate consumers.

About 50 percent of all manufactured products are sold to the business market. In addition, about 80 percent of all farm products and virtually all minerals, forest and sea products are business goods. These are sold to firms for further processing. Every retail store and wholesaling establishment is a business user. Every bus company airline, and railroad is part of this market. So is every hotel, restaurant, bank, insurance company, hospital, theater and school.

3.2 COMPONENTS OF THE BUSINESS MARKET Traditionally, business markets were referred to as industrial markets. Manufactures constitute a major portion of the business market, but there are also six other components — agriculture, resellers, government agencies, service companies, nonprofit organizations and international.

3.2.1 THE AGRICULTURE MARKET

The high level of income from the sale of agriculture products gives farmers, as a group, the purchasing power that make them a highly attractive market. Moreover, world population forecasts that there will be food shortages in many countries undoubtedly will keep pressure on farmers to increase their output.

Agribusiness — farming, food processing, and other large-scale farming—related business — is big business in every sense of the word.

Agriculture has become a modern industry. Like other business executives, farmers are looking for better ways to increase their productivity, cut their expenses

3.2.2 THE RESELLER MARKET

Intermediaries constitute the reseller market. The basic activity of resellers — unlike any other business market segment- is buying products from supplier organizations and reselling these items in essentially the same form to the resellers' customers. In economic terms, resellers create time, place and possession utilities, rather than form utility.

It is their role as buyers for resale that differentiates resellers and attracts special marketing attention from their suppliers. To resell an item, you must please your customer. Do you know that it is more difficult to determine what will please an outside customer than to find out what will satisfy someone within your own organization?.

3.2.3 THE GOVERNMENT MARKET

The government market includes Federal, state, and local government units that spend billions of naira a year buying for government institutions such as schools, offices, hospitals and military bases.

Government procurement processes are different from those in the private sector of the business market. Try to support this statement by finding out how governments make their purchases in at the various ministries and parastatals.

3.2.4 THE SERVICES MARKET

Currently, firms that produce services greatly outnumber firms that produce goods. The services market includes all transportation carriers and public utilities and the many financial, insurance, legal and real estate firms. This market also includes organizations that produce and sell such diverse services as rental housing, recreation and entertainment repairs, health care, personal care and business services.

Service firms constitute a huge market that buys goods and other services. And all these service firms buy legal, accounting, and consulting advice from other service marketers. Try to identify some service firms in your locality and determine what they buy.

3.2.5 THE "NON-BUSINESS" BUSINESS MARKET

The non-business market includes such diverse institutions as churches, colleges and universities, museums, hospitals and other health institutions. Political parties, labour unions, and charitable organizations. Actually, each of these so — called non-business organizations is a business organization. These organizations do virtually all the things that business do — offer a product, collect money, make investments, hire employees - and therefore require professional management.

Nonprofit organizations also conduct marketing campaigns — in an effort to attract millions of Naira in contributions. In turn, they spend millions of Naira buying goods and services to run their operations. When you look closely at your NG0s, your church or mosque you will tend to agree to the fact that they are business organizations.

3.3 CHARACTERISTICS OF BUSINESS MARKET DEMAND Four demand characteristics differentiate the business market from the consumer market: (i) Demand is derived, (ii) demand tends to be inelastic, (iii) demand is widely fluctuating, and (iv) the market is well informed

3.3.1 DEMAND IS DERIVED

The demand for a business product is derived from the demand for the consumer products in which that business product is used. Thus the demand for steel depends partially on consumer demand for automobiles and refrigerators. But it also depends on the demand for butter and CD players. This is because the tools machines, and other equipment needed to make these items are made of steel.

There are two significant marketing implications in the fact that business market demand is a derived demand. First to estimate the demand for a product a business marketer must be very familiar with how it is used. Second the producer of a business product may engage in marketing efforts to encourage the sale of its buyers' products. The idea is that increases in consumer demand will in turn trigger increases in derived demand for these business products.

3.3.2 DEMAND IS INELASTIC

Another characteristic of the business market is demand elasticity of business products. Elasticity of demand refers to how responsive demand is to a change in the price of a product.

The demand for many business products is relatively inelastic, which means that the demand for a product "a" responds very little to changes in price.

The demand for business products is inelastic because ordinarily the cost of a single part or material is a small portion of the total cost of the finished product. The cost of the chemical is a small part of the price a consumer pays for paint. As a result when the price of the business product changes there is very little change in price of the related consumer products. From a marketing point of view, there are three factors that can moderate inelasticity of business demand.

Price change must occur throughout an entire industry, not in a single firm

The second marketing factors that can affect the inelasticity of demand is time. Much of our discussion here applies to short-tern situation. Over the long run the demand for a given industrial products is more elastic The third factor is the relative importance of a specific business product in the cost of the finished good. The greater the cost of a business product as percentage of the total price of the finished good, the greater the
elasticity of demand for this business product.

3.3.3 DEMAND IS WIDELY FLUCTUATING

The market demand for most classes of business goods fluctuates considerably more than the demand for consumer products

The main cause of these fluctuations is the individual businesses concern about having a shortage of inventory when consumer demand increases or being caught with excess inventory should consumer demand decline. Thus they tend to overreact to signals from the economy, building inventories when they see signs of growth in the economy and working inventories down when the sign suggest stagnation. When the action of all the individual firms are combined the effect on their suppliers is widely fluctuating demand. This is known as the **acceleration principle.** One exception to this generalization is found in agricultural products intended for processing. **Can you explain why this is so?**

3.3.4 BUYERS ARE WELL INFORMED

Typically, business buyers are better informed about what they are buying than ultimate consumers. They know more about the relative merits of alternative sources of supply and competitive product for three reasons.

(i) there are relatively few alternatives for a business buyer to consider.

(ii) the responsibility of a buyer in an organization is ordinarily limited to a few products; and

(iii) for most consumer purchase, an error is only a minor inconvenience. However, in business buying the cost of a mistake may be thousands naira or even the decision maker's job!

3.4 DETERMINANTS OF BUSINESS MARKET DEMAND The factors affecting the market for business products are: (i) the number of potential business users; (ii) their purchasing power; (iii) buying motives, and

(ii) buyer habits. Let us now discuss these factors in turn.

3.4.1 NUMBER AND TYPES OF BUSINESS USERS Number of Buyers. The business market contains relatively few buying units compared to the consumer market. In the U.S there are above 15 million business users in contrast to about 250 million consumers divided among more than 85 millions households. The business market seems even more limited to most companies, because they sell to only a small segment of the total market

One very useful way of organizing information is the **Standard Industrial Classification (SIC) system,** which enables a company to identify relatively segments of its business market. Can you get more information on SIC?

3.4.1.1 SIZE OF BUSINESS USERS

While the business market may be limited in the total number of buying units, it is large in purchasing power. A relatively small percentage of firms account for the greatest share of the value added to products by manufacturing. Value added is the naira value of a firm's output minus the value of the inputs from other firms. If a manufacture buys lumber for 400 naira and converts it into a table that it sells for 1000 Naira, the value added by the manufacturer is 600 Naira.

The marketing significance of these facts is that buying power business markets is highly concentrated in a relatively few firms. That is, a high percentage of industry sales are accounted for by a very small number of firms. Therefore sellers have the opportunity to deal directly with the business users. Middlemen are not as essential as in the consumer market.

3.4.1.2 REGIONAL CONCENTRATION OF BUSINESS USERS There is substantial regional concentration in many major industries and among business users as a whole.

3.4.13 VERTICAL AND HORIZONTAL BUSINESS MARKETS For effective marketing planning, a company should know whether the market for its products is vertical or horizontal. If a firms product is usable by virtually all firms in only one or two industries, it has a vertical business market. On the other hand, if it is usable by many industries, then it is said to have a broad or horizontal business market.

A company's marketing programme ordinarily is influenced by whether its markets are vertical or horizontal. In a vertical market, a product can be tailor-made to meet the specific needs of one industry. However, the industry must buy enough to support this specialization. In addition, advertising and personal selling can be directed more effectively in vertical markets. In a horizontal market, a product is developed as an all purpose item, to reach a larger market. However because of the large potential market, the products are likely to move competition.

3.4.2 BUYING POWER OF BUSINESS USERS

Another determinant of business market demand is the purchasing power of business customers. This can be measured either by the expenditures of business users or by their sales volume. However, such information is not always available or is very difficult to estimate. In such cases purchasing power is estimated indirectly, using an activity **indicator of buying power—**that is, some market factor related to sales and expenditures. For example, a company marketing agricultural products or equipment can estimate the buying power of its farm market by studying such indicators as cash farm income, acreage planted, or crop yields. A chemical producer that sells to a fertilizer manufacture might study the same indices, because the demand for chemicals in this case derives from the demand for fertilizer.

3.4.3 BUSINESS BUYING BEHAVIOR

Business buying behavior is initiated when an aroused need (a motive) is recognized. This leads to goal —oriented activity designed to satisfy the need, marketers must try to determine what motivates the buyer, and then understand the buying process and buying patterns of business organizations in their markets.

Purchasing has become an important part of overall strategy for at least three reasons

(i)Companies are making less and buying more. For many year General Motors has owned the plants that made many of the part for its cars. But in 1992 it announced the closing of seven plants that were no longer competitive. As a result, General Motors will become much more reliant on independent part suppliers.

(ii)Finns are under intense quality and time pressures. To reduce costs and improve efficiency, firms no longer buy and hold inventories of parts and supplies. Instead, they demand that raw materials and components that meet specifications be delivered just in time to go into the production process.

(iii)To get what they need, firms are concentrating their purchase with fewer suppliers and develop ing long term "partnering" relationships. This level of involvement extends beyond a purchase to include such things as working together to develop new products and providing financial support?

3.4.4 BUYING MOTIVES OF BUSINESS USERS

One view of buying motives is that business purchases are methodical and structured. Business buying motives, for the most part, are presumed to be practical and unemotional. Business buyers are assumed to be motivated to achieve the optimal combination of price, quality and service in the products they buy. An alternative view is that business buyers are human, and their business decisions are certainly influenced by their attitudes, perceptions, and values.

The truth actually is somewhere in between. Business buyers have two goals-to further their company's position (in profits, in acceptance by society) and to protect or improve their position in their firms (self-interest). For example, the firm's highest priority may be to save money, and the buyer knows that he will be rewarded for negotiating a low price.

3.4.4.1 TYPES OF BUYING SITUATIONS

The buying situation in business organizations vary widely in their complexity, number of people involved, and time required. Researchers in organizational buying behavior have identified three classes of business buying situations. The three **buying classes** are new —task buying, straight re-buy, and modified re-buy.

i. **New —task buying.** This is the most difficult and complex buying situation because it is a first-time purchase of a major product. Typically more people are involved in new-task buying than in the other two situations because the risk is great. Information needs are high and the evaluation of alternatives is difficult because the decision makers have little experience with the product. A hospital's first — time purchase of laser surgical equipment or a company robots for factory (or buying the factory itself) are new — task buying conditions.

ii. **Straight rebuy.** This is a routine, low —involvement purchase with minimal information needs and no great consideration of alternative. The buyer extensive experience with the seller has been satisfactory, so there is no incentive to search. An example is the repeat purchase of steering wheels by Freightliner, a truck manufacturer.

iii Modified rebuy. This buying situation is somewhere between the other two in terms of time and people involved. Information needed, and alternatives considered. In selecting diesel engines for the trucks it manufactures. Freightliners consider Cummins, Detroit Diesel, and Caterpillar products among others. However, because these engine makers frequently introduce new design and performance. Freightliner evaluates each on a regular basis

3.5 BUYING —DECISION PROCESS IN BUSINESS

The buying — decision process in business markets is a sequence of five stages. Not every purchase involves all the five steps. Straight re-buy purchase usually are low involvement situations for the buyer so they typically skip some stages. But a new-task buying of an expensive good or service is likely to be a high — involvement, total — stage buying decision.

To illustrate the process let's assume that NBC is considering a sugar substitute in Coca-Cola:

i.**Need recognition. NBC** executives are sensitive to the concern of any consumer about sugar in their diets. The opportunity to produce high-quality, good tasting Coke without sugar is very attractive, but finding the right substitute is the challenge.

ii.**Identification of alternatives.** The marketing staff draws up a list of product performance specification for the sugar free drink — attractive appearance, good taste, and reasonable cost. Then the purchasing department identifies the alternative brands and supply sources of sugar substitutes that generally meet these specifications.

iii.**Evaluation of alternatives.** The production, research, and purchasing people jointly evaluate both the alternative products and sources of supply. The complete evaluation considers such factors as product performance and price as well as the suppliers' abilities to meet delivery schedules and provide consistent quality.

iv.**Purchase decision.** Based on the evaluation, the buyer decides on a specific brand and supplier. Next, the purchasing department negotiates the contract.

v.**Post purchase behavior.** NBC continues to evaluate the performances of the sugar substitutes and the selected suppliers to ensure that both meet expectations. Future dealings with a supplier will depend on this performance evaluation and on how well the supplier handles any problems that may later arise involving its product.

3.6 MULTIPLE BUYING INFLUENCE - THE BUYING CENTER One of the biggest challenges in business-to-business marketing is to determine which individuals in the organization play the various buying roles. That is, who influences the buying 'decision, who determines product specifications, and who makes the buying decision? In the business market these activities typically involve several people. In other words, there are **multiple buying influences,** particularly in medium-sized and large firms. Understanding the concept Of a buying center is helpful in identifying the multiple buying influences and understanding the buying process in business organi7ations. **A buying center** may be defined as all the individuals or groups who are involved in the process of making a decision to purchase. Thus a buying center includes the people who play any of the following roles.

i.Users .The people who actually use the business product — perhaps a secretary, an executive, a production- line worker or a truck drive.

ii.**Influencers.** The people who set the specifications, and other aspects of buying decisions because of their technical expertise, their organizational position, or even their political powering the firm.

iii.**Deciders. The** people who make the actual buying decision regarding the business product and the supplier. A purchasing agent may be the decider in a straight — rebuy situation. But some one in top management may make the decision regarding whether to buy an expensive computer.

iv.**Gatekeepers. The people who control the flow** of purchasing information within the organization as well as between the firm and potential vendors. These people may be purchasing agents, secretaries, receptionists, or technical personnel.

v.**Buyers.** The people who interact with the suppliers, arrange the terms of sale and process the actual purchase orders The size and composition of a buying center will vary among business organizations. In one study, the average size of buying centers ranged from 2.7 to 5.1 persons. Within a given organization, the size and makeup of buying center will vary depending on the product's cost, the complexity of the decision, and the stage of the buying process.

3.7 BUYING PATTERNS OF BUSINESS USERS

Buying behaviour in the business market differs significantly from consumer behavior in several ways.

Direct purchase. In the consumer market, consumers rarely buy directly form the producer except in the case of service. In the business market, however, direct purchase by the business user from the producer is quite common even for goods.

Nature of the Relationship. Many business marketers take a broad view of exchanges. Rather than focus only on the immediate customer, they approach marketing as a value chain. That is, they consider the roles of suppliers, producers, distributors, and end users to see how each adds value to final product. This perspective leads to a recognition of the importance of all the parties involved in successfully bringing a product to market and an emphasis on building and maintaining relationships.

Frequency of Purchase. In the business market, firms buy certain products very infrequently. Large installations are purchased only once in many years. Because of this buying pattern a great burden is placed on the personal selling programmes of business sellers. **The** sales force must call on potential customers often enough to keep them familiar with the company's products and to know when a customer is considering a purchase.

Size of order. The average business order is considerably larger than its counter part in the consumer market. This fact, coupled with the infrequency of purchase, spotlights the importance of each sale in the business market. **Length of negotiation period.** Period of negotiation in a business sale is usually much longer than in a consumer transaction. Some reasons for extended negotiations are:

a.Several executives participate in the buying decision.

b.The sale involves a large amount of money.

c.The business product is made to order and considerable discussion is required to establish the specifications.

Reciprocity Arrangements. A highly controversial buying practice is reciprocity: the policy of I'll buy from you if you "II buy form me. Traditionally, reciprocity was common among firms marketing homogeneous basic business products (oil, steel, rubber, paper products, and chemicals). There has been a significant decline but not total elimination of reciprocity.

Demand for service. The user's desire for excellent service is a strong business buying motive that may determine buying patterns. Frequently a firm's only differentiating feature is its service, because the product itself is so standardized that it can be purchased from any number of companies.

Sellers must be ready to furnish service both before and after the sale. In the case of office copiers, manufacturers train the buyers' office staffs in the use of the equipment, and after the machines have been installed, offer other services, such as repairs by specially trained technicians.

Dependability of Study. Another business buying pattern is the user's insistence on an adequate quantity of uniform —quality products. Variations in the quality of materials going into finished products can cause considerable trouble for manufacturers. Adequate quantities are as important as good quality. A work stoppage caused by an insufficient supply of materials is just as costly as one caused by inferior quality of materials

Leasing instead of buying. A growing tendency among firms in the business market is leasing business goods instead of buying them.

Leasing has several merits for the lessor — the firm providing the equipment: a Total net income — the income after charging off repairs and maintenance expenses-is often higher than it would be if the equipment were sold

b. The lessor's market may be expanded to include users who could not afford to buy the product, especially for large equipment.
c. Leasing offers an effective method of getting users to try a new product. From the lessee's —or customer's — point of view, the benefits of leasing are:
d. Leasing allows users to retain their investment capital for other purposes.
e. Firm can enter a new business with less capital outlay than would be necessary if they had to buy equipment.
f. Leased products are usually repaired and maintained by lessors, eliminating one headache associated with ownership.
g. Leasing is particularly attractive to firms that need equipment seasonally • or sporadically, as in food canning or construction

4.0 CONCLUSION

In this unit you have learned what business marketing is and how it fits into an organization's strategy. You also appreciate the importance of carefully defining and understanding strategy. You also appreciate the importance of carefully defming and understanding business markets.

5.0 SUMMARY

The business market consists of organizations that buy goods and services to produce other goods and services, to resell to other business users or consumers, or to conduct the organization's operations. It is an extremely large and complex market spanning a wide variety of business users that buy a board array of business goods and services. Besides manufacturing, the business market includes the agriculture, reseller, government, services, nonprofit, and international markets.

Business market demand generally is derived, inelastic, and widely fluctuating. Business buyers usually are well informed about what they are buying. Business market demand is analyzed by evaluating the number and kinds of business users and their purchasing power.

Business buying, or purchasing, has taken on greater strategic importance because organizations are buying more and making less, under intense time and quality pressures, and developing long- term partnering relationships with suppliers.

Business buying motives are focused on achieving a firm's objectives but the business buying self—interest must also be considered.

The buying —decision process in business markets may involve as many as five stages: need recognition, identification of alternatives, evaluation of alternatives, purchase decision, and post purchase behavior. The actual number of stages in a given purchase decision depends largely on the buying situation, whether new-task buy, straight rebuy, or modified rebuy.

The concept of a buying center reflects the multiple buying influences in business purchasing decisions. In a typical buying center are people playing the roles of users, influences, deciders, gatekeepers and buyers.

Buying patterns (habits) of business users often are quite difference from patterns in the consumer market. In the business market, direct purchases (without middlemen) are more common, purchases are made less frequently, and orders are larger. The negotiation period usually is longer, and reciprocity arrangements are more common. The demand for services is greater, and the dependability of supply is more critical. Finally, leasing (rather than product ownership) is quite common in business marketing.

Self-Assessed Questions Differentiate in details between:

- The Reseller Market:
- The government market:

6.0 TUTOR-MARKED ASSIGNMENT

Question

A rational human being do not purchase a product without examining one or two features, such as price, brand, taste etc.

Briefly examine the buying decision process.

7.0 FURTHER READING

Bovee, C.L and J. V.Thill (1992): Marketing, New Fork McGraw-Hill, Inc.

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UNIT 8: PRODUCTS

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1.0 INTRODUCTION

This unit introduces you to fundamental product concepts, beginning with a broad definition of "product". After this, we will see how marketers classify the products they deal with and, this is usually a vital step in designing your marketing strategy. The unit also takes you through the elements that make up a product.

2.0 OBJECTIVES

After studying this unit, you should be able to:

(i) Define the term production.
(ii) Describe the various classifications of consumer and industrial products.
(iii) Explain the value of branding and discuss typical branding strategies.
(iv) Analyse the two primary functions of packaging.
(v) Discuss the three primary functions of labeling.
(vi) Describe the important elements of product support.

3.1 THE MEANING OF A PRODUCT

Let us start by asking you to name any three "products" off head. You are most likely to consider things like cola, shoes, cars... or three other similar products. Indeed, you might not thing of games reserves, WEMA Treasure account, or the popular TV comedy - "Papa Ajasco". This is because when we are on the buying end of an exchange, we often think of products as tangible objects, that is, things we can actually touch and possess. Football teams, transport companies, TV programmes etc. provide an intangible service for our use or enjoyment, not for our ownership.

Hence, from the marketing point of view, a product is defined as anything offered for sale for the purpose of satisfying a need or want on both sides of the exchange process. In this regard, a product includes a tangible object that marketers refer to as a good, as well as an intangible service (such as an ideas, a place, an event, an organization etc), or any combination o f tangible objects and intangible services.

Quite often, most products consist of a bundle of attributes that can be heavy on the tangible side, or heavy on the intangible side, or anywhere in between.

3.2 PRODUCT LEVELS

As illustrated by Figure 8.1, products can be viewed under five levels. Each of these levels adds more customer value, and the five constitute a customer value hierarchy. The most fundamental level is the core benefit i.e. the fundamental service or benefit that the customer is really buying. For instance, the core benefit enjoyed by a guest in a hotel is "rest and sleep".

Figure 8.1: Levels of a Product

At the second level, the marketer has to turn the core benefit into a basic product. In the hotel example, such things as a bed, bathroom, towels, table, chair, dresser and closet are the basic products enjoyed by a guest in the hotel. In the third level, the marketer prepares an expected product i.e. a set of attributes and conditions buyers normally expect when they purchase a product. For instance, hotel guests expect a clean bed, fresh towels, working lamps, and a relatively quiet environment.

At the fourth level, the marketer prepares an augmented product that exceeds customer expectations. In this wise, a hotel can include a remote-controlled TV. Set, remote-controlled air conditioner, fresh flowers, rapid check-in, express checkout, and fine dining and room service. You need to understand that in the developed countries, however, competition takes place mostly at the expected product level.

At the fifth level, is the potential product, which consists of all the possible augmentations and transformations the product might undergo in the future.

The foregoing description of the different layers of a product should make it clear that a product is definitely more than a simple set of tangible features. Consumers actually want to see products as complex bundle of benefits that satisfy their needs. The facts, as of today are that most competition takes place at the product augmentation level. This is why successful firms add benefits to their offers. Such benefits not only satisfy the customers, they are also delighted.

3.3 ELEMENTS OF A PRODUCT

Elements that make up a product include attributes, branding, packaging, labeling, and product support services. Certain decisions along these lines are often made concerning the development and marketing of individual products. Each of these elements applies to all categories of products. However, the way marketers handle them can vary significantly from one product to another. Actually, one of the primary goals of marketers is to differentiate their product from competing ones by developing unique strategies for each product element. We shall be taking a closer look at each of these elements.

3.3.1 PRODUCT ATTRIBUTES

The development of a product necessarily involves the consideration of the benefits that the product will offer. Such benefits are communicated and delivered by product attributes like quality, features and design. The degree of consideration given to these attributes has far reaching implications on consumer's acceptance of the product.

3.3.1.1 PRODUCT QUALITY

Quality is one of the marketing manager's strategies of placing the product in the mind of the prospect or the consumer (i.e. positioning). Whenever a product is being developed, the issue of quality comes under two dimensions: level and consistency. In the first case, the marketing manager must choose a quality of a product to perform its functions, such as overall durability, reliability, precision, ease of operation, and repairs, as well as other valued attributes. The second consideration for quality is in respect of consistently delivering the targeted level of quality to consumers. Hence, there should be no defects in the products being offered to the market. In addition, no variations should be spotted in them.

It is realization of the need for high levels of quality consistency that firms At up quality control units. Generally, good quality control measures involve preventing defects before they occur, through better product design and improved manufacturing process.

In recent times, many business enterprises have embraced "Total Quality Management (TQM) as an important tool to constantly improve product and process quality in every facet of their activities. Such companies are gradually turning quality into a potent strategic weapon of gaining an edge over competitors by offering products and services that better serve customers' need and preferences for quality.

3.3.1.2 PRODUCT FEATURES

Another important product attributes are the features a particular product processes. A product can be offered with varying features. A model without any extras (a "stripped - down" model) is usually the starting point. The company can simultaneously create higher-level models by adding more features. Consider automobile-manufacturing plant for example. A "stripped-down" model of the vehicles being produced will contain no extra features like air-conditioners, head rests, alloy rims, car stereo etc. However, the higher models which contain any one or combinations of these extras features are fast becoming a competitive tool for differentiating the company's products from competitors'. What is generally needed here is some high degree of innovativeness backed with a sound and efficient marketing research unit.

3.3.1.3 PRODUCT DESIGN

The process of designing a product's style and function concerns creating that is attractive, easy, safe, and inexpensive to use and service. It should also be simple and economical to produce and distribute.

Just like product features, product design can be one of the most powerful competitive weapons in a company's marketing arsenal.

For instance, good designs can attract attention, improve product performance, cut production costs, and give the product a strong, competitive advantage in the target market.

3.3.2 BRANDING

A forward-looking marketing manager will usually consider the issue of branding, as part of his strategic plans. But what is a brand?

A brand is a name, term, sign, symbol or design, or a combination of these, which is intended to identify the products or services of one seller or group of sellers and to differentiate them from those of competitors. Therefore, a brand identifies the maker or seller of a product. It is a seller's promise to deliver consistently, a specific set of features, benefits, and services to buyers.

We must observe that the term branding includes brand names, brand marks and trademarks.

Brand name is narrower in meaning and is concerned with that part of a brand which can be vocalized (i.e. utterable or pronounceable). A brand name is defined as a brand or part of a brand consisting of a word, letter, group of words or letters, comprising a name, which identifies the goods or services of a seller or group of sellers and distinguishes them from competitors. Examples here include Coca Cola, Pepsi Cola, Peugeot, Toyota, Panadol, Bacchus.

Brand mark is that part of a brand which can be recognized but is not utterable or pronounceable, such as symbols, designs or distinctive colouring or lettering. Examples. Lion head (for Peugeot).

A trademark is a brand or part of a brand that is given legal protection because it is capable of exclusive appropriation. A trademark usually protects the seller's exclusive rights to use the brand name and/or brand mark.

Branding is now an important issue in product strategy that can be viewed from two sides. On the one hand, developing a branded product requires a great deal of long-term marketing investment, especially for advertisement, promotion and packaging. Hence, some manufactures usually find it convenient and cheaper to make the product and let others do the brand building. This strategy is common with Taiwanese manufactures who make substantial proportion of the world's clothing, consumer electronics, and computers that are sold under non-Taiwanese brand names.

On the other hand, many manufacturers have come to realize that the power lies with the companies that control the brand names. For example, brand name clothing, electronics, and computer companies can replace their Taiwanese manufacturing sources with cheaper sources in Malaysia. It is however regrettable that the Taiwanese producers can do very little to prevent the loss of sales to less expensive suppliers.

Generally, branding adds value to consumers and society since it leads to higher and more consistent product quality. It also increases the degree of innovativeness in the business world by giving producers some incentives to look for new features that cannot be easily copied by competitors. In this sense, branding can be said to result in more product variety and choice for consumers. Finally, branding increases shoppers' efficiency by providing sufficient information about products and where to find them.

Apart from the above, branding has been observed to confer specific advantages on both the buyer and the seller.

Benefits to the Buyer:

(i) Brand names inform the buyer about product quality. For instance, a buyer who purchases the same brand knows that he will obtain the same quality each time he buys.

(ii) Brand names also increase the shopping efficiency of the buyer. Since different products have their particular brand names, a buyer will find it easy to pick his choice from the pack instead of just aimlessly going through nameless products.

(iii) Brand names also assist in calling customers' attention to new products, especially when backed by aggressive promotional activities. .

Benefits to the Seller:

(i) Brand names make it easier for sellers to receive and process orders, as well as track down problems. For example, a contract for the supply of vehicles will usually be specific about the particular model needed.

The sellers' brand name and trademark instantly give legal protection for unique product feature that otherwise might be copied by competitors.

(ii) Branding allows the seller attract loyal and profitable sets of customers.

(iii) Through branding, the seller is able to segment his markets and by so doing cater for the needs of the various segments in the market.

3.3.3 PACKAGING

Packaging has to do with the activities of designing and producing the container or wrapper for a product. The package may comprise of the following:

(a) the product's primary container (e.g. the bottle holding bennylin cough a syrup);

(b) a secondary package, that is thrown away when the product is about to be used (i.e. the card box containing the bottle of Bennylin cough syrup); and

(c) the shipping package necessary to store, identify and ship the product (e.g. a corrugated box carrying larger volumes of the product).

In today's business, several factors have made packaging an important marketing tool. For instance, the increase in self-service dictates that packages must necessarily perform many sales tasks such as attracting attention, describing the products, as well as making the sale. In actual fact, innovative packaging can offer a company an advantage over competitors. Labeling, which consists of printed information appearing on or with the package, should be seen as part and parcel of packaging. Labels may range from simple tags attached to products to complex graphics that are part of the package. They often perform at least two functions. In the first place, the label identifies the products or brand. Secondly, it may contain some useful information about the product such as its content, expiry date, direction for use etc.

3.3.4 PRODUCT-SUPPORT SERVICES

Another important element of product strategy is customer service. What a firm offers in the market place usually includes some services, which may be a minor or major part of the total offer. These are known as product-support services since they augment actual products.

Good customer service has its positive points. For instance, it costs less to keep the goodwill of existing customers that it does to attract new ones or win back lost customers. Firms that provide high quality service usually have the opportunity to charge more, grow faster and make more profits.

It is in this sense that many are now setting up strong customer service operations to handle complaints and adjustments, credit service, maintenance service, technical service, and consumer information. A well-staffed and equipped customer service department should be able to effectively coordinate al the firm's services, create consumer satisfaction and loyalty, and helps the firm to further be ahead of its competitors.

3.4 PRODUCT CLASSIFICATION

Several product classification systems have been devised for efficient marketing of products and services. In the first place, all products and services can be broadly grouped into two major classes on the bases of the types of consumers that use them. These classes are: consumer products and industrial products. In the second place, these two group are further subdivided into various subgroups (see Figure 8.2).

3.4.1 CONSUMER PRODUCT

These are goods or services bought by final consumer for personal consumption, in such a form that they may be used without further commercial processing.

The purpose of the marketing process is the satisfaction of consumers. Hence, to develop and market products effectively, it is necessary to know how customers feel about the products most especially their basis of choice. It follows form here that any sub-division of consumers goods should be based on consumer behavior. In this regard, all customer goods can be separated into four categories.

(a)Convenience products
(b)Shopping products
(c)Specialty products
(d)Unsought products

A closer examination of these categories of products will reveal that they differ in the ways consumers buy them, hence there are differences in how they are marketed. Table 8.1 gives a summary of the marketing considerations for the four categories of consumer products

	<								
Examples	**Promotion**	**Distribution**	**Price**				**Typical Customer buying habit**		**Major Marketing <u>Considerations</u>**
Cigarettes, soap, drugs, newspapers, magazines, chewing gums, grocery	Mass Promotion by the producer	*Widespread outlets *Convenient locations	I* Low Price	L• Low customer involvement	* Little Comparison or shopping effort	* Little planning	* Frequent Purchase	**<u>(a) Convenience</u>**	
Refrigerators, television sets, washing machines furniture, draperies	*Advertising and personal selling by both producer and resellers	*Selective distribution in few outlets	* Higher P		*Comparison of brands on price, style, suitab	* Much planning and shoppin	* Less frequent purchase	**<u>(b) Shopping</u>**	**Types of Consumer Product**
Mostly luxury products such as Rolex wrist watches	*More carefully targeted promotion by both producer and resellers	*Exclusive distribution in only one or a few outlets within a	* High price	*Little comparison of brands.	*Special purchase effort		*Strong brand Preference and loyalty	**<u>(c) Specially</u>**	
Life insurance, encyclopedias, Red Gross blood	*Aggressive advertising, personal selling and othe promotio	Varies	Varies			If aware, little or negative	*Little product awareness, knowledge	**<u>(d) Unsought –I</u>**	

3.4.1.1 CONVENIENCE PRODUCTS

Convenience products are those products and services for which the probable gain from making price and quality comparisons is thought to be small relative to the value of the customer is time and efforts Examples include cigarettes, soap, newspapers, magazines, chewing gun and most grocery products. These products are frequently and readily purchased, require little service or selling efforts, are not very expensive, and may even be bought by habit.

Convenience products can be subdivided further into three types, based primarily on how customers think about and buy such products:

(i)staples products

(ii)impulse products

(iii)emergency products.

Staples: Staples such as food and drug items used regularly in every household, are usually bought without much thought beyond the initial decision to buy such products. Staples are usually purchased frequently. Here branding becomes important since brand recognition or preference helps the customer reduce his shopping effort. In addition, if prices change occasionally on these items, he does not need to reconsider which items to purchase, since he can make do with familiar ones.

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Convenience I Shopping Speciality Unsou

gh Material & Capital

Parts Items

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1

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•

Staple

1

v

Homogenous New Products

•

Emergency Installations Supplies

Heterogeneous Perpectual Accessories

Impulses

I

•

1—

Figure 8.2 Classification of Products

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1—

Usually, staple items are offered for sale in many convenient places because of customers' reluctance to search very far. Hence, they an found mostly in food stores, drugstores, super -markets etc.

Impulse Products:- These are products which customers typically do not seek, they are often purchased with little planning or search effort. These products are normally widely available. This is why candy bars, magazines, etc are placed next to checkout counters in many stores since shoppers may not otherwise think of buying them.

It has been observed that as the income and buying power of customers grow, the number of impulse items seems to the expanding. We should however note that not all impulse items are purchased for emotional reasons alone. To be sure, these products may satisfy both emotional and economic motives.

Emergency Products:- These are purchased only when the need is urgent, and are thus purchased less frequently. Considerations for price and quality is of little importance if the need is immediate enough. Examples include ambulance services, umbrellas or raincoats during a rainstorm.

3.4.1.2 SHOPPING PRODUCTS

Shopping product are those for which the probable gain from making price, style, suitability and quality comparisons is thought to be large relative to the time and effort needed to shop properly for these products. Consumers spend much time and efforts in gathering information and making comparisons when buying shopping product. Examples include furniture , clothing, used cars, and major appliances.

Shopping products can be subdivided into two classifications, depending on what customers are seeking; (1) homogenous and (2) heterogeneous.

Homogenous Shopping products are seen by the consumer to be similar in quality but different enough in price to justify shopping comparison. Examples here include refrigerators, television sets, and automobiles. Thus, each competitor has an almost perfect elastic demand curve. In such a case, a slight price cut would substantially increase sales volume, therefore, we might expect price competition among the various competitors in the market.

Heterogeneous:-Shopping products are seen by the consumer as non-standardized, hence wants to inspect for quality and suitability because the product features are more important than price.

It is important therefore that a seller of heterogeneous shopping products carry a wide assortment to satisfy individual tastes. In addition, the seller must have well-trained sales people to give information and advice to customers since they often prefer to be guided. Furthermore, draperies, dishes and clothing are good examples of this categories of shopping product.

3.4.1.3 SPECIALITY PRODUCTS:

Specially products are those consumer products with unique characteristics or brand identification for which or significant group of buyers is willing to make a special purchase effort. The special effort the consumer makes is not to compare the product with others, but merely to locate it, hence searching in the shopping products sense does not take place here.

Specially products are usually specific branded items rather than product categories, i.e. they are specific products which have passed the brand preference stage and reached the brand insistence stage. For instance, consumers have been observed asking for a drug product by its brand name, and when offered a substitute actually leaving the store in anger. Some well-advertised food and drug products seem to have carved out a market for themselves. If they achieve the brand insistence stage, we refer to them as speciality products. The demands for specialty products are relatively inelastic at least within reasonable price ranges since customers are willing to insist upon the product. Typical examples of specialty products include specific brands and types of cars, high-priced photographic equipment and custom-made men's suits.

3.4.1.4 UNSOUGHT PRODUCTS:-

These are consumer products that the consumer either does not know about or knows about, but does not normally think of buying. There seem to be two types of unsought products: Almost all new products in the introductory stages may be classified as "Unsought" until the consumer becomes aware of them through advertising. Yet there are some consumer products that seem to perpetually remain unsought for the majority of potential customers. Aggressive and continuous promotion is therefore necessary for both types to move new products out of this category and simply to sell the latter group (which very often never gets out of the introductory stage). Examples of unsought products include life insurance, encyclopedias, blood donation to the Red Cross.

3.4.2 INDUSTRIAL PRODUCTS

Industrial products are those purchased for further processing or for use in conducting a business. When this description is compared with that of consumer products, it would be seen that the distinction between then is simply based on the purpose for which the particular product was bought. For example, if a consumer buys a camcorder for the recording of important events for personal and private use, the camcorder is seen as a consumer product If on the other hand, the consumer buys the same camcorder for the recording of events such as wedding, funeral, birthdays with the intention of receiving financial rewards, this camcorder is considered an industrial product.

Industrial product can be classified into three groups:

(a)Materials and parts

(b)Capital items

(c)Supply and services

3.4.2.1 MATERIALS AND PARTS

These are industrial products that enter the manufacturer's product completely, including raw materials and manufactured materials and parts.

Raw Materials include farm products (e.g. Maize, wheat, cotton, cocoa beans, livestock, fruits, vegetables etc) and are supplied by many small producers who turn them over to marked intermediaries that process and sell them. The other component of raw materials are natural products (e.g. lumber, fish, crude petroleum, iron ore etc). They usually have great bulk and low unit value, and require a lot of transportation to move them from producer to user. They are also supplied by fewer but lager producers, who often tend to supply these products directly to industrial users.

Manufactured materials consist of component materials (e.g. yam, cement, wires, iron etc) and component parts (e.g. castings, engines, tires, bulbs etc).

3.4.2.2 CAPITAL ITEMS

Capital items are industrial products that aid in the buyers production or operations. These are composed of (i) installations and (ii) accessory equipment.

Installations are large and expensive items which do not become a part of the final

product but instead are used up over many years. They represent major expenditures for the firm and are depreciated over a long period. In addition then are bought directly from the producer. Examples of installations include buildings (e.g. factories, offices) and fixed equipment's (e.g. generators, drill presses, large computers, elevators)
Accessory equipment like their installation counterparts do not become a part of the final product. They are usually less expensive and shorter-lived than installations. Products in this category include tools and equipment which facilitate production or office activities. Examples include potable drills, lift trucks, typewriters, fax machines, desks, filing cabinets wheel barrows etc).

3.4.2.3 SUPPLIES AND SERVICES

These are industrial products that do not enter the finished product at all. Supplies include operating supplies (e.g. lubricants, coal, computer paper, pencils) and repair and maintenance items (e.g. brooms,. nails, paint etc.). In some respects, supplies are the convenience products of the industrial field because they are usually purchased with a minimum of efforts and comparison.

Services are frequently necessary or desirable to plan, facilitate or support operation. Business services include maintenance and repairs services (e.g. window cleaning, computer and machinery repair etc) and business advisory services (legal, management consulting, advertising etc.).

4.0 CONCLUSION

Production is the first, and the most important element in the marketing mix. A product can be defined as a set of tangible and intangible attributes, including packaging, colour, price, quality and brand, plus the seller's services and reputation. A product may be a good, service, place, person or idea. In essence, then, consumers are buying much more than a set of physical attributes when they buy a product. They are buying want satisfaction in the form of the benefits they expect to receive from the product.

5.0 SUMMARY

To manage its products effectively, a firm's marketers must understand the full meaning of a product, which stresses that consumers are buying want satisfaction. Products can be classified into two basic categories i.e, consumer products and industrial products. Each category is then subdivided, because a different marketing program is required for each distinct group of product.

Self-Assessed Questions

1.Compare the elements of a producer's marketing mix for a convenience good with those of the mix for a speciality good.

2.In which of the five categories of business goods, should each of the following be included? And which products may belong in more than one category?

(a)Trucks
(b)Medical X-ray equipment
(c)Typing paper
(d)copper wire
(e)printing paper

6.0 TUTOR-MARKED ASSIGNMENT

Question:

Analyse two primary functions of packaging.

7.0 FURTHER READING

Boyce, C.L. and J.V. Thill (1992): Marketing New York,: McGraw — Hill, Inc.
Stanton, W.J. M.J. Etzal and B.J. Wallcen (1994): Fundamentals of marketing. 5th ed. New York.; McGraw — Hill, Inc.

UNIT 9: PRODUCT — MIX STRATEGIES

Table Of Contents

1.0 INTRODUCTION

A product mix (also called product assortment) is the set of all products and items that a particular seller offers for sale. Over time, a company needs to make numerous decisions about this array of products. The correctness or otherwise of such decisions greatly affects the company's degree of success over some time. In this unit, you will learn a number of strategic decisions pertaining to an organization's assortment of products.

2.0 OBJECTIVES

After studying this unit, you should be able to:

(i)differentiate between product mix and product line;
(ii)explain the major product-mix strategies;
(iii)explain the meaning of the terms, "trading up" and "trading down"
(iv)Understand the concept of product life cycle.

3.1 PRODUCT MIX AND PRODUCT LINE

As you will come to fully understand later in this course, few firms rely on a single product. Rather, most companies deal in many products. The set of all products and items that a particular seller offers for sale is called a product mix or product assortment.

A company's product mix has a certain width, length, depth, and consistency:

- The width of a product mix refers to how many different product lines the company carries.
- The length of product mix refers to the total number of items in the mix From this, we can also talk about the average length of a line. This is found by dividing the total length by the number of lines.
- The depth of a product mix refers to how many variants are offered of each product in the line. For example, if a product, such as toothpaste, comes in three different sizes (small, medium, and large) and two formulations, (regular and smoker's), that

particular product has a depth of six,

- The consistency of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels or some other way. A company's product
lines are said to be consistent, for instance if they are consumer goods that go through the same distribution channels. The lines are less consistent if they perform different functions for the buyer.

These four product-mix dimensions allow the company to expand its business in four ways. In the first place; it can add new product lines, thereby widening its product mix. Secondly, it can lengthen each product line. Thirdly, it can add more product variants to each product, thereby deepening its product mix. Fourthly, the company may pursue more product-line consistency.

Let us now formally define a product line: A broad group of products, intended for essentially similar uses and having similar physical characteristics, constitutes a product line. In offering a product line, companies normally develop a basic platform and modules that can be added to meet different customer requirements. For instance, car manufacturer build their cars around a basic platform. Home builders show a model home around which additional features can be added.

3.2 PRODUCTS-MIX STRATEGIES

You were informed in section 3.1 that most companies carry a diverse assortment of products. For instance, you may find a particular company dealing in baked goods, snack foods, family entertainment and different brands of soft drinks. This wide variety of good has not been developed by accident. Rather, it reflects a planned strategy by the company. This is to say that to be successful in marketing, producers and middlemen need carefully planned strategies for managing their product mixes. This would be made clearer in the sections that follow.

3.2.1 POSITIONING THE PRODUCT

A company's ability to bring attention to a product, as well as differentiate it in a favourable way from similar products goes a long way toward determining that product's revenues and the company's profits. Therefore, it is important for companies to engage in positioning. Positioning means developing the image that a product projects in relation to competitive products and to the firm's other products.

You need to understand that positioning is not what you do to a product. It is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect. This is the reason why well-known products generally hold a distinctive position in consumers' mind.

There are a member of positioning strategies that marketing execution can choose from. It is also possible to employ more than one strategy. Let us examine the available strategies:

(i)Positioning in Relation to a Competitor

Positioning directly against the competitor is the best strategy for some product. This strategy has been found to be especially suitable for a firm that already has a solid differential advantage or is trying to solidify such an advantage. For example, in order to ward off rival makers of microprocessors, Intel corp. launched a campaign to convince buyers that its product is superior to competitors'. To reap maximum benefits, the company even paid computer makers to include the slogan, "Intel Inside", in their advertisements. You should be familiar with this label on personal computers and even in

newspaper advertisements.
In some other products however, head-to-head positioning should never be done, especially when a competitor has a strong market position.
The market leader will do everything to frustrate such moves, and this might eventually lead to the failure of the contender.

(ii)**Positioning in Relation to Product class or Attribute** At times, a company's positioning strategy entails associating its products with a product class or attribute. Sometimes, however, the company might want to actually dissociate its products from a product class or attribute. For instance, some firms promote their products as having an attractive attribute, such as "low energy consumption", or "environmentally friendly". These days, this strategy is now widely used for food products. For example, some food products are being labeled as containing little or no salt, sugar, fat, or cholesterol. Such items are positioned against products that are packed with the conventional amount of salt, calories, cholesterol or fat content.

(iii)Positioning by Price and Quality

There are two extremes here. On one side, some producers and retailers may opt for high quality and high prices strategy. On the other side, are discounters who stress low prices. This is not to infer that discounters ignore quality.

(iv)Positioning in Relation to Target Market

Whatever positioning strategy is adopted, the needs of the target market must always be considered. This is consistent with our discussion on satisfying the needs and wants of the prospective customer.

3.2.2 PRODUCT — MIX EXPANSION

Product — mix expansion is accomplished by increasing the depth within a particular line and / or the number of lines a firm offers to consumers. An illustration of the options would make the strategy clearer to you.

When a company adds a similar item to an existing product line with the same brand name, this is termed a line extension. A firm many engage in line extension for several reasons. The major one is that the firm wants to appeal to more market segments by offering a wider range of choices for a particular product. Another way to expand the product mix, known as mix extension, is to add a new product line to the company's present assortment. Under this strategy, the new line may or may not be related to current products. In addition, it may carry one of the company's existing brand names or may be given an entirely new name.

With these situations, a company has four alternatives:

(a)Related product, same brand
(b)Unrelated product, same brand
(c)Related product, different brand
(d)Unrelated product, different brand.

What usually happens, is that the ne* line is related to the existing product mix because the company wants to capitalize on its expertise and experience.

3.2.3 TRADING UP AND TRADING DOWN

Trading up and trading down strategies involve a change in product positioning as well as an extension of the product line. In the case of trading up, a higher-price product is added to a line in order to attract a broader market. Another reason for adopting this strategy is that the added product's prestige might help the sale of the existing lower-price products.

Trading down strategy entails adding a lower-price product to a company's product line. It is expected that people who cannot afford the original higher-price product or who see it as too expensive will buy the new lower-price product. The reason for this is simple: the lower-price product carries some of the status and some of the• other more substantive benefits (such as performance) of the higher-price item.

It is possible to practice the trading down strategy without necessarily introducing new, lower-price product. This is usually done or achieved through advertising. For instance, a manufacturer of wrist watches might accomplish this by advertising some of the lower-price items in its existing product lines.

You should note that trading up and trading down strategies could be very dangerous, especially since the new product may confuse buyers, thereby resulting in negligible net gain. It is equally undesirable if sales of the new item or line are generated as the expense of the established products. For instance, when trading down, the new products may permanently hurt the firm's reputation as well as that of its established high-quality product. In order to run away from this damage, the new lower-price products may be given brand names that are different from the established brands.

With respect to trading up, the problem actually depends on whether the new product or line carries the established brand name is adopted, it is necessary for the company to change its image so that new customers will accept the higher-price product. Ironically, the seller does not want to lose its present customers. Thus, the new offering may present a cloudy image, not attracting new customers but driving away existing customers. If a different brand name is used, the company must create awareness for it, and then stimulate consumers to buy the new product.

3.2.4 ALTERATION OF EXISTING PRODUCTS

Instead of developing a completely new product, management could take critical look at the company's existing product-mix. The firm can thus adopt the strategy of product alteration, by improving an established product. This strategy may actually be more profitable and less risky than developing new products. However, product alteration has some inherent risks. For instance, when Coca-Cola Bottling Company modified the formula for its leading product (i.e. Coca-cola) and changed its name to New Coke, sales dropped drastically. The company was subsequently forced to bring the old formular back three months later under the classic Coca-cola brand name.

Another possible alterative, especially for consumer goods, is to change the products packaging, instead of the product itself. Companies often have been found to alter products' packaging to enhance appearance or to improve the product's usability.

3.2.5 PRODUCT — MIX CONTRACTION

Product-mix contraction is carried out either by eliminating an entire line or by simplifying the assortment within a line. The main objective of this strategy is to obtain higher profits from fewer products. In this case, thinner and / or shorter product lines or mixes can weed out low-profit and unprofitable products. Generally, as firms discover that they have an unmanageable number of products or that various items or lines are unprofitable or both product-mix pruning is the best bet.

3.3 PRODUCT LIFE CYCLE

Products like human beings have a life cycle. The product life cycle (PLC) concept takes an important place in the development of product mix strategy. It serves to identify the competitive environment for new products, and to identify alternative competitive environment for new products. In order words, it helps to assess the changing nature of competition, costs, and market opportunities over time.

To say that a product has a life cycle is to asset four things:

1. Products have a limited life
2. Product sales pass through distinct stages, each posing different challenges, opportunities and problems to the seller.
3. Profits rise and fall at different stages of the PLC.
4. Products require different marketing, financial, manufacturing, purchasing and human resource strategies in each stage of their life cycle.

Normally, one would expect that a product's sales potential and profitability will change overtime. The PLC is thus an attempt to recognise distinct stages in the sales history of the product. From birth to death, the cycle is typically divided into four stages as shown in Figure 9.1. These are: Introduction, growth, maturity and decline.

The length of the cycle varies among products, ranging from a few weeks or a short season (e.g. a fad or apparel fashion) to several decades (e.g. autos or telephones). The duration of each stage may also be different among products. For instance, some take years to pass through the introductory stage, while others are accepted in a few weeks. We should also note that not all products go through all stages: Some may die off in the introductory stage. However, in virtually all cases decline and possible death are unavoidable for certain reasons, which may be that:

(i) the need for the product has disappeared;

(ii)a better or less expensive product is developed to fill the same need; or

(iii)a competitor does a superior marketing job.

Figure 9.2: Typical Life Cycle of a Product Category

INTRODUCTION

GROWTH

MATURITY

DECLINE

Sales volume

Profit

Naira

Time in Years

3.3.1 ENVIRONMENTAL CHARACTERISTICS AND MARKETING STRATEGIES FOR THE STAGES

Introduction: The product is new to the market, and most buyers have not even tried it since little is known about the product. In many respects, the introductory stage is the most risky and expensive one. This is why there is the high percentage of product failures at this period. Operations in this introductory period are characterized by high costs, low sales volume, and limited distribution. For really new products, there is very little competition. The promotional programme stimulates primary, rather than secondary demand. Profits are non-existent at this stage because of the heavy expenses on product introduction.

Possible Marketing Strategies for the Introductory Stage

When introducing a new product to the market, marketing managers can set a high or a low level for each marketing variable, such as price, promotion, and product quality. If we assume product quality to be constant, price and promotion can be employed to pursue one of the four strategies shown in Figure 9.2 below.

ROMOTION

High Low

Rapid — Skimming Strategy	Slow — Skimming Strategy
Rapid — Penetration Strategy	Slow — Penetration Strategy

High PRICE Low

Figure 9.2: Four Introductory Marketing Strategies

(a) Rapid— Skimming Strategy

This consists of launching the new product at a high price and a high promotion level. A high price is being charged because the firm wants to recover as much gross profit per unit as possible. In addition, the firm spends heavily on promotion in order to convince the market of the products' merits even at the high price level. The high promotion acts to accelerate the rate of market penetration. This strategy is applicable under the following conditions:

(i) a large part of the potential market is unaware of the product;
(ii) those who become aware are eager to have the product and able to pay the asking price; and
(iii) the firm faces potential competition and wants to build up brand preference.

(b) Slow — Skimming Strategy

Under this strategy, the new product is launched at a high price and low promotion. As usual, the objective of the high price is to recover as much gross profit per unit as possible. The low level of promotion is to keep the marketing expenses down. This particular strategy is expected to skim a lot of profit from the market. This strategy is applicable under the following conditions:

(i)the market is limited in size;
(ii)most of the market is aware of the product;
(iii)buyers are willing to pay a high price; and
(iv)potential competition is not imminent.

(c) Rapid — Penetration Strategy

This consists of launching the product at a low price and spending heavily on promotion. From this attractive combination, the strategy hopes to bring about the fastest market penetration and the largest market share. The strategy is applicable under the following conditions:

(i)the market is large;
(ii)the market is unaware of the product;
(iii)most buyers are price sensitive;
(iv)there is strong potential competition; and

(v)the company's unit manufacturing experience.

(d) Slow — penetration Strategy

This consists of launching the new product at low price and low level of promotion. The low price is expected to encourage rapid product acceptance. The firm also keeps its promotion costs down in order to realize more net profit. The firm believes that market demand is highly price elastic, but minimally promotion elastic. The strategy is applicable under the following conditions:

(i)the market is large;

(ii)the market is highly aware of the product

(iii)the market is price sensitive; and

(iv)there is some potential competition.

(ii) Growth: The product becomes widely known and sales grow rapidly, leading new competitors to enter the market. There is substantial profit improvement at this stage. Sellers shift to "buy-my-brand" rather than "try my-product" promotional strategy i.e. emphasis now on secondary demand. The number of distribution outlets increases, economies of scale are introduced, and prices may come down a bit

Possible Marketing Strategies in the Growth Stage

The firm uses several strategies to sustain market growth as long as possible. Such strategies include:

(i) improving product quality and adding new-product features and models

(ii) entering new market segments

(iii) entering new distribution channels

(iv) shifting some advertising from building product awareness to bringing about product conviction and purchase.

(v) Lowering prices at the right time to attract the next layer of price-sensitive buyers.

(iii) **Maturity:** This is a period of slowdown in growth because the product has achieved acceptance by most of the potential buyers. Repeat purchases dominate sales and only the strongest competitors remain in the business. Marginal producers are forced to drop out of the market. Price competition becomes increasingly severe, and the producer assumes a greater share of the total promotional effort as he fights to retain his dealers and the shelf space in their stores.

Possible Marketing Strategies in the Maturity Stage

Most firms tend to passively defend their products in the maturity stage. Their opinion is that it is best to conserve money and spend it on newer products. However, we should understand that attack is the best form of defense. The following marketing strategies are often used:

(i)market modification

(ii)product modification

(iii)marketing — mix modification

(iv)Decline: Sales slowly decline because of changing buyer needs or the introduction of substitute product forms or product classes. Cost control becomes increasingly important as demand drops. Advertisement declines, and a number of competitors withdraw from the market.

Possible Marketing Strategies in the Decline Stage

The appropriate decline strategy is a function of the industry's relative attractiveness and the firm's competitive strength in the industry. The following are some of the general strategies in use:

(i) Increasing the firm's investment (to dominate or get a good competitive position).

(ii) Holding the firm's investment level until the uncertainties about the industry are resolved.

(iii) Decreasing the firm's investment posture selectively, by sloughing off the unpromising customer groups, while simultaneously strengthening the firm's investment positions within the lucrative niches of enduring customer demands.

(ii) Harvesting (or milking) the firm's investment to recover cash quickly, regardless of the resulting investment posture.

(iii) Divesting the business quickly by disposing of its assets as advantageously as possible.

3.3.2 EXTENDING THE PLC.

From our discussions so far, you can see that marketers face choices that can change the products course in every stage of the PLC. For instance, by manipulating the product, the promotion, the pricing, and the distribution, you can give your products at least a temporary sales boost.

Usually, no PLC is static, hence, it is possible to extend it once close attention is paid to the marketing environment In actual fact, products that have been discontinued can make a comeback. This is possible through product modification and careful timing. Another way to extend the life cycle is to position the product for other uses or other audiences.

3.3.3 IMPORTANCE OF PLC TO MANAGEMENT

A careful study of the stages in the PLC suggests that each would present distinct opportunities and problems with respect to marketing strategy and profit potential. By knowing the stage that a product is already in, or is moving toward, firms, can formulate better marketing plans. In particular, the PLC can be useful to management for several reasons.

First, it tells more about the difficulty and cost of increasing market share than the current brand growth rate would do. Low growth may occur in the introductory stage or in the maturity phase. It should however be observed that the ability to improve market share is more limited in the maturity stage because of the following reason:

(i)the products are technologically on a par with each other,

(ii)consumer preferences tend to be well established, and

(iii)the vast majority of sales are replacement or repeat purchases, suggesting that increased sales must come primarily from competitors rather than from new users.

Second, the PLC suggests that product redesign, product reformulation, or minor product variations should be developed when maturity is reached, as a means of revitalizing sales through modifying the product form or class.

Third, knowing the stage of the PLC enables a firm to project future costs and profits. For instance, marketing costs, especially advertising tend to be greatest in the introduction and early growth stages of the life cycle. In the introduction stage, extensive advertising and selling efforts are required to communicate the basic benefits derivable from the new form or class. During the early growth stage, high marketing expenses from promotion and minor product modifications are needed as firms compete for strong market-share positions so as to withstand the attacks of competitors that usually show up at maturity. Lastly, in the late growth and maturity, product modification, improvement, or proliferation may result in increased production and inventory costs.

The PLC concept indeed offers valuable tool for a marketing manager since it enables him to understand the competitive environment in which each brand or product form must operate. Through the examination of the PLC, managers can better understand the opportunities and constraints facing individual brands and product forms, together with the associated costs of improving or maintaining market share for products.

4.0 CONCLUSION

The product portfolio is a combination of products and product lines balanced to achieve the company's overall profit objective, while satisfying the needs of its target markets. The portfolio concept helps marketers consider individual products within the context of the entire line and the complete mix, allocating more money to products and lines that have attractive current or future sales or that are competitively strong.

5.0 SUMMARY

Most companies sell more than one product. The set of all products offered for sale by a company is called a product mix. A product mix can be classified according to width, length, depth and consistency. These four dimensions are the tools for developing the company's marketing strategy and deciding which product lines to grow, maintain, harvest and divest.

Self — Assessed Question

Describe how marketers manage the product mix by introducing products, discontinuing products and modifying products.

Solution

(i) As you manage the product mix, you have the choice of modifying products, discontinuing products, or adding products.

(ii) The goal is to create a product mix that meets the needs of the target audience, with new products, existing products, and repositioned products

(iii) How you treat individual products depends on your company's profit and market share objectives.

(iv) Also, when deciding whether to add, modify, or discontinue a product, you monitor changes in the marketing environment, such as emerging technology, competitor actions, and shifting consumer tastes.

(ii) When a product moves into the decline stage of its life cycle and sales go down with no sign of rebounding, you consider modifying the product, discontinuing it, or adding a new product in its place.

6.0 TUTOR — MARKED ASSIGNMENT

Question

Discuss how marketers use the marketing mix to manage products throughout the PLC.

7.0 Further Reading

Bovee, C.L. and J.V. Thill (1992): Marketing New York,: McGraw — Hill, Inc.

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UNIT 10: NEW PRODUCT DEVELOPMENT

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1.0 INTRODUCTION

In our previous discussions, a product was defined as anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. In this regard, a product might be said to include physical objects, services, persons, places, organizations, and ideas. In addition, every product should be seen as the packaging of a problem-solving service.

Again, we have also stressed that, every product seems to go through a life cycle i.e. it is born, goes through several phases, and eventually dies. Newer products show up in the market to serve the consumer better than the dead one. These new products would also suffer the same fate as the previous ones, and another cycle begins. This product life cycle poses one important challenge to organizations: since all product eventually decline (in sales or acceptance), the firm must find new products to replace aging ones. The focus of this unit therefore is on new product development.

2.0 OBJECTIVES

After studying this unit, you should be able to:

(i)define a new product
(ii)explain why new products are important to firms
(iii)discuss the major reasons for new product failures
(iv)outline the steps in the new product development process.

3.1 WHAT IS A NEW PRODUCT?

Any product that consumers treat as an addition to the available choices could be considered a new product. From the viewpoint of the firm, however, new products are those products that are new to the company.

Mining can obtain new products in two ways: (a) acquisition (b) new product

development.
The acquisition route can take three forms:

(i) the firm can pursue a corporate-acquisition programme involving the search for small companies that have attractive product lines;
(ii) the firm can pursue a patent-acquisition programme, in which it buys the rights to new products from their patent holders.
(iii) the firm can pursue a license-acquisition programme for manufacturing various products. It should be observed from all the three cases above that the firm does not develop any new products, but simply acquires the rights to existing ones.

The new product route can take two forms:

(i) the firm can pursue internal product development by operating its own research and development (R&D) department.
(ii) the firm can pursue contract-new product development. This involves hiring independent researchers or new product development agencies to develop specific products for the firm.

3.2 THE NEW PRODUCT DEVELOPMENT DILEMMA Firms are often free to select any one or a combination of these strategies for their development. Generally, new products account for a high proportion of growth in many firms and are usually major contributors to overall profits for these businesses.

Under modern conditions of competition, firms that do not develop new products are merely exposing themselves to risks of business closure. Such firms will find their products falling victim to changing consumer needs and tastes, new technologies, shortened product life cycles, and increased domestic and foreign competition.

On the other hand, new product development can be very risky. A variety of researchers have investigated the rate of failure associated with new products. It has been reported that between 33% to 98% of the new products introduced fail to achieve commercial success.

3.2.1 REASONS FOR NEW — PRODUCT FAILURES Several factors have been found to be responsible for new product failures:

(i) **Dictatorial tendencies of top management:** some high-level executive might push a favourite idea through in spite of negative marketing research findings.
(ii) **Over-estimating of market size:** The project idea might be good, but the market size may be over-estimated.
(iii) **Product deficiencies:** The actual product might not be properly designed to fit the needs and wants of prospective consumers. This often results in poor quality and performance. The product may turn out to be too complicated and might not offer any significant advantage over competitive products already on the market.
(iv) **Lack of effective marketing effort:** There could be failure to provide sufficient follow- through effort after introductory programme, and failure to train marketing personnel for new products and new markets. In addition, the product might be incorrectly positioned in the market, or even overpriced.
(v) **Higher costs than anticipated:** This often results to higher prices, with the attendant lower sales volume than projected.
(vi) **Competitors' strength/reaction:** The competitors might fight back harder than expected. In addition, the speed and ease of the copying an innovation may

overcrowd the market sooner than expected.

(vii) **Poor timing of introduction:** The new-product might make a premature entry into the market. In some other instances, the product might be introduced too late

(viii) **Technical or production problems:** The firm might not be able to produce sufficient quantities to meet demand. In the process, competition might gain an unanticipated share of the market.

To compound the problems faced by firms, it has been speculated that successful new products may even be more difficult to achieve in the future for the reasons given below:

(a) Shortage of important new-product ideas in certain areas. For instance, some scientists claim that there are too few new technologies of the investment magnitude of the automobile,
television, computers, xerography, and wonder drugs.

(b) Fragmented markets. The intense competition being witnesses is leading to rapid fragmentation of markets. Hence, companies have to aim new products at smaller market segments rather than the mass market with the resultant lower sales and profits for each product.

(c) Social and governmental constraints. New products have to satisfy public criteria such as consumer safety and ecological compatibility.

(d) Costliness of the new-product-development process. A company typically has to generate many new-product ideas in order to finish with a few good ones. It should be noted that each product costs more to develop and launch due to the effect of the recent inflation on manufacturing, media, and distribution costs.

(e) Capital shortage. Many companies cannot afford or raise the funds needed to research true innovations. Thus, they emphasize new product modifications and imitations instead of true innovation.

(f) Shorter growth periods for successful product. When a new product is successful, rivals quickly jump into the arena to imitate the product, so much that its growth stage is shortened.

3.3 ORGANISING NEW PRODUCT DEVELOPMENT

Faced with the above problems how then can we have successful new-product introductions?. There are two sides to this. In the first place, the organization must improve its organizational arrangements for handling the new-product development process. Secondly, the organization needs to handle each step of the process with all seriousness, including using the best available techniques.

3.3.1 EFFECTIVE ORGANISATIONAL ARRANGEMENT Since top management bears the ultimate responsibility for the quality of the new-product-development work, it must start with a clear definition of company growth strategy that specifies the business domains and product categories in which the company wants to do business.

Apart from this, top management should also set specific criteria for new product-idea acceptance. The criteria can vary with the specific strategic role the product is expected to play. Such roles may include:

Maintaining position as a product innovator defending a market-share position
Establishing a foothold in a future new market Pre-emptying a market segment

- Exploring technology in a new way
- Capitalizing on distribution strengths.

The consideration of the acceptance criteria may be based on the following:

- A specified period within which the product can be introduced e.g five years
- A stated minimum market potential and growth rate e.g at least 30 million and a 10 percent growth rate
- Expected returns e.g at least 25 percent return on sales and 35 percent on investment
- Technical/market leadership.

Furthermore, top management must determine the budget outlay for new product-development; Since **R&D** outcomes are so uncertain, it becomes a little bit difficult to use normal investment criteria for budgeting. A number of alternative ways exist towards finding a useful solution to this problem. These include:

(i) encouraging and financing as many project proposals as possible, hoping to hit a few winners;
(ii) setting R&D budgets by applying a conventional percentage-to-sales figure;
(iii) spending what competition spends
(iv) working backwards to estimate the required R&D investment after keeping the number of successful products needed.

3.3.2 E STABLISHING A WORKABLE ORGANISATIONAL STRUCTURE

Another important factor in effective product-development work is to establish workable organizational structures. The following are some of the ways being adopted by different organizations:

•**Product managers.** Some firms entrust new-product development to their product managers. Two notable faults have been detected in this system. Firstly, product managers are usually so busy managing their existing/current product lines that they give little attention to new products other than brand modifications or extensions. Secondly, product managers have been found to lack the specific skills and knowledge needed to develop new products.

•**New-product managers.** This system professionalizes the new-product function. However, new-product managers tend to think in terms of product modifications and line extensions limited to their product market.

•**New-product department.** In order to support new-product development as a full-time activity, some manufacturers usually set up a new-product department. This small department is headed by a manager who has substantial authority, as well as access to top management. Typically, these departments are responsible for generating and screening new ideas, directing and controlling R&D work, and carrying out field testing and pre-commercialization work. When a product is ready for full-scale commercial marketing, it is turned over to the appropriate operating department.

•**Product planning committee.** Organizations that make use of this approach often have a high-level management committee charged with reviewing new-product proposals. The committee is usually made up of representatives from marketing, manufacturing, finance, engineering, and other relevant departments. After the product has successfully passed through the introductory stages of development, the marketing responsibility for it is then taken over by another unit - e.g a product manager or a new-product department. The advantage here is that, in a committee, the ideas and wisdom of several executives can be pooled. In addition, any new product resulting from the committee's work is likely to win the approval of the administrators who took part in its development. However, one major disadvantage of this system is that committee activity takes much valuable executives time and slows the decision-making process.

- **Venture Team.** This is a relatively new, rapidly growing organizational concept for managing product innovation from idea stage to full-scale marketing. The venture team is designed to avoid the product-development problems in traditional organizational structure. Such problems include bureaucratic operation, reluctance to change, and lack of authority to move a product through the developmental stages. Generally, a venture team is a small, multidisciplinary group, organizational removed from the main stream of the firm. This team is made up of representatives from engineering, production, finance and marketing research. The main goal of the venture team is to enter a new market profitably. The group is able to work in an entrepreneurial environment since it sees itself as a separate small business entity. It is usual for the group to report directly to top management. Immediately the new product reaches the stage of being commercially viable, it is typically turned over to another division, such as an existing unit, a new division, or even a new subsidiary company. The venture team is then disbanded. In some cases however, the team may be allowed to continue as the management nucleus when a new company is established.

3.4 PRODUCT DEVELOPMENT OBJECTIVES

It is very important to clearly state the objective of the product-development effort in order to provide direction for product-development decisions. Generally, product-development programmes may be designed to implement the corporate marketing plan or to implement the marketing strategy for a given product or product line.

There are four basic types of product-development programmes, each of which is designed to fulfill specific objectives. These programmes include:

(i)Product-line modification programmes
(ii)Product-line extension programmes
(iii)Complementary-product programmes
(iv)Diversification programmes.

An organization may employ any one or a combination of these programmes to achieve different product-development objectives.

3.4.1 PRODUCT-LINE MODIFICATION PROGRAMMES These programs are generally employed with the primary objective of ***enhancing sales of the present line.*** They may be useful in implementing a customer-retention marketing strategy for the purposes of:

- meeting changing buyer needs
- meeting new competitive offerings or
- improving satisfaction with the product.

This objective of enhancing sales of the present line can be achieved by:

- redesigning or reformulating the product to provide new benefits or to improve product quality; OR
  by using multiple packaging in order to reduce competitors' opportunities.

We may note that product modification programmes may enhance sales just by stimulating primary demand through increasing the rate of purchase. For instance, major design changes may result in a faster replacement rate for durable goods. In particular, modest packaging changes can lead to more rapid consumption of the product.

3.4.2 PRODUCT-LINE EXTENSION PROGRAMMES The primary objective of product-line extension programmes is to ***reach anew segment of a market.*** Basically, these programmes may be employed to:

- acquire competitors' customers in segments where a firm presently does not have an offering, OR
- stimulate demand among current nonusers of a product form.

In these two situations above, an entirely new product must be created with product features distinguishing it from the current offering.

3.4.3 COMPLEMENTARY-PRODUCT PROGRAMMES Complementary product programmes seek to introduce products that can be generally used with existing products. The objectives of these programmes may be two-fold: either to ***enhance sales of existing products*** or to ***establish sales growth in related markets.***

Complementary products have been found to enhance the sales of existing products. For example, a flash attachment to a camera will enable the customer to use the product in more situations, and will thus enhance the quality of the photographs taken. In another way, a complementary product may be introduced simply to take advantage of a company's brand name, image, or sales force. For example, a tyre manufacturing firm may add the production of tubes as complementary products.

3.4.4 DIVERSIFICATION PROGRAMMES

Diversification programmes are designed to establish a firm in new markets in order to achieve objectives such as ***new growth opportunities*** OR ***sales stability.*** Generally, diversification is a policy of adding new products to serve new markets.

3.5 THE PRODUCT-DEVELOPMENT PROCESS

The specific process used in implementing product-development programmes varies among organizations. However, it is important that they employ logical, sequential processes with full recognition of the role that product is expected to play in corporate and marketing strategy. The advantage of having such a structured approach is to provide some mechanism for evaluating a new product idea at several points in time as additional information is developed. Hence in each stage, management must decide whether:

(i)to move to the next stage;
(ii)to abandon the product; or
(iii)to seek additional information

This evaluation process is well illustrated by Figure 1.

Source: Stanton, W.I. (1978): Fundamentals of marketing. New York, McGraw-Hill, Inc. p. 186.

We next describe the following eight stages in the product-development process:

1. Idea generation
2. Screening
3. Concept development and testing
4. Marketing strategy
5. Business analysis
6. Product development
7. Market testing and
8. Commercialization.

State 1: Idea Generation

New-product development starts with an idea. Generally, ideas can come from a variety of sources, it is however desirable to establish a formalized approach to generating new-product alternatives. This entails incorporating the firm's product-development objectives. In other words, a systematic approach should be established to search for ideas that will meet current primary objectives. In addition, top management should define the product and markets to emphasize. Furthermore, it should state how much effort should be devoted to developing original products, modifying existing ones, and imitating competitors' products.

Sources of New-Product Ideas

New-product ideas often come from many sources including the following:

(i)Customers: Our earlier understanding of the marketing concept suggests that customers' needs and wants should be the logical places to start in the search for new-product idea. In this sense, films can identify customers' needs and wants through direct customer surveys, projective tests, focus group discussions, as well as suggestions and complaints letters from customers.

(ii)Scientists: Many organizations in the chemical, electronics and pharmaceutical industries rely on their scientists for new product ideas.

(iii)Competitors' product: New product ideas can also be generated by monitoring competitors' products. For instance, firms can listen to distributors, suppliers and sales representatives in order to know the position of things in the market. In addition, firms can assess who is buying competitors' new products together with the particular reasons for making the new purchase. Furthermore, firms can buy competitors products, dismantle them, and build better ones. This is known as product imitation and improvement rather than product innovation.

(iv)Firm's sales representatives and dealers: These are important sources of new product ideas. Their activities on the field usually endow them with firsthand exposure to customers' needs and complaints. They are usually the first to learn of competitive developments.

(v)Top management: This is another major source of new-product ideas. However, as we already observed (under reasons for product failures) this might not be good enough, since a top executive may push through a pet idea without thoroughly researching market size or interest.

(vi)Miscellaneous sources: Other sources include investors, patent attorneys, university and commercial laboratories, industrial consultants, advertising agencies, marketing research films, and industrial publications.

Stage 2: Idea Screening

The purpose of this stage is to reduce the large number of ideas generated from the previous stage (i.e idea generation)". Basically, idea screening rates the general desirability of the new product concept to the firm. For instance, even when a concept is being viewed as marketable, the same concept may be seen as inappropriate for a firm that lacks the specific resources needed to produce and market it successfully.

The following aspects are usually given proper considerations in the rating scheme for evaluating new product ideas: marketability, durability, productive ability and growth potential (See Table 10.1)

Table 10.1 : Major Considerations in Idea Screening

Aspect	Considerations
1. Marketability	(a) Relation to present distribution channels (b) Relation to present product lines) Quality-price relationship (c) Number of sizes and grades (d) Merchandisability (e) Effects on sales of present products
2. Durability	(f) Stability (g) Breadth of market (h) Resistance to cyclical fluctuations Resistance (i) to seasonal fluctuations Exclusiveness of (j) design
3. Productive Ability	(k) Equipment necessary (l) Production knowledge and personnel (m) necessary Raw materials availability
4. Growth Potential	(n) Place in market (o) Expected competitive situation-value added (p) Expected availability of end users.

It should be clear from Table 1 that a variety of market-based internal and external factors are often considered. Therefore, screening must generally be carried out by a multifunctional group such that relevant inputs might be collected from production, finance, R&D, and marketing.

Apart from the four general aspects contained in Table 10.1, it is also important to check whether the product idea is consistent with the current product-development objectives. In this regard, a good idea that has scaled all the hurdles of the screening factors may be rejected or stepped down, if it will absorb resources needed to achieve the top priority objectives.

In this screening stage, the firm must avoid two types of errors: a **DROP-error** or a **GO-error.**

A DROP-error occurs when the company dismisses an otherwise good idea.

It is often said that if a firm markets too many DROP-errors, its standards are too conservative.

A GO-error occurs when the company permits a poor idea to move into development and commercialization. There are three types of product failures that can arise from this error:

(i) An absolute product failure. This loses money, and its sales do not cover variable costs.

(ii) A partial product failure This also loses money. However, its sales cover all the variable costs and some of the fixed costs.

(iii) A relative product failure: This yields a profit that is less than the firm's normal rate of return.

In summary, the major objective of the idea screening stage is to spot and drop poor ideas as early as possible. The justification for this is premised on the fact that product-development costs rise substantially at each stage. It is thus, a case of "a stitch in time saves nine".

Stage 3: Concept Development and Testing

The purpose of concept development and testing is to ensure that the proposed product is devoid of all kinds of problems when it eventually gets to the market.

After the elimination of all the poor product ideas at the screening stage, the surviving ideas must now be developed into product concepts. It will be necessary to distinguish between a product idea, a product concept, and a product image: A product idea is just an idea for a product that the firm can think of offering to the market. A product concept is an elaborated version of the idea expressed in meaningful consumer terms. A product image is the particular picture that consumers acquire of an actual or potential product.

Concept Development

Concept development can be illustrated with the case of a food processor, who has an idea of producing a powder to be added to milk for the purposes of increasing its nutritional level and taste. At this point, this is merely a product idea. However, customers do not buy product ideas, but product concepts.

Generally speaking, any product idea can be turned into several product concepts. Firstly, we start with the persons or group(s) of persons who are likely to benefit from the use of the product. For instance, the proposed powder can be aimed at infants, children, teenagers, middle-aged adults, or the elderly. Secondly, the primary benefits to be derived from the consumption of the powder are considered. This could be taste, nutrition, refreshment or energy. Thirdly, the primary occasion for the drink is next considered. For instance, should it be for breakfast, mid-morning, lunch, mid-afternoon, dinner or late evening?. By properly given adequate considerations to the issues raised above, a firm can develop several product concepts. For example, the following three concepts can be generated from the issues already raised:

- Concept 1: An instant breakfast drink for working-class adults who want a quick nutritional breakfast without preparing a breakfast.
- Concept 2: A tasty snack drink for school children to drink as a midday refreshment
- Concept 3: A health supplement for the elderly to drink in the late evening before going to bed.

Concept Testing

The purpose of concept testing is to develop a more refined estimate of market acceptance for the new product concept, or to compare competing concepts in order to determine the most appealing one (or two), or both.

Concept testing is particularly designed to obtain the reaction of potential consumers or buyers to one or more hypothetical product concepts. What is usually done is to present the product features and benefits in verbal form or explained through visual aids. Potential users are then interviewed to obtain comments about the advantages and shortcomings of each concept. Alternatively they may be asked to rate the products in various ways.

Stage 4: Marketing-strategy Development

What goes on at this stage is the development of a preliminary marketing-strategy. This is refined appropriately in subsequent stages.

The marketing-strategy statement often consists of three parts: In the first part, the description of the size, structure, and behavior of the target market are given. Furthermore, the planned product positioning and the sales, market share, and profit goals sought in the first few years are similarly stated.

In the second part of the marketing-strategy statement, the proposed product's planned prices, distribution strategy, as well as the marketing budget for the first year are outlined.

The descriptions of the planned long-run sales and profit goals and the marketing-mix strategy over time are presented in the third part of the marketing-strategy statement.

Stage 5: Business Analysis

The business attractiveness of the new-product proposal is evaluated here. Essentially, the proposal is expanded into a concrete business proposal in which management

(a)estimates sales;

(b)estimates costs and profit projections.

(c)

These are done in order to determine whether such projections satisfy the firm's objectives.

One major purpose of estimating sales is to check if it will be high enough to return a satisfactory profit to the firm. The best approach for the sales estimation is to examine the sales history of similar products. Additionally, a survey of market opinion should also be undertaken. From these, management should then prepare estimates of minimum and maximum sales to learn the range of risk.

After the preparation of sales forecast, management goes on to estimate the expected costs and profits of the proposal. The costs are estimated by the R&D, manufacturing, marketing and finance departments. Several techniques are then used to determine whether the proposed project meets the firm's minimum profitability standards. Among the most widely used methods are the net present-value and the payback approaches.

Stage 6: Product Development

If the business analysis for the proposal turns out to be favourable, the product concept moves to R&D and/or engineering, where it is developed into a physical product. It is at this stage that the "idea-on-paper" is converted into a physical product.

As would be expected, this stage calls for huge investment which is far beyond what was spent in earlier stages. This stage often determines whether the product idea can be translated into a technically and commercially feasible product. Otherwise, the firm's accumulated investment will be lost, safe for any useful information gained in the process.

While developing one or more physical versions of the product concept, the R&D department strives to find a proto-type that satisfies the following criteria:

(1) consumers views it as possessing the key attributes described in the product-concept statement;

(2) the proto-type performs safely under normal use and conditions;

(3) the proto-type can be produced for the budgeted manufacturing costs.

It usually takes considerable length of time to develop a successful prototype. There is the need for the lab scientists to design the required functional characteristics. They should also know how to communicate the psychological aspects through physical cues. For example, in order to support the claim that a lawnmower is powerful, the lab people have to design a heavy frame and a fairly noisy engine!. It will also be necessary for the marketing team to work closely with the lab people so as to let them understand how consumers judge product qualities they have in mind.

When a proto-type has been developed, it must be put through rigorous functional and consumer tests. The functional tests are conducted under laboratory and field conditions to make sure that the product performs safely and effectively. The functional tests are essentially technical. They are meant to provide information on:

(i)Product shelf life

(ii)Product wear-out rates

(iii)Problems resulting from improper usage or consumption

(iv)Potential defects that will require replacement

(v)Appropriate maintenance schedules.

As earlier pointed out, it is also necessary to examine the product performance from the buyers' perspective. Such consumer testing can take a variety of forms, ranging from bringing consumers into a lab to test the product versions to giving them samples to use in their homes. The degree to which the new product is likely to acquire new customers rather than simply "cannibalizing" the sales of any existing products can be established. In addition, consumer product testing can provide a check on whether or not the concept has been implemented. If consumer descriptions of the product do not match the intended concept, then reformulation may be necessary.

Stage 7: Market Testing

If the product's functional performance is satisfactory, the product is deemed fit to be dressed up with a brand name, packaging and a preliminary marketing programme, to test it in more real-life consumer settings. The purpose of market testing is to learn how consumers and dealers react to handling, using, and repurchasing the actual product and how large the market is.

Market testing can yield valuable information about buyers, dealers, marketing programme effectiveness, market potential etc.

The amount of market testing is influenced by the investment cost and risk on one hand, and the time pressure and research cost on the other hand. Normally, high investment/risk products deserve to be market-tested so as not to make costly mistakes. Here then, the cost of the market tests will be an insignificant percentage of the cost of the project itself. In addition, high-risk products i.e those that create new-product categories or have novel features, require more market testing than modified products. However, the amount of market testing may be seriously limited if the firm is under intense pressure to introduce its brand probably because the season is just starting, or competitors are about to launch their brands. In some instances, the firm may prefer the risk of a product failure to the risk of losing distribution or market penetration on a highly successful product. Finally, the cost of market testing will affect how much is done and what kind.

There are differences in the market-testing methods between consumer and industrial products.

3.5.1 CONSUMER-GOODS MARKET TESTING

The main purpose of testing consumers is to estimate the main determinants of sales i.e trial, first repeat, adoption, and purchase frequency. Ordinarily, most firms want to find all of these at high level. However, a firm might find many consumers trying the product but not re-purchasing it, thus indicating a lack of product satisfaction. Yet, another firm might find high first-time repurchases but only to experience a rapid wear-out effect. In another instance, a firm might find high permanent adoption but low frequency of purchase because the buyers use the product only on special occasions.

Furthermore, the firm wants to understand how many and what types of dealers will handle the product, under what terms, and with what shelf-position commitments.

There are four main methods of consumer-goods market testing. These are (a) sales-wave research (b) simulated store technique (c) controlled test marketing (d) test marketing.

(a) Sales-wave research

This is an extension of the ordinary home-use testing in which consumers who initially try the product at no cost are re-offered the product, or a competitor's products, at slightly reduced prices. These consumers may be re-offered the product as many as three to five times. During these periods of offer, the firm records how many consumers selected its own product again, together with their reported level of satisfaction.

Apart from under-studying the repeat purchase of products, sales-wave research can also be used to monitor the impact of advertising exposure on repeat purchase. This is done by exposing consumers to one or more advertising concepts in rough form and then recording the effect.

Sales-wave research has been found to possess some advantages. Firstly, it enables the firm to estimate the repeat-purchase rate under conditions where consumers spend their own money and choose among competing brands. Secondly, the firm can also measure the impact of alternative advertising concepts on producing repeat purchases. Thirdly, sales-wave research can be implemented quickly, conducted under relative competitive security, and carried out without needing to develop final packaging and advertising.

This method however has two limitations: It does not indicate the trial rates that would be achieved with different sales promotion incentives, since the consumers are pre-selected to try the product. Neither does it indicate the brand's power to gain distribution and favourable shelf position from the trade.

(b)Simulated store technique

This is also variously known as "laboratory-test-markets"; "purchase laboratories" or "accelerated test-marketing". Here, about thirty to forty shoppers at a shopping centre or elsewhere are invited to a brief screening of some television commercials.

What is shown to this audience contains a number of well-known commercials and some new ones, and they usually cover a range of products. Within the period of screening, one commercial advertises the new product, but this is not singled out for attention.

The consumers are later given some small amount of money, as well as invited to a store, where they may use the money to buy any item or keep the money. The researchers record how many consumers buy the new product and competing brands. This definitely provides a measure of trial of the commercial effectiveness against competing brands. The consumers are made to reconvene in order to know the reasons for their purchases or non-purchases. Some weeks later, the same sets of consumers are re-interviewed by telephone to determine product attitudes, usage, satisfaction, and re-purchase intention and are offered another opportunity to repurchase any products.

The simulated store technique has several advantages. These include the measuring of trial rates, as well as repeat rates, advertising effectiveness, speedy results, and competitive security. The results of the exercise are often incorporated into mathematical models in order to project ultimate sales levels. The outcomes of such prediction have been found to be very accurate.

(c)Controlled test marketing

This is also called "mini-market testing". The method often requires the marketing research firm conducting the test to make some arrangement with a controlled panel of stores. Such stores must have agreed to carry new products for a given amount of money. The firm with the new product specifies the number of stores and geographical locations it wants. The marketing research firm then delivers the product to the participating stores and subsequently controls shelf location, number of facings, displays and point-of-purchase promotions, as well as pricing according to pre-specified plans. Sales that result from this arrangement can be audited both from shelf movement and from consumer diaries. In addition, the firm can test small-scale advertising in local newspapers during controlled test marketing.

This method has a special advantage since it allows the firm to test the impact of in-store factors and limited advertising on consumers' buying behaviour without involving consumers directly. A sample of consumers can be interviewed later in order to obtain their impressions of the product. Another advantage inherent in the controlled test marketing method is that the firm does not have to use its own sales force, give trade allowances, or take the time to buy into distribution.

However, this method does not provide experience in trying to sell the trade on carrying the new product. In addition, the technique also exposes the product to competitors.

(d) Test marketing

This is the costliest and the best way of testing a new consumer product. Under the method, a firm offers a product for sale in a limited geographic area that is as representative as possible of the total market in which the product will eventually be sold. Test marketing has several distinguishing features relative to other approaches:

(i) Test marketing lowers the risk of national failure, which could endanger channel relationships, reduce confidence, and morale of employees, and have a negative impact upon present customers' images of other products.

(ii) No special benefits are offered to induce purchasing other than those that would later be available on a national basis.

(iii) The product competes with other competitive products in a real sales environment.

Any firm using test marketing usually works with an outside research firm to locate a small number of representative test cities in which the company's sales force will try to sell the trade on carrying the product and exposing it effectively on the shelves. Moreover, the firm needs to put on a frill advertising and promotions campaign in these markets as would be done in frill national marketing.

As would be expected, test marketing costs money. The actual amount to be spent however depends on the consideration given to the following:

(a) The number of cities:

It has been found that most tests use between two and six cities, with an average of four. Again, it has been further suggested that a larger number of cities should be employed if:

(i) there is the probability of loss from going national or the maximum possible loss is very great;
(ii) there is substantial number of contending/marketing strategies or the level of uncertainty is very high;
(iii) there are wide regional differences; and
(iv) there is high chance of calculated test-market interference by competitors.

(b)Type of cities:

Though no one city is a perfect replica of the nation as a whole, some cities often typify aggregate national or regional characteristics better than others. Such cities may be included in the study. Firms are of course, free to develop their own test-selection criteria.

(c)Length of test:

Generally, the length of test markets ranges from a few months to several years. The longer the product's average re-purchase period, the longer the test period necessary to observe repeat-purchase rates. However, if competitors are rushing to the market, the period should be shortened.

(d)Nature and amount of information:

The type of information to be collected has bearing with its value and cost. The following can be used to illustrate the variations in the amount of details contained in different types of information:

(i) Warehouse shipment data shows gross inventory buying, but fails to indicate weekly sales at retail
(ii) store audits will give actual retail sales and competitors' market shares but will not indicate the characteristics of the buyers of the different brands.
(iii) Consumer panels will show which people are buying which brands together with their loyalty and switching rates
(iv) Buyer surveys give in-depth information about consumer attitudes, usage, and satisfaction.

Other things that can be re-searched here include trade attitudes, retail distribution, and the effectiveness of advertising, promotion, and point-of-sale material.

Many benefits are derivable from test marketing. Firstly, it yields a more reliable forecast of future sales. For instance, if product sales fall below target levels in the test market, the firm may have to drop or modify the product. Secondly, the method allows the pre-testing of alternative marketing plans. A different marketing mix can be employed in each of the test cities. From these, the optimum mix that results in the best profit level can be detected.

Thirdly, a firm may discover a product fault that escaped its attention in the product-development stage. In addition, the firm may discover important clues to distribution-level problems, and through this, it may gain better insight into the behaviour of different market segments. It has been observed that the main value of test marketing's does not lie in sales forecasting, but in learning about unsuspected problems and opportunities connected with the new product. Though test marketing has lots of advantages, a number of problems have been identified as limiting its effective application. These concern the problems of:

(i) obtaining a set of markets that is reasonably representative of the country as a whole
(ii) translating national media plans into local equivalents

(iii) estimating what is going to happen in the coming year, based on what has happened in this year's competitive environment
(iv) competitive knowledge of appropriate test(s) and of deciding whether any local counter activities are representative of what competition will do nationally in the future.
(v) extraneous and uncontrollable factors such as economic conditions and weather

3.5.2 INDUSTRIAL-GOODS MARKET TESTING

In the past, it is usual for new industrial goods to undergo extensive product testing in the laboratories in order to measure performance, reliability, design and operating cost. With satisfactory results, many firms will commercialize the product by listing it in the catalogue and turning it over to the sales force. In modern-day business however, a large number of firms are changing to market testing as an intermediate step. Firms stand to gain substantial benefits in the process, since market testing can indicate:

(i) the product's performance under actual operating conditions;
(ii) the key buying influences;
(iii) how different buying influences react to alternative prices and sales approaches;
(iv) the market potential; and
(v) the best market segment

Due to certain reasons, test marketing is not typically used for industrial products. Firstly, it is too expensive to produce their samples, not to talk of putting them up for sale in a select market, just to see how well they sell. Secondly, industrial buyers will want to be sure of the availability of spare parts and after-sales services before buying durable goods. Thirdly, marketing research firms are yet to develop the test-market systems that are found in consumer markets. Hence, industrial-goods manufacturers have to use other methods that can be employed in researching the market's interest in new industrial products. Four of such methods are in use. These are (a) product-use test (b) trade shows (c) distributor and dealer display and (d) controlled or test marketing.

(a) <u>Product-use test</u>

This is the most common method, and it is similar to the in-house use test for consumer products. Here, the manufacturer selects some potential customers who must have agreed to use the product for a limited period. The technical team from the firm monitors how these customers use the product. The outcome of this exercise often exposes unanticipated problems of safety and servicing. It also gives the manufacturer clues about customer training and service requirements. At the end of the test, the customer is asked to express purchase intent and other reactions.

(b)<u>Trade shows</u>

Another common market-test method is to introduce the new industrial product at trade shows. Trade shows usually draw a large number of buyers, who view new products in a few concentrated days. During the exposure, the manufacturer will be able to see how much interest buyers indicate in the new product, how they react to various features and terms, and how many of them actually express purchase intentions or place orders. One major disadvantage inherent in this method is that it reveals the product to competitors. Hence, the manufacturer should be ready to launch the product once it has been displayed at trade shows.

(c)<u>Distributor and dealer display rooms</u>

Manufacturers can also market-test new products in distributor and dealer display rooms, where such products may be placed next to the manufacturer's other products and possibly competitors' products. This method makes it possible to obtain preference and pricing information in the normal selling atmosphere for the product. It however has some shortcomings. For instance, the customers may want to place order that cannot be met. In addition, the customers who come in might not be representative of the target market.

(d)Controlled or test marketing

Although it was mentioned earlier that test marketing is not typically used for industrial products, some manufacturers have been found to make use of it. In this case, they produce a limited supply of the product and give it to the sales force to sell in limited geographical areas with adequate promotional support, printed catalogue sheets etc. Through this process, the firm can have a fore knowledge of what might happen under full-scale marketing and thus get well prepared for the launching.

Stage 8: Commercialization

At this stage, full-scale production and marketing programmes are planned, and then the product is launched. There are a number of important decisions to make before the product is finally launched.

First, the timing of the introduction should be carefully evaluated. In general, it is more appropriate to introduce the new product during peak periods if demand is seasonal. This will allow the firm to obtain a high rate of trial and early sales, helping to offset the high costs of introduction. It is also necessary to time the introduction appropriately, so that distributors will have adequate levels of inventory by the time the introductory promotional campaign starts. If the new product is being proposed to replace another product, it might be necessary to delay its introduction until the old product's stock is drawn down, through the normal sales.

Second, the firm should properly consider its geographical strategy. In particular, it should decide whether to launch the new product in a single locality, a region, several regions, the national market, or the international market. It has been observed that only few firms have the confidence, capital, and capacity to launch new products into full national distribution. They therefore tend to develop a planned market rollout over time. For smaller companies, this approach entails the selection of an attractive city with aggressive promotional campaign to enter the market. Larger companies on their part often introduce their new products into a whole region and then enter others, one at a time.

Under rollout marketing, firms have to assess the alternative markets for their new products, using such criteria as market potential, firm's local reputation, cost of filling the pipeline, quality of research data available in the particular area, influence of area on other areas, and competitive penetration. The outcome of the assessment will allow the firm to determine the prime markets and develop a geographical rollout plan.

Third, with respect to the rollout markets, the firm must target its distribution and promotion to the best prospect groups. It is expected that prime prospects should have been identified during the market testing stage. Ideally, prime prospects for new consumer products have been found to be:

(i)early adopters

(ii)heavy users

(iii)opinion leaders who talk favourably about the product

(iv)Reached at low cost.

We should note that very few groups of prospective customers possess all of the above characteristics. The best thing is for the firm to rate the various prospect groups on these features, and then target the best one. The purpose of doing this is to generate high sales as soon as possible to motivate the sales force and attract other new prospects.
Fourth, other programme decisions, with respect to price, advertising, sales promotion, and sales and distribution activities need to be developed and coordinated. These programmes are very important since they influence the sales and profit results of any new products.

4.0 CONCLUSION

You have learned in this unit that every company needs to develop new products. This is because new-product development shapes the company's future. Replacement products must be created to maintain or build sales. Customers want new products, and competitors will do their best to supply them. Therefore companies that fail to develop new products are putting themselves at great risk.

5.0 SUMMARY

Once a company has segmental the market, chosen its target customer groups, identified their needs and determined its desired market positioning, it is ready to develop and launch appropriate new products. Successful new product development requires the company to establish an effective organization for managing the development process. Eight stages are involved in the new-product development process idea generation, screening, concept development and testing, marketing strategy development, business analysis, product development, market testing, and commercialization. The purpose of each stage is to determine whether the idea should be dropped or moved to the next stage.

Self — Assessed Question

Outline and discuss the steps in the new — product development process.

6.0 TUTOR — MARKED ASSIGNMENT

1 (a) Discuss the reasons for new-product failures

(b) It has been speculated that successful new-products may even be more difficult to achieve in the future. What are the likely reasons for this ascertain?

7.0 FURTHER READING

Kotler, P (2000): Marketing Management. The Millennium Edition . New Delhi, Practice Hall, India.
Stanton, W.J, M.J Etzeland , B. J Walker (1994)
Fundamentals of Marketing 10th Ed. New York, Mc Graw-Hill, Inc

UNIT 11: PRICING DECISIONS

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1.0 INTRODUCTION

In this unit, we shall be covering the role of price in the marketing mix, for instance, what price is, how it can be used, and how it is set relative to such factors as product costs, market demand, and competitors' prices. In particular, we will examine three major pricing — decision problems facing sellers. These involve how to: (a) set prices for the first time, (b) modify a product's price over time and space to meet varying circumstances and opportunities, and (c) initiate and respond to price.

2.0 OBJECTIVES

After studying this unit, you should be able to:

(i) Explain the meaning of price and its roles in the marketing mix:
(ii) Analyse the pricing process
(iii) List major pricing objectives and explain the purpose behind each type.
(iv) Describe demand curves and elasticity and discuss how marketers use these concepts to establish ranges of possible price points.

3.1 THE MEANING AND IMPORTANCE OF PRICE

Price is the amount of money and/or other items with utility needed to acquire a product (utility is an attribute that has the potential to satisfy wants). In this instance, therefore,

price may involve more than money. Note that exchanging goods and/or services for other products in termed barter.
Prices can take on a number of assumed names as indicated in Table 1 below:

Table 11.1: Other Names Assumed By Price

Assumed name	Where applied or operational
Tuition	Education
Interest	Use of money
Rent	Use of living quarters, or a piece of equipment for a period of time.
Fare	Taxi ride or airline flight
Fee	Services for a physician or lawyer
Retainer	Lawyer's or Doctor's Services over a period of time
Toll	Travel on some high-ways
Salary	Services of an executive or other white — collar
Wage	Services of blue — collar worker
Commission	Sales person's services
Dues	Membership in a union or a club
Premium	Services of insurance companies
Rate	Services of utilities
Honorarium	Service given by professionals.

From the various assumed price names in Table 11.1, you can see that price is significant to an economy, to an individual fmn and in the mind of the consumer. We shall briefly examine each of these situations.

3.1.1 IMPORTANCE OF PRICE TO THE ECONOMY

A product price influences wages, rent, interests, and profits. This means that a product's price influences the amounts paid for the factors of production, such as land, capital, and entrepreneurship. We can therefore say that price is a basic regulator of the economic system since it influences the allocation of the factors of production. For instance, high wages attract labour, high interest rates attract capital etc. As an allocator of resources, price determines what will be produced (i.e. supply), as well as who will get the goods and services produced (i.e. demand).

3.1.2 IMPORTANCE OF PRICE TO THE INDIVIDUAL FIRM The last sentence of 3.1.1 above clearly shows that a product's price is a major determinant of the market demand for it. Hence price affects a firm's competitive position and its market share. Consequently, price has a considerable bearing on a company's revenues and net profits. For example, it is through prices that money comes into an organization.

However, several factors can limit how much effect pricing has on a company's marketing programme. For instance, factors such as differentiated product features, a favourable brand, high quality, convenience, or some combination of these may be more important to consumers than price.

3.1.3 IMPORTANCE OF PRICE IN THE CONSUMER'S MIND In some cases, some consumers' perceptions of product quality has a direct relationship with price. Hence, the higher the price, the better the quality is perceived to be. In actual fact a lot of people hold this view, especially when they are economically okay. This is the reason why some shoppers make price — quality judgements particularly when they lack other information about product quality. In addition, consumers' quality perceptions can also be influenced by such factors as store reputation and advertising.

3.2 THE ROLE OF PRICE IN THE MARKETING MIX Price is the only element in the marketing mix that produces revenue. All
other elements—product, promotion, and distribution are concerned with delivering value to the customer, and by so doing, they represent costs. Price is also one of the most flexible elements in the marketing mix. Unlike product features and channel commitments, price can be adjusted quickly. At the same time, pricing and price competition is the number one problem facing many firms. Observations have shown that many firms do not handle pricing well enough. The most common mistakes include:

(i) Pricing that is too cost oriented;
(ii) Prices that are not revised often enough to reflect market changes;
(iii) Pricing that does not take the rest of the marketing mix into account; and
(iv) Prices that are not varied enough for different products, market segments, and purchase occasions.

We shall be looking at the factors that must be considered when setting prices and at general pricing approaches.

3.3 FACTORS TO CONSIDER WHEN SETTING PRICES A company's pricing decisions are affected both by internal company factors and external environmental factors. This is illustrated by **figure 11.1**

Figure 11.1: Factors Affecting Price Decisions

Internal factors: Marketing objectives Marketing mix strategy Costs
Organizational
Considerations

External factors
Nature of the Market and **demand** Competition
Other environmental factors (e.g. economy re-sellers,
government)

Pricing
Decisions

33.1 INTERNAL FACTORS AFFECTING PRICING DECISIONS As already shown in Figure 11.1, the internal factors affecting pricing include the company's marketing objectives, marketing — mix strategy, costs, and organization. Let us examine each of these.

3.3.1.1 MARKETING OBJECTIVES
The first thing to be done by a company is to decide what it wants to accomplish with the particular product. For instance, if the company has selected its target market and market positioning carefully, then its marketing — mix strategy, including price, will be somehow straightforward. For example, if the Nigerian Bottling Company wants to produce a special fruit drink for the affluent — customer segment, this implies charging a high price. In this instance, pricing strategy is largely determined by the prior decision on market positioning. The company may simultaneously seek additional objectives. The clearer these objectives are, the easier it is to set price. Each possible price will have a different impact on such objectives as profits, sales revenue, and market share. Examples of common objectives are survival, current profit maximization, market — share leadership, and product — quality leadership.
Let us look at this objectives, one by one:
Survival: Firms set survival as their major objective if they are troubled by over-capacity, stiff competition, or changing tastes of consumers. For instance, in order to keep a factory going, a firm may set a low price, with the hope that demand will subsequently increase. Thus, profits are less important than survival. In — as — much their prices cover variable costs and some fixed costs, the finn can stay in business. However, you should note that survival is only a short — term objective. The firm must learn how to add value in the long run, otherwise it would close shop.
Current Profit Maximization: Many firms use current profit maximization as their pricing goal. What they usually do, is to estimate what demand and costs will be at different prices and choose the prices that will produce the maximum current profit, cash flow, or return on investment. Thus, the firms are emphasizing current financial performance rather than long-run performance.
Market Share Leadership: Some other firms set market-share leadership as their objective. The believe here is that the firm with the largest market share will enjoy the lowest costs and highest long-run profit. Hence, in order to become the market-share leader, these firms set prices as low as possible. Product — Quality Leadership: A firm might adopt the objective of being the product — quality leader in the market. As should be expected, this normally calls for charging a high price to cover the high product quality and high cost of research and development (R & D).
Firms might also use price to achieve other more specific objectives. For instance, a firm can set Prices low to prevent competition from entering the markets, or set prices at competitor's level in order to stabilize the market. In addition, prices can be set to keep the loyalty and support of re-sellers or to avoid government intervention. Prices can be reduced temporarily to create excitement for a product or to draw more customers into a retail store. Furthermore, one product may be priced to help the sales of other products in the firm's line. It is thus very clear that pricing plays an important role in helping to accomplish the firm's objectives at several levels.
3.1.1.2 MARKETING — MIX STRATEGY
You should realize that price is just one of the marketing — mix elements that firms uses to achieve its marketing objectives. Price decisions must be coordinated with the remaining three elements to form a consistent and effective marketing programme. Decisions made for other marketing — mix variables may affect pricing decisions. For example, producers using many re-sellers who are expected to support and promote their

products may have to incorporate larger re-seller margins into their prices. In addition, the decision to position the product on high performance quality will mean that the seller must charge a higher price to cover higher costs.

It is common for firms to make their pricing decisions first and then base other marketing — mix decisions on the prices they want to charge. In this case, price is a crucial product positioning factor that defines the product's market, competition, and design. Therefore, the intended price determines what product features can be offered and what production costs incurred.

Some firms often support such price — positioning strategies with a technique called target costing, which is a potent strategic weapon. What is done in target costing is to reverse the usual process of first designing a new product, determining its cost, and then arriving at an appropriate price. Instead, it starts with a target cost and works backward.

Other firms may decide to de-emphasize price and use other marketing — mix tools to create non-price position. Often, the best strategy is not to charge the lowest price, but rather to differentiate the marketing offer to make it worth a higher price.

Generally, the marketer needs to consider the total marketing mix when setting prices, for instance if the product is positioned on non-price factors, then decisions about quality, promotion, and distribution will strongly affect price. If it so happens that price is a crucial positioning factor, then price will strongly affect decisions made about the other marketing — mix elements.

3.1.13 COSTS

Costs basically set the floor for the price that the firm can charge for its product. Normally, a firm will want to charge a price that both covers all its costs for producing, distributing, and selling the product and delivers a fair rate of return for its efforts and risks. Hence, a firm's costs may be an important element in its pricing strategy. Usually, most firms struggle to become the "low-cost producers" in their industries. This is based on the fact that companies with lower costs can set lower prices, which then results in greater sales and profits.

A firm's costs generally take two firms, fixed and variable. Fixed costs (or overhead) are costs that do not vary with production or sales levels. For example, a company must pay monthly bills for rent, interest, salaries, whatever the company's output.

Variable cost varies directly with the level of production. These costs tend to be the same for each unit produced.

Total costs are the sums of the fixed and variable costs for any given level of production. Usually, management wants to charge a price that will at least cover the total production costs at a given level of production. The firm needs to watch its costs carefully. For instance, if it costs the firm more than competitors to produce and sell its product, the firm will have to charge a higher price or make less profit, thus putting it at a competitive disadvantage.

3.1.1.4 ORGANISATIONAL CONSIDERATION

It is the responsibility of a firm's management to decide who within the organization should set prices. Finns handle pricing in a variety of ways. In small companies, for example, prices often are set by top management rather than by the marketing or sales department. In larger companies, however, pricing is generally handled by divisional or product line managers. In the case of industrial markets, sales people may be allowed to negotiate with customers within certain price ranges. Even then, top management sets the pricing objectives and policies, and it often approves the prices proposed by lower— level management or sales people.

3.3.2 EXTERNAL FACTORS AFFECTING PRICING DECISIONS

As earlier mentioned under section 3.3, apart from factors within a company, external factors also affect a firm's pricing decisions. Such factors include the nature of the market and demand, competition, and other environmental elements. We shall be looking at each of the factors in the sections that follow.

3.3.2.1 THE MARKET AND DEMAND

You were made to understand in section 3.3.1.3 that cost set the lower limit (or the floor) of prices. The market and demand set the upper limit (or the ceiling). Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. In this regard therefore, the marketer must understand the relationship between price and demand for its product. It will thus be necessary to explain how the price — demand relationship varies for different types of markets and how buyer perceptions of price affect the pricing decision. We shall also be discussing the methods for measuring the price — demand relationship.

Pricing In Different Types Of Markets

The pricing freedom of sellers actually varies with different types of markets. There are four types of markets recognized by economists, and each posse a different pricing challenge.

Under **pure competition,** for example, the market consists of many buyers and sellers trading in a uniform commodity such as cocoa, maize, banking, or telephone services. No single buyer or seller has much effect on the ruling market price. For instance, a seller cannot charge more than the ruling price because buyers can obtain as much as they need at the going price. Neither would sellers charge less than the market price because they can sell all they want at the current ruling price. If price and profits rise, new sellers can easily enter the market. In a purely competitive market, marketing research, product development, pricing, advertising, and sales promotion play very little or no role. Hence, sellers in these markets do not spend much time on marketing strategy.

In the case of **monopolistic competition,** the market consists of many buyers and sellers who trade over a range of prices rather than a single market price. This is because sellers can differentiate their offers to buyers. For instance, the physical product can be varied in quality, features, or style, or the accompanying services can be varied. Since buyers can clearly see differences in sellers products, they will be ready to pay different prices for them thus, sellers try to develop differentiated offers for different customer segments and, in addition to price, often use branding, advertising, and personal selling to set their offers apart.

Under **Oligopolistic competition,** the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies. The product can be uniform or non-uniform. There are few sellers because it is difficult for new sellers to enter the market. Each seller is typically alert to competitors' strategies and moves. If a seller cuts its price by, say 10 percent, buyers will quickly switch to this supplier. The other suppliers must also respond by lowering their prices or increasing their services. You should note that an oligopolistic is never sure that it will gain anything permanent through a price cut. On the other hand, if an oligopolistic raises its price, its competitors might not follow this lead. In this instance therefore, the oligopolistic might have to withdraw its price increase or risk losing customers to competitors.

In a **pure monopoly,** the market consists ofjust one seller. The seller may be a government monopoly, a private regulated monopoly, or a private non — regulated monopoly. In each of these, pricing is handled differently. For instance, a government monopoly can pursue a variety of pricing objectives. It might set a price below cost because the product is important to buyers who cannot afford to pay full cost. Alternatively, the price might be set either to cover costs or to produce good revenue. It can even be set quite high to slow down consumption. In a regulated monopoly, the government permits the company to set, one that will allow the firm maintain and expand its operations as needed. Non-regulated monopolies are free to price at what the market will bear. Usually, they do not want to charge full price for a number of reasons: a desire not to attract competition, a desire to penetrate the market faster with a low price, or a fear of government regulation.

Consumer Perceptions Of Price And Value

At the end of the day, the consumer will decide whether a product's price is right. Therefore, when setting prices, the company must consider consumer perceptions of price and how these perceptions affect consumers' buying decisions. You should remember that pricing decisions, like other marketing-mix decisions, must be buyer oriented.

Why consumers buy a product, they exchange something of value (the price) to get something of value (the benefits of having or using the product). This situation can be represented by a **value equation**

V = B/P

Where: V = Value

B = Benefits, and

P = Price.

Based on this consideration, an effective, buyer — oriented pricing should therefore involve understanding how much value consumers place on the benefits they receive from the product and setting a price that fits this value. Analyzing the Price — Demand Relationship

Each price a firm charges will lead to a different level of demand. The relation between the price charged and the resulting demand level is illustrated in the demand curve in Figure 11.2

Figure 11.2 Demand Curves

PRICE P2

Fl

Q2 Q1

Quantity demanded per period Quantity demanded per period

A. Inelastic Demand B. Elastic Demand

The demand curve shows the number of units the market will buy in a given time period, at different prices that might be charged. For normal goods, demand and price are inversely related — the higher the price are inversely related — the higher the price, the lower the demand. For example, the firm would sell less if it raised its price from P_i to P_2. In the case of luxury goods, the demand curve sometimes slopes upward.

Price Elasticity of Demand

It is also necessary for marketers to know price elasticity of demand (PED), which refers to the responsiveness of quantity demanded to price changes. Let us look at our Figure 11.2 again. In Figure 11.2 (A), a price increase from P_i to P_2 lead to a relatively small drop in demand from Q_i to Q_2. In Figure 11.2 (B) however, the same price increase leads to a large drop in demand from Q_i to Q_2. If demand hardly changes with a small change in price, we say the demand changes greatly, we it is said that demand is elastic.

The price elasticity of demand is given of the following formula:

$$\text{Price Elasticity of Demand} = \frac{\%\text{Change in Quantity Demanded}}{\%\text{ Change in Price}}$$

If we assume that demand falls by 14 percent when a seller raises its price by 2 percent, the PED is calculated to be — 7 (the minus sign confirms the increase relationship between price and demand) and demand is elastic. If demand falls by 3 percent with a 3 percent increase in price, then PED is — 1. In this case, the sellers total revenue stays the same. The seller sells fewer items but at a higher price that preserves the same total revenue. On another occasion, if demand falls by 2 percent when price in increased by 4 percent, then PED in-[1] and demand is inelastic. The less elastic the demand, the more it pays for 2 'the seller to raise the price.

What determines PED? Demand is likely to be less elastic under the following conditions:

(i)There are no substitutes or competitors:

(ii)Buyers don't readily notice the higher price:

(iii)Buyers are slow to change their buying habits and search for lower prices:

(iv)Buyers think the higher prices are justified by quality improvements, normal inflation etc.

If demand is elastic rather, than inelastic, sellers will consider lowering their price. A lower price will produce more revenue. This practice makes sense as long as the extra costs of producing and selling more do not exceed the extra revenue.

3.3.2.2 COMPETITORS' COSTS, PRICES, AND OFFERS The second set of external factors affecting the firm's pricing decision is competitors' costs and prices, and possible competitor reactions to the firm's own pricing moves. For instance, a consumer who is considering the purchase of a GSM phone from NITEL will evaluate NITEL price and value against the prices and Value of comparable products from ECONET and MIN. In addition, the firm's pricing strategy may affect the nature of the competition it faces. For example if a particular firm follows a high-price, high margin strategy, it may attract competition. However low — price, low- margin strategy may stop competitors, or drive them out of the market.

It is necessary for companies to benchmark their costs against competitors' costs so as to learn whether they are operating at a cost advantage or disadvantage. You should remember that costs typically set the floor for the price a firm can charge (see section 3.1.1.3 again).

Companies also need to learn the price and quality of each competitor's offer. This can be done in several ways. For instance, a firm can:

(i) Send a comparison shoppers to price and compare competitors' products

(ii) Get competitors' price lists and buy competitors' products and dismantle it for the purposes of thorough examination of the features they contain

(iii) Ask buyers how they view the price and quality of each competitor's products.

Once a company is aware of competitors' prices and offers, it can use them as starting point for its own pricing. For instance, if its products are similar to those of a particular competitor, it will have to price close to that competitor otherwise it will lose sales. If the company's products are not as good as those of the particular competitor in question, the company will not charges less, then it can charge more. In essence, a company should use price to position its offers relative to the competition.

3.3.2.3 OTHER EXTERNAL FACTORS

Companies also need to consider other factors in its external environment when setting prices. Economic conditions can have a strong impact on a firm's pricing strategies. For instance, economic factors such as boom, or recession, inflation, and interest rates affect pricing decisions because they affect both the costs of producing a product, as well as consumer perceptions of the product's price and value.

It is also very necessary for the marketer to consider what impacts its prices will have on other parties in its environment. Of particular importance is the way re-sellers or marketing intermediaries will react to the company's various prices. In actual fact, the company should set prices that give these intermediaries a fair profit, encourage their support and loyalty, and help them to sell the product effectively. Finally, the company must also take social concerns into serious consideration. Hence, when selling prices, a company's short — term sales, market share, and profit goals may have to be tempered by broader societal considerations.

3.3.3 GENERAL PRICING APPROACHES

After discussing the various considerations affecting pricing policies, it would be useful to discuss the alternative pricing methods most commonly used. These methods are:

- Cost-plus or Full-cost pricing
- Pricing for a rate of return, also called target pricing
- Marginal cost pricing
- Going rate pricing, and
- Customary prices.

The first three methods are cost-oriented as the prices are determined on the basis of costs. The last two methods are competition-oriented as the prices here are set on the basis of what competitors are charging.

3.3.3.1 COST-PLUS OR FULL-COST PRICING

This is most common method used in pricing. Under this method, the price is set to cover costs (materials, labour and overhead) and a predetermined percentage for profit. The percentage differs strikingly among industries, among members — firms and even among products of the same firm. This may reflect differences in competitive intensity, differences in cost base and differences in the rate of turnover and risk. In fact, it denotes some vague notion of a just profit.

What determines the normal profit? Ordinarily margins charged are highly sensitive to the market situation. They may, however, tend to be inflexible in the following cases: (i) they may become merely a matter of common practice, (ii) mark-ups may be determined by trade associations either by means of advisory price lists or by actual lists of mark-ups distributed to members, (iii) profits sanctioned under price control is discontinued. These margins are considered ethical as well as reasonable. Its inadequacies are:

1. It ignores demand — there is no necessary relationship between cost and what people will pay for a product.
2. It fails to reflect the forces of competition adequately. Regardless of the margin of profit added, no profit is made unless what is produced is actually sold.
3. Any method of allocating overheads is arbitrary and may be unrealistic. Insofar as different prices would give rise to different sales volumes, unit costs are a function of price, and therefore cannot provide a suitable basis for fixing prices. The situation becomes more difficult in multi-product firms.
4. It may be based on a concept of cost, which may not be relevant for the pricing decision.

(a) To illustrate marking pricing, suppose a jug manufacturer had the following costs and expected sales:

Variable cost N10
Fixed cost N300,000
Expected unit sale N500,000

Then the manufacturer's cost per jug is given by:

Fiexed CostN 3 0 0 , 0 0 0
Unit Cost = Variable Cost + — -MO +
Unit Sal e 50,000
=N16

Now, suppose the manufacturer wants to earn a 20 percent marketing on sales. The manufacture's marking price is given by:

Marking Price = Unit Cost = 1416
I — Desired Return on Sales 1 — 0.2
=N20

The manufacturer would charge dealers N20 a jug and make a profit of N4 per unit. The dealers, in turn, will mark up the jug. For instance, if dealers want to earn 50 percent on sales price, they will mark up the jug to N40 (N20 +50% ofN40). This number is equivalent to a marking on cost of 100 percent (N20/ N20)

Explanation for the widespread use of Full-cost Pricing

A clear explanation cannot be given for the widespread use of full-cost pricing, as firms vary greatly in size, product characteristics and product range, and face varying degrees of competition in markets for their products. However, the following points may explain its popularity:

1. Prices based on full-cost look factual and precise and may be more defensible on moral grounds than prices established by other means.
2. Firms preferring stability, use full-cost as a guide to pricing in an uncertain market where knowledge is incomplete. In cases where coasts of getting information are high and the process of trial and error is costly, they use it to reduce the cost of decision-making.
3. In practice, firms are uncertain about the shape of their demand curve and bout the probable response to any price change. This makes it too risky to move away from full-cost pricing.
4. Fixed costs must be covered in the long-run and firms feel insecure that if they are not covered in the long-run either.
5. A major uncertainty in setting a price is the unknown reaction of rivals to that

price. When products and production processes are similar, cost-plus pricing may offer a source of competitive stability is setting a price that is more likely to yield acceptable profit to most other members of the industry also.

6. Management tends to know more about products costs than other factors which are relevant to pricing.
7. Cost-plus pricing is specially useful in the following cases:
   (a) Public utilities such as electricity supply, transport, where the objective is to provide basic amenities to society at a price which even the poorest can afford.
   (b) Product tailoring, i.e. determining the product design when the selling price is predetermined. The selling price may be determined by government, as in case of certain drugs, cement, and fertilizers. By working back from this price, the product design and the permissible cost is decided upon. This approach takes into account the market realities by looking from the viewpoint of the buyer in terms of what he wants and what he will pay.
   (c) Pricing products that are designed to the specification of a single buyer as applicable in case of a turnkey project. The basis of pricing is estimated cost plus gross margin that the firm could \have got by using facilities otherwise. ,
   (d) Monophony buying — where the buyers know a great deal about suppliers' costs as in case of an• automobile buying, components from its ancillary units. They may make the products themselves if they do not like the price. The more relevant cost is the cost that the buying company, say, the automobile manufacturer, would incur if it made the product itself.

3.3.3.2 PRICING FOR A RATE OF RETURN

An important problem that a firm might have to face is one of adjusting the prices to changes in costs. For this purpose the popular policies that are often followed are as under:

1.Revise prices to maintain a constant percentage mark-up over costs.
2.Revise prices to maintain profits as a constant percentage of total sales.
3.Revise prices to maintain a constant return on invested capital. The use of above policies is illustrated below:

Illustration

A firm sells 1,00,000 units per year at a factory price of N12 per unit. The various costs are given below:

Variable Costs Materials	N 3,60,000	
Labour		N 4,20,000
Fixed Costs Overhead	N1,20,000	
Selling & Administrative		N1,80,000
Total investment in cash, Inventory and equipment		N8,000,000

Suppose the labor and materials cost increases by 10 per cent. The question is how to revise price according to the three policies discussed above.

The above data reveal that costs are N10,80,000. The profits as percentage of costs, sales and capital employed (according to the three policies are):

1. Percentage over costs 1,20,000

= 11.1

10,80,000

2.Percentage on sales120,000

=10

12,000

3.Percentage on capital employed 1,20,000

8,00,000

The revised costs are 1411,58,000

(N10,80,000 + 36,000 + 42,000)

=15

According to the first formula, we have to earn a profit of 11.1 per cent on costs. Our revised profits should be N1,28,667 and sales volume on this basis would be N12,86,667. The selling price would, therefore, be N12.87 per unit. Under the second formula, the profit should be 10 per cent on sales. If sales are S. the profit would be S/10 and cost would be 95/10. The cost is known to us and we have to find out the sales.

If 9S/10 =N11,58,000 than S =3/412,86,667

Therefore, the price per unit is N12.89.

Under the third formula, we assume that the capital investment is the same. Therefore, the required profit is Ni, 20,000 (15 percent on 3/48, 00,000). The sales value would then be? 12,78,000 and the selling price per unit would be N12.78.

Rate of return pricing is a refined variant of full-cost pricing. Naturally, it has the same inadequacies, viz., it tends to ignore demand and fails to reflect competition adequately. It is based upon a concept of cost, which may not be relevant to the pricing decision at hand and overplays the precision of allocated fixed costs and capital employed.

3.3.3.3 MARGINAL COST PRICING

Both under full-cost pricing and the rate-of-return pricing, prices are based on total costs comprising fixed and variable costs. Under marginal cost pricing, fixed costs are ignored and **prices are determined on the basis of marginal cost.** The firm uses only those costs that are directly attributable to the output of a specific product.

With marginal cost pricing, the firm seeks to fix its prices so as to maximize its total contribution to fixed costs and profit. Unless the manufacturer's products are in direct competition with each other, this objective is achieved by considering each product isolation and fixing its price at a level which is calculated to maximize it total contribution.

Advantages:

1.With marginal cost pricing, prices are never rendered uncompetitive merely because of a higher fixed over-head structure. The firm's prices will only be rendered uncompetitive by higher variable costs, and these are controllable in the short-run while certain fixed costs are not.

2.Marginal cost pricing permits a manufacturer to develop a far more aggressive pricing policy than does full-cost pricing. An aggressive pricing policy should lead to higher sales and possibly reduced marginal costs through increased marginal physical productivity and lower input factor prices.

3.Marginal cost pricing is more useful for pricing over the life-cycle of a product, which requires short-run marginal cost and separable fixed cost data relevant to each particular state of the cycle, not long-run full-cost data. Marginal cost pricing is more effective than full-cost pricing because of two characteristics of modem business:

a) The prevalence of multi-product, multi-process and multi-market concerns makes the absorption of fixed costs into product costs absurd. The total costs of separate products can never be estimated satisfactorily, and the optimal relationships between costs and prices will vary substantially both among different products and between different markets.

b) In many businesses, the dominant force is innovation combined with constant scientific and technological development, and the long- run situation is often highly unpredictable. There is a series of short-run. When rapid developments are taking place, fixed costs and demand conditions may change from one short-run to another, and only be maximizing contribution in ach short-run will profit be maximized in the long-run.

Limitations

1.The encouragement to take on business which makes only a small contribution may be so strong that when an opportunity for higher contribution business arises, such business may have to be foregone because of inadequate free capacity, unless there is an expansion in organization and facilities with the attendant increase in fixed costs.

2.In a period of business recession, firms using marginal cost pricing may lower prices in order to maintain business and this may lead other firms to reduce their prices leading to cut-throat competition. With the existence of idle capacity and the pressure of fixed costs, *firms* may successively cut down prices to a point at which no one is earning sufficient total contribution to cover its fixed costs and earn a fair return on capital employed.

In spite of its advantage, due to its inherent weakness of not ensuring the coverage of fixed costs, marginal cost pricing has usually been confined to pricing decision relating to special orders.

3.3.3.4 GOING-RATE PRICING

Instead of the cost, the emphasis here is on the market. The firm adjusts it own price policy to the general pricing structure in the industry. Where costs are particularly difficult to measure, this may seem to be the logical first step in a rational pricing policy. Many cases of this type are situations of price leadership. Where price leadership is well established, charging according to what competitors are charging may be the only safe policy.

It must be noted that 'going-rate pricing' is not quite the same as accepting a price impersonally set by a near perfect market. Rather it would seem that the **firm has some power** to set its own price and could be a price maker if it chooses to face all the consequences. It prefers, however, to take the safe course and conform to the policy of others.

Customary Pricing

Prices of certain goods become more or less fixed, not by deliberate action on the sellers' part but as a result of their having prevailed for a considerable period of time. For such goods, changes in costs are usually reflected in changes in quality or quantity. Only when the costs change significantly the customary prices of these goods are changed. Customary prices may be maintained even when products are changed. For example, the new model of an electric fan may be priced at the same level as the discontinued model. This is usually so even in the face of lower costs. A lower price may cause an adverse reaction on the competitors leading to a price war so also on the consumers who may think that the quality of the new model is inferior. Perhaps, going along with the old price is the easiest thing to do. Whatever be the reasons, the maintenance of existing prices as long as possible is a factor in the pricing of many products.

If change in customary prices is intended, the pricing executive must study the pricing policies and practices of competing firms and the behaviour and emotional make-up of his opposite number in those firms. Another possible way out, especially when an upward move is sought, is to test the new prices in a limited market to determine the consumer reaction.

4.0 CONCLUSION

You have learned in this unit that in inspite of the increased role of non-price factors in the modern marketing process, price remain an important element in the marketing mix.

5.0 SUMMARY

Pricing is an important element of the marketing mix. Pricing is affected not only by the cost of manufacturing the product, but also by (i) the company's objectives in relation to market share and sales (ii) the marketing-mix strategy (iii) the nature and intensity of competition; (iv) consumer perceptions and value; and (v) economic factors. Hence, before making any pricing decision, it is important to understand all these factors.

There are various methods of pricing. The four most commonly used methods are full cost pricing, pricing for a rate of return, going rate pricing, and customary pricing. While the first two methods are based on the costs incurred, the latter methods are based on competition's pricing.

Self—Assessed Questions

1.Explain the meaning of price and its role in the marketing mix.

2.describe demand curves and elasticity and relate how marketers use these concepts to establish ranges of possible price points.

• **6.0 TUTOR-MARKED ASSIGNMENT**

Questions:

Identify the constraints that affect pricing decision and the effects that each constraint can haveon the pricing process.

7.0 FURTHER READING

Bovee, C.L. and IV. Thill (1992): marketing. New York, McGraw-Hill, Inc.
Kotler, P (2000): Marketing Management. The Millennium Edition. New Delhi, Prentice —Hall of India Stanton, W.J.; M.J. Etzel and B.J. Walker (1994): Fundamentals of Marketing. 10'h ed. New York, McGraw-Hill, Inc.

UNIT 12: PLACE AND DISTRIBUTION STRATEGIES

Table Of Contents

1.0 INTRODUCTION

Most producers do not sell their goods directly to final users. Between them stands a set of intermediaries performing a variety of functions. Those intermediaries constitute a marketing channel. Marketing channel decisions are among the most critical decisions facing management. For instance, the channels chosen intimately affect all the other marketing decisions. The company's pricing depends on whether it uses mass merchandisers, or high — quality boutiques. The firm's sales force and advertising decisions depend on how much training and motivation dealers need. In addition, the company's channel decisions involve relatively long-term commitments to other firms. The focus of this present unit is marketing channels.

2.0 OBJECTIVES

After studying this unit, you should be able to:

(i)Explain the need for marketing channels

(ii)Describe the functions channels perform in the marketing mix

(iii)List the various types of channels in use today.

(iv)Outline the factors producers need to consider when selecting channels

3.1 PLACE AND DISTRIBUTION DECISIONS IN THE MARKETING MIX

As you already learnt in unit 1, Place is the third element of the marketing mix. It stands for the various activities the company undertakes to make the product accessible.

In making the complex marketing decisions involved in distribution policy and the management of physical distribution, the firm finds itself in a number of problems which have to be solved simultaneously such problems include:

(i) Which marketing channel or channels should be used?
(ii) How many middlemen should the inventory be?
(iii) How large should the inventory?
(iv) How should the inventory be deployed geographically?
(v) How many branch warehouses should there be and where should they be located?
(vi) Should public warehouses or branch warehouses be used?
(vii) What modes of transportation should be used?

The way and manner any of these questions are decided will directly affect the possible ways the others can be decided.

In continuation of its efforts in planning marketing tactics, the firm has to identify, recruit, as well as link various middlemen and marketing facilitators so that its products and service are efficiently supplied to the target market. Furthermore, the form must understand the various types of retailers, wholesalers, and physical distribution firms and how they make their decisions.

3.2 DEFINITION OF MARKETING CHANNELS

A marketing channel can be defined as: A system designed to move goods and services form producers to customers, which consists of people and organization supported by various facilities, equipment, and information resources. Marketing channels are also frequently referred to as distribution channels because distribution is one of their primary functions. A channel can be simple and direct. For example, at various farms in the country, farmers, sell fruits and vegetables directly to final consumers. The channel in this case consists of a building in which farmers rent stall space.

On the other hand, a marketing channel can be very complex. The dinner plates on which a Kano resident serves this farm-fresh produce might have been manufactured in a stoneware factory in Taiwan, exported by an international distributor, transported by a container cargo ship, imported by a house wares wholesaler in Lagos.

3.2.1 ROLE OF MARKETING CHANNELS

Channels are a necessary component in the marketing of all goods and services, in both for-profit and nonprofit organizations,. Producers need marketing channels for three important reasons. First, channels take care of the transaction aspects of marketing, including the selling, the financing, and the risk taking associated with storing products in anticipation of future sales. Second, they perform the logistical function of moving products from the point of production to the point of purchase or consumption. Third, they help producers promote goods and services.

Marketing channels also benefit customers. By giving consumers and organizations access to the right products, in the right place, at the right time, and in the right quantity, channels make products more valuable and the buying process more efficient.

3.2.2 MARKETING INTERMEDIARIES

The people and organizations that assist in flow of goods and services from producer to customers are called **marketing intermediaries.** Here are the common types:

* *Middleman.* An archaic but often-used term, **middleman** refers to just about anybody acting as an intermediary between producer and consumer. Obviously, many middlemen are actually middle-women.

- *Agent or broker.* Intermediaries with legal authority to market gods and services and to perform other functions on behalf of producers are called agents or **brokers.** Agent generally work for producers continuously, whereas brokers may be employed for just one deal. In some cases, agents sell to other intermediaries such as industrial distributors. In addition, an agent or broker can work for the buyer rather than the seller, a situation becoming more common in real estate, for instance.
- *Wholesale.* **Wholesalers** are organizations that buy from producers and sell to retailers and organizational customers.
- *Retailer.* As the last link in many marketing channels, **retailers** sell directly to final customers. The most obvious form of this intermediary is the retail store, but such divers efforts as mail order, door-to-door sales, and vending machines are also retailing
- *Distributor.* **Distributor** is a general term applied to a variety of intermediaries. These individuals and firms perform several functions, including inventory management, personal sales, and financing. This term is more common in organizational markets, although wholesalers are occasionally referred to as distributors.
- *Dealer.* Another general term that can apply to just about any intermediary is **dealer,** although some people distinguish dealers as intermediaries that sell only to final customers, not to other intermediaries.
- *Value-added* reseller. An emerging class of intermediaries, called **value-added resellers (VARs),** design or enhance the products they receive from producers and then sell the modified products to customers. VARs are particularly common in the computer hardware and software industries, where they buy basic products from producers, add value through such actions as writing special software or integrating several products into one system, and then sell the complete package. This process works well for producers who may not have the expertise to customize products for niche markets and for customers who can get specific solutions to their unique problems.
- *Finally,* there are several other types of individual and organizations that help with the marketing and distribution process. These **facilitation agents** don't always directly participate in the flow of products; rather they add expertise or supporting functions diaries themselves perform these facilitation tasks; in other case, the job is done by an outside firm. These tasks include financial services, risk taking, and transportation and storage.

3.3 BASIC CHANNEL FUNCTIONS

To get a better grasp of the role of channels, we can break their functions into five groups: facilitating exchange processes, alleviating discrepancies, standardizing transactions, matching buyers and sellers, and supporting customers.

3.3.1 FACILITATING EXCHANGE PROCESSES

Contrary to what some people believe, marketing intermediaries generally decrease the cost of delivering products to customers. Figure 2 shows how intermediaries make the marketing of stereo equipment more efficient, for example. Assume there are four manufacturers and eight customers. Without intermediaries, if all customers interacted with all makers, 32 interactions would result. However, by introducing a retail store in the system, the number of interactions drops to 12. because each interchange costs money, which shows up in the price of the equipment, lowering the number of transactions lowers the overall cost of delivering products.

In addition to directly reducing transaction cost, the presence of intermediaries allows various players in the system to specialize. This further increase cost efficiencies because each player can make the investment needed to achieve economies of scale.

3.3.2 ALLEVIATING DISCREPANCIES

A discrepancy in distribution exists whenever a producer's offering do not match a customer's expectations. Channel discrepancies can be distinguished by quantity and assortment. **Discrepancies of quantity** occur when customers are unable to purchase the right amount of the desired product. For example, a refinery owned by a petroleum company such as NNPC can produce thousands of liters of gasoline a day. Not too many car owners, however, need to purchase 5,000 or 10,000 litres of petrol each time they fill up. Channel intermediaries, in this case gasoline distributors and service stations, come to the rescue by selling smaller amounts to individual customers. Meanwhile, **discrepancies of assortment** exist when customers are unable to buy the right collection of goods and services. If Lever Brothers, Cadbury, RZ., and Nestle all sold directly to consumers, you would have to shop at four separate stores to buy soup, cereal, ketchup, and cookies. And if you wanted to choose between two brands of each item, you would have to visit eight separate stores. Again, a marketing intermediary is here to help. With one stop at a supermarket you can purchase all four items.

To alleviate these two discrepancies, marketing intermediaries engage in **regrouping activities,** reorganizing goods to achieve the right quantities and assortments of products.

3.3.3 STANDARDIZING TRANSACTIONS

The third major function of marketing channels is standardizing transactions. Think about the last time you purchased a carton of milk. Imagine how complicated the transaction would have been if you would had to negotiate the price, the size of the container, the method of payment, and the location of the exchange. All these choices have been standardized for you in the milk market. You choose from a predetermined array of sizes, for instance, and each size has a set price that is not negotiable, so you know in advance how much it will cost. Without these standards, even the simplest purchase would be a complicated hassle for customers. Standardization also assists intermediaries by allowing them to automate much of the buying, selling, and physical distribution required to move products through the channel.

3.3.4 MATCHING BUYERS AND SELLERS

Marketing intermediaries also provide the valuable service of matching buyers and sellers. A sculptor may not know where potential customers are located or how they can be reached, but a good art dealer will. By using the art dealer as an intermediary, the sculptor reaches a bigger audience than he or she could do alone. Customers benefit as well because they do not have to peek into attic studios all over town, trying to find sculptures to buy; art dealers help with this search process.

With intermediaries carrying out this matching process, producers are able to concentrate on what they do best, which is creating products.

3.3.5 PROVIDING CUSTOMER SERVICE

Finally, marketing channels provide the critical element of customer support and service. If your Toshiba television set breaks down, you do not have to send it back to Japan for service. You are more likely to send it back to the dealer or the dealer's service representative. In addition, marketing intermediaries provide valuable support when customers attempt to use products they have purchased. If you are entranced by the sound of those home organs you hear in the mall, the dealer can help you with delivery, installation, and lessons. Providing customer service is a crucial aspect of many organizational transactions, where products often require installation, training, routine maintenance, and other forms of attention.

3.4 TYPES OF MARKETING CHANNELS

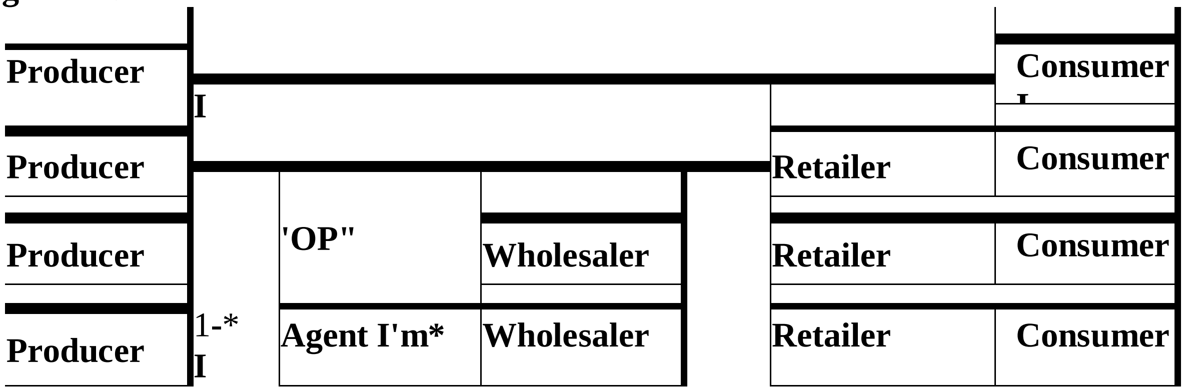
With the vast diversity of products and customers in today's markets, there is a wide variety of marketing channels in operation. It is helpful to note the differences between direct and indirect channels. **Direct channels** are the simplest channel type. The people who produce the goods and services interact directly with customers. **Indirect channels,** on the other hand, rely on one or more intermediaries between producers and customers.

You should also be familiar with two other related terms. **Direct selling** refers to any sales situation in which one human being is selling, another one is buying and the two come in direct, personal contact. However, direct selling is not necessarily limited to direct channels; it can occur between producers and customers, between producers and intermediaries, and between intermediaries and customers.

A related term is **direct marketing,** which encompasses any selling activity between buyers and sellers, including direct selling, direct mail, and telemarketing. Direct marketing plays a very big role in both consumer and organizational marketing. And like direct selling, direct marketing can also occur between an intermediary and a final customer. Common direct marketing activities include direct mail, catalog shopping, telemarketing, and online shopping.

We shall now take a look at two types of marketing channels: channels for consumer goods, and channels for organizational goods.

Figure 12.3



3.4.1 CHANNELS FOR CONSUMER GOODS

The number of intermediaries can classify marketing channels for consumer products. As shown in Figure 12.3, consumer channels can have from zero to three intermediaries. Here's a closer look at the characteristics of each type of channel

. *Producer to consumer* When there are no intermediaries between the producer and the consumer, the channel is direct. This type of channel is most commonly used with organizational products, but it is also used by a few well-known consumer products companies. If the regrouping functions already described need to be performed for a given product, then the producer will have to perform these tasks itself. On the positive side, direct channels give producers much more control over the marketing process.

•*Producer to retailer to consumer* The channel from producer to retailer to consumer is common when the retail establishments involved are relatively large. Because these stores buy from producers in very large quantities, it often makes sense for the producers to deal directly with the retailers. However, this channel does not have an intermediary dedicated to storage and transportation, so either the producer or the retailer will have to perform these functions.

. *Producer to wholesaler to retailer to consumer.* The most common channel for consumer goods• is from producer to wholesaler to retailer to consumer. It employs a wholesaler to take care of the shipping and transportation needs mentioned for the previous channel, in addition, wholesalers offer the accumulating and allocating functions that allow small producers to interact with large retailers, and vice versa.

•*Producer to agent to wholesaler to retailer to consumer.* In some cases, a producer chooses to use agents to help market its goods to wholesalers. Agents are used primarily when producers lack the expertise or resources to sell their products to wholesalers. For example, small producers can engage experienced agents to help deal with large wholesalers.

3.4.2 CHANNELS FOR ORGANIZATIONAL GOODS Channels for organizational goods follow the same basic concepts as those for consumer goods. A key difference is the presence of the industrial distributor in place of wholesalers (and sometimes retailers) in the consumer channel. Also, organizational channels tend to be shorter (with fewer intermediaries). Here are descriptions of the four basic organizational channels. (see Figure 12.4)

•*Producer to organizational buyer* The only channel type used by about a quarter of American firms engaged in business-to-business marketing is from producer to organizational buyer. And even if firm also uses indirect channels, direct channels are the only reasonable choice for some products and some customers. Complex products that require a good deal of presale and post sale and post sale support are often best handled through a direct channel, because the manufacturer might be the only entity with sufficient expertise to help customer because these large accounts generate enough business to support the sales effort involved and because large customers have a habit of throwing their economic weight around to demand personalized service.

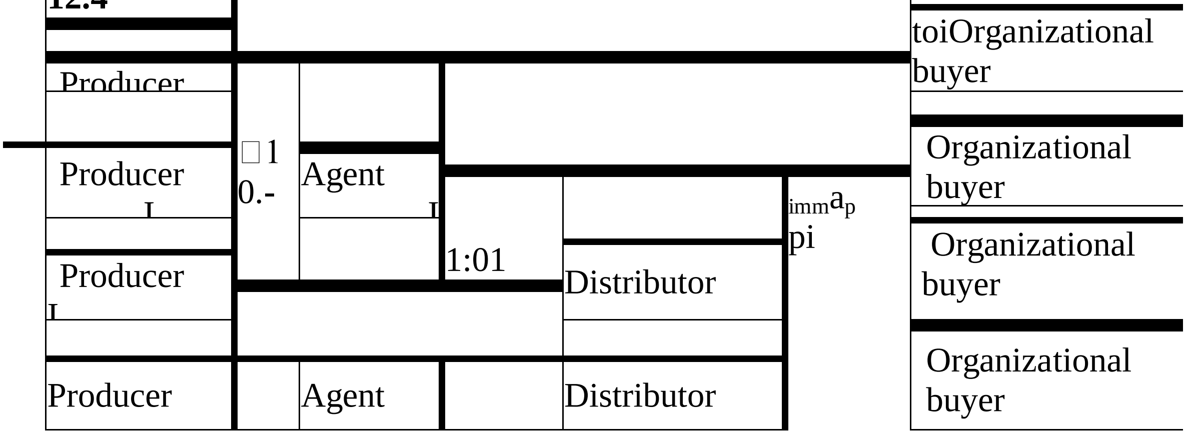
•*Producer to distributor to organizational buyer.* About three-quarters of all business-to-business marketers use intermediaries, and of these, distributors are the most common. Distributors can be divided into general-line distributors, which sell a wide variety of goods to a large number of customers, and limited-line distributors which specialize in one or a few high-volume goods, such as steel and chemicals. These limited-line distributors are often called jobbers.

There are potential disadvantages to marketing through distributors. First, distributors will want access to large accounts that the manufacturer may try to keep for itself. Second, distributors try to keep their product selections wide, which frequently means carrying competing lines. Third,
distributors do not always respond to manufacturers' advice or wishes regarding promotions, pricing, and operational policies.

. *Producer to agent to organizational buyer.* Often called manufacturers' representatives in organizational markets, agents are used by both large and small producers for two important reasons. First, agents typically have close, hands-on knowledge of local market areas, knowledge that can take years of persistent selling to acquire. Second, unlike distributors, agents usually do not carry competing brands of products, although there is a trend toward doing so in some markets.

. *Producer to agent to distributor to organizational customer.* Some producers use agents to sell to distributors, who then sell to customers. This is typically done when the producer lacks the skills or resources to sell to distributors itself.

Figure 12.4



3.5 MARKING CHANNEL SELECTION DECISIONS

In order to properly address the issues raised in section 3.1, it is necessary for us to examine how firms take their decisions on marketing channels. This generally concerns three areas: determining potential channel

(i) Determining potential channel alternative;

(ii)Ascertaining feasible channel alternatives; and

(iii)Comparing relative profitability.

3.5.1 DETERMINING POTENTIAL CHANNEL ALTERNATIVE The example of different-level channels treated in section only indicate possibilities. Actually, there are many different kinds of retailers and wholesalers which expand the number of possible channels. Hence, marketing managers faced with the task of determining potential channels alternatives is likely to discover an almost infinite number of combinations of different types of middlemen engaged in different lines of trace at different levels and distribution.

From there large number of potential distribution arrangement, the marketing manager must first screen those which may be appropriate for distribution of the product. His initial assignment is to identify alternatives that are sufficiently promising to justify further screaming for feasibility. Though this preliminary screaming has some quantitative aspects, qualitative considerations of the product and market predominate. The nature of a product, i.e. its unit value, technical characteristics, degree of differentiation from competitive products, whether it is perishable or nonperishable; whether it is a staple or non-staple etc., may limit the number of "potential" channel alternatives. Taken on individual basis or in combination with one another, there product characteristics may restrict the alternatives to those in a given lone of trade, to those containing a certain number of distribution levels, to those where middlemen have specialized storage facilities (e.g for frozen foods) or are specialist is some phase of marketing

The market is another main basis for the initial screaming. Research can aid the marketing manager by answering the questions: where do ultimate buyers (ie. Ultimate consumers or industrial users), wish or prefer to buy the product? Is the market concentrated buyer expecting their immediate suppliers to play aggressive or passive roles in promoting the product. Consideration of these and other factors may be used as screaming devices for discovering potential channel alternatives.

If properly applied, this qualitative analysis examination of channels with respect to significant product and market forces should go by way of sorting out the potential alternatives form the much layer number of possible alternatives. The remaining potential alternative are then a manageable few that deserve further detailed study and analysis.

33.2 ASCERTAINING FEASIBLE CHANNEL ALTERNATIVES

After the preliminary screaming which was largely qualitative nature, the second screaming emphasizes quantitative analysis. This stage essentially requires the gathering of quantitative information to answer such questions as: Are there enough of the desired types of middlemen in all the market areas the producer wants to cultivate? Are the desired middlemen "free" to handle the product, or are they "non-available" and committed to competing products? Will the desired middlemen accept or reject the opportunity to take on the product? How much could it cost to reverse middlemen's unwillingness to stock the product?

It should be clear that whereas the initial screaming focuses on the makeup of the different channels. For example, detailed examinations are made of individual stores that a producer wants to represent him at the retail level. The producer should carefully check. The "reach" of individual outlets at each distribution level and then determining whether they can really have a sufficient number of outlets on the next level. In addition, he should determine whether these outlets are in good contact, (directly or indirectly), with a large sufficient timber of ultimate buyers. It is every possible for a producer to encourage and support particular people into business as distributors or dealers in order to obtain the desired type of representation in some market areas.

At the end of this second screaming exercise, some of the earlier "potential" channel alternatives will be discarded as not feasible. The tow-phase "weeding-out" process should now result in a smaller number of remaining alternatives now classified as feasible. These are later subjected to further evaluation.

3.5.3 COMPARING RELATIVE PROFITABILITY

The third screlming of potential channel alternatives concerns the determination of the relative profitability of the channel alternatives rated as being feasible at the end of the second screprning exercise. What goes on here is the estimation of the sales volume potential and the costs of channel usage for each channel alternative.

With respect to the estimates of sales volume potential, the marketing manager seeks to answer this question: Is this channel capable of reaching a sufficient number of ultimate buyers to guarantee an absorption of the desires quantity of product? The new set of data needed to solve the problem may be found in the producer's own records and some may be secured from external sources of market statistics. Yet some may have to be obtained through special marketing surveys. After making necessary adjustments for such factors as the straightly and weaknesses of competitors, and after projecting market trends in relation to the channel being considered, the channel's sales volume potential is determined. Some alternatives may have to be dropped if their sales volume capabilities are clearly inadequate and show little promise of improving.

The estimation of the costs for alternative channel usage requires the determination of the costs of moving the product through the different channels. This is basically a matter of marketing cost analysis i.e. one of determining probable costs of performing required marketing functions under each arrangement. In each channel, there is some implicit arrangement for sharing the performance of marketing functions, i.e. of apportioning some to the manufacturer and others to different "channel members". The costs of performing each marketing function at each distribution level and the total costs of performing the entire marketing task must be estimated for each channel.

It should be stressed that in analyzing probable costs of channel usage, the marketing manager must consider possible "hidden" costs. For example, costs of breakage, spoilage and pilferage must be taken into account, when estimating the costs and performing the storage function.

A thorough comparison of the estimates above gives the marketing manager the opportunity of discovering the channel alternative with the greatest promise of contributing the most to maximum long-run profits. However, the marketing manager needs to have a good grasp of certain market statistics before he can be adjudged to make solid comparisons of relative profitability. The most fundamental of these relates to the potential market. For instance, he must have both short-term and long-term estimates of market potential. By applying some "target share — of— the — market percentage" to the estimates obtained, they would also be able to derive short-term and long-run estimates of is firm's sales potentials alongside the data on the "reach" of outlets at each distribution level should normally permit the marketing manager to determine, at least, tentatively, whether a simple channel or a number of channels will be needed.

4.0 CONCLUSION

In the unit, you have learnt about marketing intermediaries, types of channels and factors to be considered while making channel selecting.

5.0 SUMMARY

Marketing intermediaries are considered as the life—wire of manufacturing companies. They take title to the goods sold. They create time and place utilities. They presence in the distribution channels facilitate the movement of goods from the producers to the end users

Self—Assessed Questions

What importance is marketing channels to a marketing organization?

6.0 TUTOR-MARKED ASSIGNMENT Question:

The distribution of goods from the producer to the final users varies from one class of goods to another. Discuss the channels through which consumer goods are distributed.

7.0 FURTHER READING

Bovee,C.L.and J.V.Thill(1 992): Marketing. New York, McGraw-Hill, Inc.

Kotler, P (2000): Marketing Management. The Millennium Edition. New Delhi, Prentice-Hall, India.

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UNIT 13: PROMOTION

Table of Contents

1.0 INTRODUCTION

Promotion is one of the 4Ps of marketing, and it is concerned with those activities employed or designed to bring a company's goods and/or services to the awareness of customers/clients or to their favorable attention. In this unit, you will be made to understand the role that promotion plays in the overall marketing effort, from providing information to influencing public behavior.

2.0 OBJECTIVES

After studying this unit, you should be able to:

(i) Explain the role promotion plays in the marketing mix
(ii) Identify the major elements of promotion
(iii) Track a message through the communication process model and identify ways in which communication can break down
(iv) Explain the concept and design of promotional mix

3.1 THE NATURE AND ROLE OF PROMOTION

The marketing — mix activities of planning, pricing, and distribution are performed mainly within a business or between a business and the members of its distribution channels. However, with respect to the fourth element in the marketing-mix (i.e.

promotion), a firm communicates directly with potential customers. This is often a cumbersome process. As you have been informed in the introduction to this unit, promotion is an attempt to influence. More specifically, **promotion** is the element in an organization's marketing mix that serves to inform, persuade, and remind the market of a product and/ or the organization selling it, in the hope of influencing the recipient's feelings, beliefs, or behavior.

Generally, marketers use promotion for a number of reasons outlined below:

- Providing information
- Stimulating demand
- Differentiating products
- Reminding current customers
- Countering competitors
- Responding to negative news
- Smoothing demand fluctuations
- Persuading decision — makers
- Influencing public behavior

Note that the ultimate goal of all promotion should be to influence behavior. The plae may not be direct, and the desired action is not necessarily immediate. However, the reason marketers spend time and money on promotion is to get certain people to behave in a certain way.

3.2 ELEMENTS OF PROMOTION (PROMOTION-MIX) There are four major forms of promotion: Advertising, Personal Selling, sales Promotion, and Publicity. The committee on Definitions of the American Marketing Association defined these components as:

Advertising: Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. It includes the use of such media as magazines, newspapers, outdoor posters, direct mail novelties, radio, television, posters, catalogues, directories, programmes and circulars.

Personal selling: Oral presentation is a conversation with one or more prospective purchasers for the purpose of making sales.

Sales promotion: Those marketing activities — other than personal selling, advertising, and publicity — that stimulate consumer purchasing and dealer effectiveness such as displays, shows and exhibitions, demonstrations, coupons, contests, and other non-routine selling efforts. These are usually short-term activities.

Publicity: Non-personal stimulation of demand for a product, service or business unit by generating commercially significant news about it is published media or obtaining favourable presentation of it on radio, television or stage. Unlike advertising, this form of promotion is not paid for by the sponsor.

Packaging, public relations and role of other elements of marketing mix in promotion:

Although definitions vary about the number of components that constitute promotion, marketing practice brings out that almost all marketing activities influence the promotion function. Notably, packaging performs the promotion function in addition to providing protection to the product. By incorporating creativity in its design a package can add the 'pick-me-up' appeal to the product and also help to communicate its feature, uses and benefits more effectively. The promotion aspect of packaging is witnessing a bit of revolution in Nigeria nowadays with the introduction of innovative packages in the field or consumer goods. For example, package design of biscuits. Public relation, likewise, performs an important role in promotion insofar as it helps to create a favorable image of the firm and allows the public to experience better satisfaction in dealing with the firm. High and consistent product quality, provision of superior customer service, price promotions as a way of increasing short-term sales and compatibility between the character of distribution outlets and the product are the other ways which contribute to the promotion function of this firm.

When we combine any two or more of these promotional elements to pursue a marketing objective, we have created a promotional mix. Every industry and every company chooses a unique promotional mix, depending on its objectives, capabilities, and markets. For example, millions of Naira is spent annually promoting movies, and marketing costs typically equal 25 percent or more of a film's entire production costs. Television advertising cast up the biggest chunk of movie promo budgets, roughly 60 percent. Print ads, particularly in newspaper movie sections, are another important vehicle.

Having taken a cursory look at the meaning of the promotion mix elements, we shall now be examining each element of the promotion mix into some details.

All marketers, regardless of the product involved, should develop promotional mixes that allow them to reach target customers in the most effective manner.

We shall now be examining each element of the promotion mix into some details.

Advertising Perhaps the most obvious form of promotion; Advertising is defined as paid, non-personal communication with a target market. As you know, advertising shows up on television and radio, in newspapers and magazines, and on T-shirts, billboards and dozens of other places.

Advertising offers some significant advantages over other promotional techniques. The first of these is cost. Some people are shocked when they hear about television commercials that cost thousands of Naira per second, but consider how many viewers these adverts reach. For example, Bakaar Airlines spends 14150,000 for a commercial during a hit prime-time on NTA Network and reaches 25 million viewers, it is paying just over half a kobo to reach each viewer. Contrast this with the most expensive promotional element, personal sales, in which one sides call can cost several hundred Naira in some industries. Advertising advantage is ease of repetition, which is often needed to effectively get manage across. You may get kicked out the door if you called on a customer every day for a week, but you can put your massage in a newspaper and every morning and reach that same customer. Third, advertising seems to be able to get away with a higher level of creative flexibility than other promotional elements. You could use a comedian to speak for your products in a radio commercial, but you might not want to bring that same comedian along on a sales call. Fourth, advertising's impersonal nature can be a big plus if you're marketing sensitive merchandise, such as personal hygiene product. And fifth, may consumers assign some level of prestige to the mass media used in advertising. The simple fact that a product is advertised nationally can add to its image.

Advertising's advantages are balanced with several limitations. Ironically, cost is also one of advertising's biggest disadvantages. It is great that has to spend only half a kobo to reach a TV viewer, but if the company do not have enough money to get on TV in the first place, is not going to reach anybody. Television has the highest up-front costs of all advertising media, and none of them is particularly cheap. Second, advertising cannot provide direct feedback. If your newspaper advert confuses people you may never get the chance to explain yourself. Third, advertising is difficult to personalize. A salesperson can get to know the likes and dislikes of every customer and prepare individualized presentations, but that is nearly impossible with advertising. Finally, advertising cannot always motivate customers to action as effectively as personal selling can.

3.2.2 SALES PROMOTION

This is demand-stimulating activity designed to supplement advertising and facilitate personal selling. It is paid for by the sponsor and frequently involves a temporary incentive to encourage a purchase. Many sales promotions are directed at consumers. The majority, however, are designed to encourage the company's sales force or other members of its distribution channel to sell its products more aggressively. This latter category is called trade promotion. Included in sales promotion are a wide spectrum of activities such as contests, trade shows, in-store displays, rebates, samples, premiums, discounts, and coupons.

One of the biggest advantages of sales promotions is the ability to generate lots of interest and excitement. Because they are by definition something out of the ordinary, sales promotions have the potential to catch the public's attention. Sales promotion can also build awareness and interest faster than advertising can. And it allows more precise timing than other promotional elements. Some companies even keep special promotional programs ready in case of unexpected sales declines or the introduction of new products from competitors. Finally, sales promotions can be a very effective way to get message to potential customers when other promotional avenues are cluttered or inaccessible. A common, but controversial, example of this is the sponsorship of sporting events by tobacco companies. These firms are no longer allowed to advertise on television, so they've chosen sporting events as a vehicle to reach young adult audiences.

Probably the biggest drawback of sales promotion is its overuse in some industries. Consumers are so accustomed to seeing coupons and rebates for some products that many refuse to buy until the special offers are available. And some companies don't like to rely on sales promotion as the primary element in their promotional mixes because of its temporary nature. These companies believe that they need to use long-term advertising programmes to keep their place in customers minds.

3.2.3 PUBLIC RELATIONS

Encompasses a wide variety of communication efforts to contribute to generally favorable attitudes and opinions toward an organization and its products. Unlike most advertising and personal selling, it does not include a specific sales message. The targets may be customers, stockholders, a government agency, or a special-interest group. Public relations can take many forms, including newsletters, annual reports, lobbying and sponsorship of charitable or civic events.

The other side of the public relations effort is publicity.

Publicity: It is a special form of public relations that involves news stories about an organization or its products. Like advertising, it involves an impersonal message that reaches a mass audience through the media. But several things distinguish publicity from advertising. It is not paid for, the organization that is the subject of the publicity has no control over it, and it appears as news and therefore has greater credibility than advertising. Organizations seek good publicity and frequently provide the material for it in the form of news releases, press conferences, and photograph. There is of course, also bad publicity, which organizations try to avoid or deflect.

Public relations has two major advantages over the other promotional elements. The first is low cost, and in some cases, no cost. (even though marketers don't pay for public relations directly, they often incur costs when visiting editors, staging public events, and so forth). The second is the perception of objectivity, which increases the trust people have in the message. If PEUGEOT Automobile Nigeria Ltd. Runs and advert saying its new car is a pleasure to drive, people might respond with "Sure, what else would they say?" But if Auto Week reviews the car and its editors say Peugeot 406 is a pleasure to drive, people might respond with "Hmmm, maybe that car is pretty nice."

The biggest disadvantages of public relations are lack of control and short life span. The lack of control can be a particularly nasty problem if a reporter or editor takes a strong dislike to your product and shares that viewpoint with thousands of readers. Just as the positive comments from the media carry a lot of weight with consumers, so do the negative reviews. Moreover, publicity can't be counted on for much more than a short burst of coverage during the introduction phase. Magazines and other media are in the business of selling news, and your six-month-old product is no longer news.

3.2.4 PERSONAL SELLING

The first three promotional elements do not rely primarily on interpersonal contact, although both sales promotion and public relations often involve personal interaction. The fourth element, personal selling, is about interpersonal contact exclusively; it is one person making a sales presentation to another person or to a group of potential buyers. The audience for personal selling can be consumers, organizational customers, or marketing intermediaries.

Personal selling offers a number of advantages. First, as the only promotional technique that allows immediate, direct feedback, personal selling is about the only way you are selling products that require customization or generate a lot of questions from customers. For example, when salespeople for Roche are presenting a new drug, they can answer doctors' questions about safety, effectiveness, and other factors. Second, it is extremely effective when customers need to see products in action; the salesperson can demonstrate how to use the product and point out its benefits. Third, personal selling is the only easy way to interview customers who are purchasing complex products to make sure you offer the right product or collection of products. Fourth, personal selling can be more effective at inducing people to make a purchase.

The biggest disadvantage of personal selling is cost; in some selling situations a single sales call can cost several hundred Naira. And even for in-store retail sales, staffing a store with salespeople is an expensive endeavour. Consistency can also be a problem with personal sales because one cannot be sure that every salesperson will deliver the same message. Nor will each salesperson be consistent from day to day.

3.3 DETERMINING THE PROMOTION MIX

Marketers rarely rely on only one promotion method. They make use of two or more methods to accomplish promotion and marketing objectives. When a firm makes use of more than one promotion method for one product, the promotion methods used constitute the promotion mix for that product. For example, while TV spots, newspaper and attractive festival displays at the authorized retail shops constitute the promotion mix of

MTN: specialized industry magazines and participation in national and international exhibition of engineering goods constitute the promotion mix of HOLTS Engineering Promotion function being linked with the ever changing market environment is a dynamic function. The promotion mix, therefore, acquires the dimension of dynamism and varies from product to product and over a period of time. Quite similar to the problems faced by a marketer in the determination of the optimal marketing mix are the problems faced in the determination of the promotion mix. The task involved is rather more complex due to cross — substitutability of the various promotion methods (i.e., each method is capable of achieving what the other method may achieve) thereby making the measurement of promotional effectiveness more difficult.

Notwithstanding these difficulties, factors as mentioned below act as the major determinants of the promotion mix:

(i)Type of product

(ii)Nature of Market

(iii)Stage of product in its life-cycle

(iv)Available budget, and

(v)Company policy.

These determinants are briefly discussed below:

3.3.1 TYPE OF PRODUCT

In terms of the promotion task involved, the type of product is the major influence on the promotion-mix. For example, a low priced, frequently purchased consumer convenience item, say a toilet soap, a toothpaste or a cigarette will require that repeat messages influencing and reminding the existing consumers, and persuading the new consumers, be used in a mass manner and at a high frequency. Newspaper and magazine advertisements, TV spots and Cinema Slides, offer of incentives to consumers and organization of contests will, therefore, constitute the 'promotion mix' of such consumer goods. Now let us think of an industrial product, say a special purpose machine tool, which has a high unit value, is technical in nature, is purchased infrequently and requires demonstration and conviction before it gets sold. Personal selling, quite obviously, becomes indispensable for such a product along with organizing product demonstrations and exhibitions, holding seminars, etc. These then constitute the promotion mix in the case of an industrial good with newspaper advertising playing only the limited role of keeping the public informed about the company's activities and accomplishments. Publicity however, to the extent it projects the desired image of the company plays a more important role.

3.3.2 NATURE OF MARKET

The locational characteristics of the customers, intensity of competition in the market place and the requirements of wholesalers and retailers influence the promotion mix relating to the product in their own way. For example, if the target audience of a consumer product is both large as well as widely dispersed in different parts of the country, advertising and sales promotions emerge to be both more effective and economical promotional methods than the others. This is why advertising and sales promotions are so dominant among consumer goods companies. Personal selling also has a role to play among consumer goods companies but limited mainly to wholesalers and retailers who receive greater focus for activities such as pushing inventories, conducting displays, etc.

3.3.3 STAGE IN THE PRODUCT LIFE CYCLE

The promotion mix changes with the movement of the product from one stage to the other in its life-cycle. For example, when the product is in the introduction and early growth stages, and the tasks involved are that of building and motivating trials of the product, the promotion mix comprises of publicity, informative advertising, consumer sales promotions and trade deals. Later, as the product reaches the maturity stage, and goals of maintaining brand loyalty and creating brand preferences become more important, aggressive brand advertising and dealer promotions become the key components of the promotion mix.

3.3.4 THE AVAILABLE BUDGET

Each method of promotion has certain costs associated with it. The level at which each promotion method is to be used and the selection of the promotion mix is dependent on the promotion budget of the firm. Firms with small promotional budgets have to be content with more localized areas activity, using dealer displays, wall writings, personal selling, and other less sophisticated methods. It needs to be emphasized here that for the promotion function to be effective the minimum threshold level must always be exceeded.

3.3.5 COMPANY POLICY

In the ultimate analysis an aggregative consideration of the above four determinants clothed in the company's own marketing and promotion policy determines the mix. Important factors here include the conviction of the top management in the role of promotion and its various components, the product market strategy, and the type of corporate image it wants to project. For example, a company even under the seller's market might still believe in keeping a high profile in public and thus may go for extensive publicity and advertising progammes. Yet another company in the same industry may rely more on personal selling, and continue to grow by maintaining its promotions at a low key.

3.4 THE PROMOTION BUDGET

As we noted above, the promotion budget influences the level of promotional activity as well as the promotion mix used by the firm. Budgeting for promotion is yet another area where a lot of subjectivity prevails regarding what is the right amount to be spent on the promotion function. Pending any clear cut relationship between the promotion expenditure and the achievement of promotion objectives, recourse is made to certain rules of the thumb.

These are:

- Incremental promotional expenditure yields, incremental sales to a certain extent;
- A minimum level of promotion activity must be exceeded for promotion to have a meaningful effect. Often such a minimum level of promotion is set by the competitor or more appropriately by an average of the industry;
- Promotion activities when well integrated with other elements of the marketing mix produce greater than the planned results.

The above discussion should not, however, lead us to understand that no attempts have been made to shed light on the inherent uncertainty shrouding the cause-effect relationship in this area of promotion budgeting. In fact, quite a few notable attempts, by the economists in terms of application of marginal cost and marginal revenue principle (additional promotional expenditure and additional revenue and profits made), and by marketing researchers through experimentation and model building approaches have been made. The substance of their findings is that results of the promotion finiction should be constantly monitored in order to establish more reliable parameters of cost-benefit relationships. Further, cost-benefit analysis should form the basis of the tradeoff before promotion budget is finalized by using any one of the following methods. These methods include per cent-of-sales methods, fixed-stun per unit, affordable funds, competitive parity, and objective and task method.

3.4.1 PERCENT-OF-SALES

This method views promotion budget determination by linking the appropriation to a fixed percentage of sales of the company products. Such sales may relate to the previous year, an average of sales of the previous few years, projected sale of the next year or years or an average of the previous few years sales, as well as the projected sales of the next few years.

This method though simple to use fails to account for the changing promotional costs, and relating the appropriations made to the product-market needs. Particular difficulties are faced if the sales curve of a company is not smooth, hence resulting in lower outlays for the years that follow the bad sales years. Also the forecasted sales realizations remain uncertain. The average expenditure of the past (i.e., last year plus 15%), or use of this method in combination with the others that are discussed below.

3.4.2 FIXED-SUM PER UNIT

Very much like the percent-of-sales, under this method the promotion budget is determined by allocating a fixed amount of money per physical unit of product for either past of future sales or a combination of the two. The only differentiating point of this method from the per cent-of-sales method is that the base for budgeting, instead of being rupee sales, is the number of product units sold or targeted to be sold. This method, thus, has almost the same strengths and weaknesses as the ones associated with per cent-of-sales method, namely, simplicity in the determination but arbitrariness in arriving at the percentage or per unit allocation.

3.4.3 AFFORDABLE FUND

Continuing to think on the plane that promotion expenditure is one of those business costs which are desirable or avoidable as per the convenience of the top management, the funds for promotion are appropriated on discretionary basis under this method. No wonder then, that companies adopting this method find their promotion appropriations fluctuating from year to year depending on the top management' thinking for the year.

3.4.4 COMPETITIVE PARITY

Incorporating a measure of competitiveness in planning, this method guides the budget determination in terms of relativity to what the competitors are likely to allocate. Being a slightly more market-oriented method than the ones discussed so fax, when based on the representative average of the industry promotion expenditure, it becomes a good norm to moderate the promotion expenditure of a company.

3.4.5 OBJECTIVE AND TASK METHOD

This is one of the most scientific methods of budget determination. It approaches the budget exercise by first setting the specific objectives to be achieved. It then identifies the tasks involved in 4deving the said objectives followed by ascertaining the costs involved in the Performance of each task required. The result of the exercise is an estimation of the amount required for accomplishing the set promotion goals. Typical objectives might be to increase awareness say by 15% or increase message/theme recall say by 25%. Indeed, it is a good method as far as promotion budgeting for new products is concerned, or when a new thrust to the image of a company and its products is to be provided.

This method presupposes that objectives set are realistic and promotion results can be measured precisely. These assumptions continue to be subject of unending debate at the one end, and of pursuit of research on the other. It is as a result of the continuing research that some models for promotion budgeting have been developed and are now being refined to be of practical utility to the marketer.

3.4.6 THE PRACTICE

In practice most companies make use of more than one method for determining the promotion budget. Among the individual methods used 'affordable finds' method emerged as the most popular. There were, however, quite a few companies, which had started using the approach of 'objective and task', in setting their promotion budgets either exclusively or in combination with other methods. Most of such companies were dealing in consumer goods.

The practices of the companies using a combination of methods for determining promotion budget pointed to the efforts they were putting in to gather competitive promotion outlays and its apportioning to various promotion components.

3.5 PROMOTION AND THE COMMUNICATION PROCESS Promotion is first and foremost a process of communication. Whether message is words or visual images, education or persuasion, what you're trying to do is communicate. To better understand how human beings communicate, we need to first understand how human beings communicate.

The process of getting an idea from one person's mind into another's is extremely complex. The sender may not verbalize the thought in exactly the same forms as it was conceived, and the receiver might reach any of a number of conclusions depending on experience or mood or motivation. And in between these two people, the message can be corrupted by noise and competing messages from other senders. In order to study the communication process and its effect on marketing promotion, it's necessary to simplify this complicated situation. Figure — 1 is a model of the communication process that will help you grasp the elements of successful communication, and here are brief descriptions of each element:

4

Feedback response (e.g., decision to purchase)

Encoding "Buy this and you'll be happy"

Message

Medium I

- **Source:** The person or organization that originates and encodes a message is known as the source. Ideally, the message has to originate somewhere; somehow the source generates the idea to be transmitted and is responsible for encoding it as well. For instance, Nigerian Bottling Company is the source of Coca cola advertising message, although it gets help from advertising agencies when it is time to encode.

- Encoding: Most of us lack the ability to transmit our thoughts directly to an audience. We have to first convert these thoughts into a form that we can transmit, a process known as encoding. Of course, the encoded form should be made up of words and images that both the source and the audience can understand. This mutual understanding will result from shared experience, for without some common base, there is no way that the audience will be able to interpret the message correctly. At the most obvious level, this means that both the source and the audience need to use the same alphabet, language, and so forth.
- Message: Once the idea has been encoded into a form acceptable for transmission, it is considered to be message. Your message might be a particular image, such as a photograph of the product, or it might be a statement like "Buy this and you'll be happy". In many promotional contexts, the message is a combination of words and images.
- Medium: The message is carried to your audience by the medium. Typical promotional media include newspapers, magazines, radio, television, signs, packaging and interpersonal communication. The medium can also be referred to as the channel.
- Decoding: When people in your audience attempt to extract the idea from your message, they are going through a process called decoding, which is the reverse of encoding. For instance, a person looking at a coffee

If they buy this, they'll be happy

Sour7 I

Hmm... if I buy this, I'll be happy...

Decoding
Noise
Noise
Audience

advertisement in a magazine will process the words and the picture of that cup of dark, rich coffee by comparing it with prior experience on this topic. However, the entire process can fall apart at this stage. This happens for several reasons: the thought wasn't encoded clearly. There was too much noise, the medium was inappropriate, or the audience's experience didn't align with the source's.

- Audience: Whether you're sitting across a table from one person or beaming a satellite message to millions, your audience, the people receiving your Marketing message, obviously play a key role in communications. But reaching your audience is not quite that simple: you have to identify and analyze your audience and find out what people think, feel, and believe.
- Response and Feedback: After the audience decodes your message, the people will respond according to how well the message was communicated. In the ideal case, they will interpret your message just as you intended and then take the action you'd like them

to take, such as buying a particular product. However, if the message was irrelevant or confusing, they might just ignore you. In the worst possible scenario, your massage might prompt them to do just the opposite of what you'd like them to, such as when a TV commercial annoys people so much that they resolve to buy from competitors. All of these responses can be considered feedback, which is the response of the audience once it has received and decoded your message. Feedback is usually indirect in marketing situations; the exception is in personal selling, where the audience can respond immediately and directly to the seller.

•Noise. From the sender's perspective, anything that interferes with the successful transmission and decoding of the message is noise. This noise can be any kind of visual or audio clutter, such as a competitor's advertising or a baby crying during a TV commercial. You should try to anticipate noise and find ways to avoid it or overcome it. Advertisers on television, for instance, do this literally by raising the volume during commercials. However, more sophisticated ways of doing this include the creative use of music, sound effects, color, or other elements of the particular medium.

As you can see from this simple model, communication is a precarious process that can fail a lot more easily than it can succeed. Just think of all the times you've spoken with a friend face-to-face communication you can ask the audience whether the message got across. With the exception o f personal selling, you don't have any immediate way of judging the effectiveness of your communicator to figure out whether the message is really getting across.

This discussion of communication assumes that the audience is paying attention. However, the communication process works only when the audience participates, and people typically ignore most of the promotional messages they are exposed to. If people switch channels when your TV commercial airs, or if they stare at your highway billboard without reading it they're not participating. Breaking through the clutter in today's information-intensive markets has become a major challenge for most marketers. Doing so requires careful attention to all phases of the communication process.

3.6 MARKETING COMMUNICATIONS

In the context of marketing, the process of sending messages to your various audiences is called marketing communications. This starts with the communication fundamentals just described and adds several topics: the process of moving customers from awareness of your products all the way through purchase to satisfaction, the distinction between mass and personal communications, and the difference between controlled and uncontrolled communication.

From Awareness to Satisfaction

Successful marketing communicators realize that there are a number of distinct phases in the process of communication with customers. These phases give you insight into the prospect's state of mind as he or she moves toward a purchase.

•*Phase 1:* Awareness. The first step in communicating with a market is to make sure the market is aware of your products. People can't buy things they don't know about.

•*Phase* 2: Comprehension. Once the market is aware, you need to make sure that potential customers understand what you're offering. This usually isn't much of a problem with peanut butter or roofing nails, but it can be a big challenge with computer-aided design software or genetically engineered medicines.

•*Phase* 3: Acceptance. After they understand your product, prospects decide whether or not they accept your product as a solution to their individual problems. Customers reject products for a variety of reasons, ranging from the logical ("This car doesn't have enough room for my family") to the emotional ("I'd feel sill in this car").

•*Phase* 4: Preference. At this stage, buyers consider the products they accept as potential solutions, and they choose a favorite. Be careful here; just because customers prefer your product doesn't mean you've got it made. For instance, what if they can't find it in the stores where they normally shop?

•*Phase* 5: Ownership. Now it's time to get them to reach their wallets. This is a critical phase in the communication process because you have to motivate buyers to take action.They can sit passively during the first four stages as you funnel them information, but now they have to participate, or a sale isn't going to happen. Marketers pay a lot of attention to the part of an advert or sales presentation that tries to get customers to move. In fact, this section is known as the call to action.

•*Phase* 6: Satisfaction. At this point, promotion has done most of its job. But it can still help you in an important way by increasing customer satisfaction and putting the buyer's mind to rest about making the purchase. One way promotion can do this is by providing useful information that helps customers use your product more effectively, for instance. Perhaps you can send a newsletter to all the people who purchased dogs from your pet store, explaining how to care for, train them, and so on. Satisfied customers are more likely to buy from you again, and they are more likely to spread positive word-of-mouth advertising for you.

4.0 CONCLUSION

This unit has shown that the purposes of promotion are to inform, persuade, and remind customers. In economic terms, this means changing a firm's demand curve, that is, shifting it to right and changing its shape to make demand inelastic when prices increase and elastic when prices decrease.

5.0 SUMMARY

Modern marketing calls for more than developing a good product, pricing it attractively, and making it accessible to target customers. In addition, companies must have communications mix consists of five major modes of communication advertising, sales promotion, public relations, publicity and personal selling.

The communication process consists of eight elements: source, encoding, message, medium, decoding, audience, response and feedback, and noise. To get their message through, marketers might encode their messages in a way that takes into account how the target audience usually decodes messages. They might also transmit the message through efficient media that reach the target audience and develop feedback channels to monitor response to the message.

In deciding on the marketing communication, marketers must examine the distinct advantages and costs of each promotional tool. They must also consider the type of product market in which they are selling.

Self-Assessed Question

1.Explain the role promotion plays in the marketing mix.

2.Identify the major elements of promotion

6.0 TUTOR-MARKED ASSIGNMENT

Question

(i) Explain how marketing communication is used to involve customer from awareness to purchase satisfaction.

7.0 FURTHER READINGS

Note: Some section of this unit have been adapted from the works of Bovee and Mill (1992) and the Indira Ghandi National Open University (1989): Marketing for managers Block V. unit 15.

UNIT 14: SALES FORCASTING AND DEMAND MEASUREMENT

Table of Contents

1.0 INTRODUCTION

In Unit 4, we discussed the concept of strategic marketing planning. You were made to understand that strategic marketing planning is the process of examining a company's market opportunities, allocation resources to capitalize on those opportunities, and predicting market and financial performance that is likely to occur. Evidently, good strategic planning rests on a foundation of good sales forecasting and demand measurement. For instance, when a company finds an attractive market, it must estimate that market's current size and future potential carefully. The company can lose a lot of profit by over estimating or under estimating the market. This unit therefore presents the principles and tools for measuring and forecasting demand.

2.0 OBJECTIVES

After studying this unit, you should be able to:

(i)Explain the nature of market measurement and forecasting in marketing
(ii)Name the different ways of defining the market
(iii)Describe how to measure current market demand

(iv)List and explain several ways of forecasting future demand.

3.1 THE NATURE OF FORECASTING

Forecasting is one of the most challenging, intriguing, and frustrating aspects of marketing. And, as we already observed in the introduction to this unit, mistakes in either direction can be costly. For instance, a forecast that is too high can lead a company to invest too much money and produce too much inventory, thereby wasting money and reducing profitability. On the other hand, a forecast that is too low can also be injurious to the health of a company. For instance, if demand is higher than expected, delivery times will increase, customer support might suffer, and other aspects of quality become vulnerable as the company rushes to meet demand.

There are two major types of forecasts: one can be based on historical data, while the other cannot. For the first type, let us assume that you are the marketing manager of an umbrella manufacturing company, and you want to forecast sales for June. You might wish to follow the following process:

(a) Compute the average sales data from previous Junes; really, this gives you a good starting point.

(b) Consider this year's sales trend; for instance, if sales thus far for this year are 8 percent better than last year, increase your forecast by the same 8 percent.

(c) Take into account other factors, such as weather, sporting events, bank strikes, etc. that might affect sales. For example, if history tells you that sales increase 12 percent during rainy months, also adjust your forecast accordingly.

Naturally, you should not have complete confidence in the forecast that results from a process like this (what if a surprise drought hits?) Of course, you should feel okay about it. Since your projection is based on solid historical data, and you have taken all important factors into account, chances are good that your forecast will be reasonably accurate.

The second type of sale forecasting is a completely different matter. Consider these instances:

What if you don't have extensive past sales data? In such cases, you have to rely on a combination of methods, including judgment, analogy, and common sense.

What if this is your first month of operation?

What if you are introducing a product the world has never seen?

Finally, there are both broad and narrow applications of forecasting. In the broad sense, for instance, executives of PEUGEOT Automobile in France would like to know the transportation needs of people around the world 10 to 20 years from now. On the other hand, a Peugeot dealer in Lagos needs to know how many cars he can sell this year, this month, even this week. In both cases, it is clear that there is a need to forecast sales in the future.

3.2 DEFINING TILE MARKET

Market demand measurement calls for a clear understanding of the market involved. In the marketing sense, a **market** is the set of all actual and potential buyers of a product or service. A market is the set of buyers, and an **industry** is the set of sellers. The size of a market hinges on the number of buyers who might exist for a particular market offer. Potential buyers for a product or service have four characteristics: interest, income, access and qualifications.

Let us consider the consumer market for MIN's cell (GSM) phones. To assess its market, MTN first must estimate the number of consumers who have a potential interest in owing a cell phone. In order to do this, it might be necessary for the company to carry out a random sampling of potential consumers, and then ask the following question: "Do you have an interest in buying and owning cell phone?" If two persons out of ten say "yes", MTh might go ahead to assume that 20 percent of the total number of consumers would constitute the **potential market** for cell phones.

You should note however, that consumer interest alone is not enough to define the cell phone market. The potential consumers must have enough income to afford the product. For instance, they must be able to answer "yes" to the question: "can you afford to buy a cell phone?". The higher the price, the lower the number of people who can answer "yes" to this question. Hence, market size depends on both interest and income.

There are other barriers that will reduce cell phone market size. For example, if MTN does not have service networks outside state capitals, potential consumers in those areas will not be available as customers. Or in some markets, sales might be restricted to certain groups.

Let us also assume that there is a legislation banning the sale of cell phones to anyone under 18 years of age. The **available market** is thus, the set of consumers who have interest, income, and access to a particular offer. In this instance, the eligible adults constitute the **qualified available market,** i.e. the set of consumers who have interest, income, access, and qualifications for the particular market offer.

A company can go after the whole available market or concentrate on certain segments. The **target market** (also called the **served market)** is the part of the qualified available market the company decides to pursue. The company for example, might decide to concentrate its marketing and distribution effort in the South West. The company will end up selling to a certain number of buyers in its target market. The **penetrated market** is the set of consumers who are buying the company's product.

In order to develop effective targeting strategies, and to manage their marketing efforts effectively, companies must be able to measure both current market demand and forecasting future demand.

3.3 MEASURING CURRENT MARKET DEMAND

It is necessary for you to understand some practical methods for estimating current market demand. We shall therefore be examining three different aspects of current market demand:

a)Total market potential;
b)Area market potential; and
c)Actual sales and market shares

3.3.1 TOTAL MARKET POTENTIAL

Total Market Potential is the maximum amount of sales that might be available to all the firms in an industry during a given period under a given level of industry marketing effort and given environmental conditions. A common way to estimate total market potential is as follows:

Estimate the potential number of buyers **times** the average quantity purchased by a buyer **limes** the price. This can be represented by the following equation: Q=nxqxp

Where

Q = total market potential

N = number of buyers in the market

Q = quantity purchased by an average buyer per year P = price of an average unit Let us use an example to illustrate the process above: suppose there are 50 million buyers of handkerchiefs each year, the average buyer buys three handkerchiefs a year and the average price/handkerchief is N10, then the total market potential is **N1.5** billion (i.e. 50,000,000 x 3 x N10).

A variation of this method is the **chain— ratio method,** which involves multiplying a base number by several adjusting percentages. For example, suppose Osot Consumer Electronics (OCE) wants to estimate the market potential for its new Digital Satellite System. This system uses a small 18 — inch wide home satellite dish mounted on roof top or porch railing to receive digital television signals relayed form two high power satellites in space. Systems prices start at N20,000 for the satellite dish, decoder box, and remote control. Customers can subscribe to more than 50 channels, all with crystal — clear digital quality pictures and CD —quality sound. Initially OCE will target households in small towns and rural areas where cable TV is limited or lacking. OCE can make a demand estimate for Nigeria in respect of the Digital satellite system using a chain of calculations like the fallowing:

Total number of Nigerian households

limes The percentage of Nigerian households located in small towns and rural areas not served well by cable TV

Times The percentage of these small town and rural households with moderate or heavy T.V usage

Times The percentage of moderate or heavy usage households with enough discretionary income to buy the home Digital Satellite System.

You should realize that this simple chain of calculations would provide only a rough estimate of potential demand. However, more detailed chains involving additional segments and other qualifying factors would yield more accurate and refined estimates.

3.3.2 AREA MARKET POTENTIAL

One common problem of firms is how to select the best territories and allocating marketing budget optimally among these territories. Hence, the need to estimate the market potential of different cities, local governments and states. Two major methods are available: the Market —Buildup Method, which is used primarily by business marketers, and the multiple — factor index method, which is used primarily by consumer marketers.

33.2.1 MARKET BUILDUP METHOD

This method calls for identifying all the potential buyers in each market and estimating their potential purchase. The market buildup method produces accurate results if there is a list of all potential buyers and a good estimate of what each will buy. It is however unfortunate that this information is not always easy to collect.

Let us explain this method with an example adapted from Kotler (2000): suppose we wants to estimate the area market potential for its wood lathe in the Benin — Sapele — Warn i — Port-Harcourt axis. Its first step will be to identify all potential buyers of wood lathe in the area. The buyers consist primarily of manufacturing establishments that have to shape or ream wood as part of their operations. Hence, OMT Ltd could compile a list from a directory of all manufacturing establishments in the aforementioned axis. The next thing is to estimate the number of lathes each industry might purchase based on the number of lathes per thousand employees or per Ni million of sales in that industry.

To estimate the market potential, OMT Ltd can consult the Standard Industrial Classification (SIC) developed by the U.S Bureau of the Census. The SIC is a coding system that classifies industries, for the purposes of data collection and reporting, according, to the product produced or operation performed.
In order to use the SIC, the company must first determine the four — digit SIC codes that represent products whose manufactures are likely to require lathe machine.
The SIC classifies all manufacturing activities into 20 major industry groups, each with a two- digit code. Number 25 is furniture and fixtures, and number 35 is machinery exccept electrical. Each major industry group is further subdivided into about 150 industry groups designated by a three —digit code. (for example, number 251 is household furniture, and number 252 is office furniture). Each industry is further divided into approximately 450 product categories designated by a four-digit code (for example, number 2521 is wood office furniture, and number 2522 is metal office furniture). For each four — digit SIC number, the census of manufacturers provides the number of establishments sub classified by location, number of employees, annual sales, and network.
Therefore, in order to use the SIC, OMT Ltd must first determine the four-digit SIC codes that represent products whose manufacturers are likely to require lathe machines. For example, lathes will be used by manufacturers in SIC number 2511 (wood office furniture) etc.
The company's next task is to determine on appropriate base for estimating the number of lathes that will be used in each industry. Suppose customer industry sales are the most appropriate base. For example, in SIC number 2511, 10 lathes may be used for every ₦l million worth of sales. Once the company estimates the rate of lathe ownership relative to the customer industry's sales, it can compute the market potential.
For example, Table 14.1 shows an hypothetical computation involving two SIC codes. In number 2511, there are six establishments with annual sales of Ni million and two establishments with annual sales of N5 million It is estimated that 10 lathes can be sold in this SIC code for every Ni million in customer sales.

Table 14.1 Market **Buildup Method using SIC codes**

	(b)	(b)	(c)	
	Annual in Sales in Wm	Number of Establishment	Potential Number of Lathe sales per ilam Customer Sale	Market Potential (axbxc)
SIC				
2511	1 5	6 2	10 10	60 100
2521	1 5	3 1	5 5	15 25
			30	200

Source: Adapted from Kotler, P. (2000): Marketing Management. The Millennium ed.

New Delhi, Prentice-Hall of India.

3.3.2.2 MULTIPLE — FACTOR INDEX METHOD

Consumer goods companies also have to estimate area market potentials. However, the customers of consumer companies are too numerous to be listed. For this reason, therefore, the method most commonly used in consumer markets is a straightforward index method. A. drug manufacturer, for example, might assume that the market potential for drugs is directly related to population size. If Bayelsa State has 2.5 percent of the Nigerian population, the company might assume that Bayelsa will be a market for 2.5 percent of the total drugs sold.

You should note however, that a single factor is hardly a complete indicator of sales opportunity. For instance, regional drug sales are also influenced by per capita income and the number of physicians per 10,000 people. In this case, it makes sense to develop a multiple — factor index with each factor assigned a specific weight. •

The numbers are the weights attached to each variable. For example, let us assume that Bayelsa State has 1.5 percent of Nigeria's disposable personal income, 1.75 percent of Nigeria's retail sales, and 2.5 percent of the population of Nigeria, and the respective weights are 0.5, 0.3, and 0.2 The buying — power index (BPI) for Bayelsa State would be: 0.5 (1.5) +. 0.3 (1.75) + 0.2 (2.5) = 1.775

Thus, 1.78 percent of Nigeria's drug sales might be expected to take place in Bayelsa State.

3.3.2.3 INDUSTRY SALES AND MARKET SHARES

Apart from estimating total potential and area potential, a company also needs to know the actual industry sales taking place in its market. In essence, the' company must identify its competitors and estimate their sales.

Usually, the industry's trade association will collect and publish total industry sales. However, individual company sales are not listed separately. By making use of this information, each firm can evaluate its performance against the whole industry; suppose a firm's sales are increasing by 7 percent per annum, and the industry's sales are increasing at 15 percent. Evidently, the firms are actually losing its relative market share in the industry.

Another way to estimate sale is to buy reports from marketing research firms that audit total sales and brand sales. These audits can give a company valuable information about its total product — category sales as well as brand sales. In addition, it can compare its performance to the total industry and/or any particular competitor to see whether it is gaining or losing market share.

3.4 FORECASTING FUTURE DEMAND.

Having examined how to estimate current market demand, we shall now look at the methods of forecasting future demand by anticipating what buyers are likely to do under a given set of future conditions.

Firms usually use a three — stage procedure to arrive at a sales forecast. They first, make an **environmental forecast,** followed by an **industry forecast,** followed by a company sales forecast. The environmental forecast calls for projecting inflation, unemployment, interest rates, consumer spending and saving, business investment, government expenditures, net exports, and other environmental events that are important to the firm. From this, a forecast of gross domestic product in obtained, and this is consequently used along with other indicators to forecast industry sales. Thereafter, the company prepares its sale forecast by assuming that it will win a certain share of industry sales.

There are two main classes of forecasting methods: Qualitative (or subjective) and Quantitative (or objective). The qualitative or subjective methods rely primarily on judgment to produce sales forecasts. The quantitative or objective methods, in contrast, involve the application of statistical techniques of varying degrees of sophistication. The different techniques under each main class are shown in Figure 3.1. We will consider these methods at some length in the sections that follow.

Figure 14.1: Classification of Sales Forecasting Methods

Sales Forecasting Methods

Subjective / Qualitative Methods

Users' expectations

Sales force Composite Jury of Executive Opinion Delphi technique.

Objective / Quantitative Methods

Market test

Time Series analysis

Moving averages

Exponential smoothing Decomposition

Statistical demand analysis.

3.4.1 SUBJECTIVE OR QUALITATIVE METHODS

The subjective methods are based on assumptions, or intuitive estimates of those in the firm that are familiar with the market. This may include sales personnel, purchasing representatives or management people who all have close contact with customers. Some of these techniques may involve several levels of sophistication. An example here is an opinion survey that has been scientifically conducted. Others are merely intuitive hunches about future events. The accuracy of a particular subjective approach depends on the good judgment, honesty and philosophy of the individuals concerned. We shall attempt to examine each of the subject techniques indicated in Figure 14.1

3.4.1.1 USERS' EXPECTATIONS

The users' expectations method is also known as the buyers' intentions methods since it relies on responses from customers with regard to their expected consumption or purchase of a product. The customers may be surveyed in person, over the telephone, or by mail. In some particular situations, the respondents in a users' expectations survey do not necessarily have to be the ultimate consumers. Rather, the firm may find it advantageous to secure the reactions of wholesalers and retailers that serve the channel.

Advantages.

The users' expectations method offers several advantages. These include the following:

(i) The forecast is based on estimates obtained directly from firms whose buying actions will actually determine the sales of the product.

(ii) The way through which the information was obtained i.e. projected product use by customers, allows preparation of forecasts in great detail e.g. by product, by customer, or by sales territory.

(iii) The method may often provide some insight into the buyer's thinking and plan. Therefore, it could be helpful in planning the marketing strategy.

(iv) It is particularly useful to solicit opinions fiw_i prospective buyers about a new product that is just coming to the market.

Disadvantages Of Users' Expectations Are As Enumerated Below:

(i) The method is limited to situations in which the potential customers for the product are few and well defined. The method could be difficult to adopt and can actually result in grave errors when there are many customers that cannot be easily identified.

(ii) The method also depends on the sophistication of the potential customers in appreciating their needs. Here, we should remember that buyer intentions are subject to change, thus the method does not work particularly well for consumer goods.

(iii) It is often difficult to determine the firmness of intentions to purchase, particularly when the person being interviewed is not literate or uncooperative.

(iv) The method requires a considerable expenditure of money, time and manpower.

3.4.1.2 SALES FORCE COMPOSITE

The sales force composite is a specific judgmental forecast for which opinions are solicited from line sales personnel and sales managers. Each person states how much he or she expects to sell during the forecast period. The usual technique is to ask sales people to forecast sales for their districts and have these estimates reviewed by the regional sales manager and then by the head office sales manager. This method is based on the belief that those closest to the sales people have the best knowledge of the market.

Advantages

(i) A primary advantage of the sales force composite method is that it uses the specialized knowledge of the people closest to the market.

(ii) It has also been argued that the size of the sample used to develop the forecast tends to produce estimates that are fairly accurate.

(iii) The method lends itself to the easy development of customer; product, territory, or sales force breakdowns. These are particularly important in controlling the sales effort.

Disadvantages

(i) Sales representatives are often seen to be notoriously poor estimates. For instance, they tend to be overly optimistic when the economy is booming and overly pessimistic when things are not so good.

(ii) Salesmen usually are not trained forecasters and are ill-informed on the factors influencing sale.

(iii) The approach makes no provision for bringing the systematic consideration of uncontrollable into the analysis.

(iv) The approach does not provide for discovery of important facts through statistical analysis of historical data.

JURY OF EXECUTIVE OPINION

The jury of executive opinion method is about the oldest and simplest method of making sales forecast. The method either formally or informally polls the top executives of the company for their assessment of sales possibilities. The separate assessments are then combined into a sales forecast for the company.

This is sometimes often done by simply averaging the individual judgments. Disparate views are resolved through group discussions. In some cases, the process amount (to little more than group guessing. In other cases however, it involves the careful judgment of experienced executives who have studied the underlying factors influencing their company's sales.

Advantages

(i) Ease and quickness with which it can be made.

(ii) Does not require elaborate statistics.

(iii) The method brings together a variety of specialized viewpoints. The resulting "collective wisdom" reflects the thinking of the top people in the company.

(iv) When there is an absence of adequate data or experience, such as with innovative products, the jury of executive opinion method may be the only means of sales forecasting available to the company.

Disadvantages

(i)The forecasts are based on opinions rather than on facts and analysis.

(ii)Averaging opinions reduces responsibility for accurate forecasting.

(iii)The method is expensive because of the large amounts of highly paid executives' time it consumes.

(iv)The forecast may not properly weigh the expertise of those most informed.

3.4.1.4 DELPHI TECHNIQUE

This method is used to achieve consensus within a committee. The Delphi technique uses repeated measurements and controlled feedback instead of direct confrontation and debate among the experts preparing the forecast. The way this method is employed is illustrated by Figure 14.2. The following steps are involved. First, each individual prepares a forecast using whatever facts, figures and general knowledge of the environment he or she has at his or her disposal. Second, the forecasts made are collected, and the person supervising the process prepares an anonymous summary. Third, the summary is distributed to each person who participated in the initial phase. Usually, the summary indicates each forecast figure, the average and some other summary measure of the spread of the estimates. Those whose initial estimates fell outside the mid range of responses are asked to express their reasons for these extreme positions. The explanations offered are then incorporated into the summary. Those participating in the exercise are asked to study the summary and submit a revised forecast. The process is then repeated.

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The method is based on the following two premises:

(a) The range of responses will decrease, and the estimates will converge with repeated measurements

(b) The total group response or median will move successively toward the "correct" or "true" answer.

Advantages

(i) The strategy of forcing those whose forecasts lie at the ends of the distribution to justify their estimates seems to have benefits in that "informed" experts have greater opportunity to influence the final forecast.

(ii) Those who might have a deviant opinion, but with good reason, can defend that position/rather than going in to group pressure.

(iii) The method can result in forecasts that most participants have ultimately agreed to in spite of their initial disagreement.

Disadvantages

(i) The process of iteration and feedback in the Delphi often takes a longtime

(ii) The method can also be very expensive.

3.4.2 OBJECTIVE OR QUANTITATIVE METHODS

As we have already noted, the objectives or quantitative methods of forecasting are statistical in nature. They range in complexity from relatively simple trend extrapolations to the use of sophisticated mathematical models. A lot of organizations are tending toward the use of advanced methods in which the computer correlates a host of relationships. Let us now go into the treatment of the quantitative techniques earlier shown in figure 14.3.

3.4.2.1 MARKET TEST

Market testing is a relatively recent phenomenon in demand estimation and is mostly used to assess the demand for new products. The essential feature of a market test is that it is a controlled experiment, done in a limited but carefully selected part of the marketplace, whose aim is to predict the sales or profit consequences, either in absolute or relative terms, of one or more proposed marketing actions. It therefore goes beyond estimating the potential sales of a new product.

It is necessary for us to note that market testing methods differ is the testing of consumer and industrial products. For instance, when testing consumer products, the company wants to estimate the major determinants of sales, such as trial, first repeat, adoption, and purchase frequency. The major methods of consumer goods market testing include sales-wave research, simulates store technique, controlled test marketing and test markets. However, we are not going into their details here. You will learn more about them under Marketing Research.

Test marketing is not typically used in the case of industrial products. For instance, it will be too expensive to produce a sample of airplanes; ships etc, let alone put them up for sale in a select market to see how well they will sell. Marketing research firms have actually not built the test-market systems that are found in consumer markets. Therefore, goods industrial manufacturers have to resort to other methods to research the market's interest in a new industrial product. The most common method adopted is product-use test. A second common market test is to introduce the new industrial product at trade shows. Anew industrial product can also be tested in a distributor and dealer display rooms. The details of these methods are under Marketing Research.

Advantages

(i) Market testing can indicate the product's performance under actual operating conditions.

(ii) It can also show the key buying influences and the best market segment

(iii) It provides ultimate test of consumers' reactions to the product

(iv) It allows the assessment of the effectiveness of the total marketing programme
(v) It is very useful for new and innovative products.

Disadvantages

(i) It allows competitors know what the firm is doing, hence they may jam the experiment by creating artificial situations so that the results of the test may not be meaningful.
(ii) It invites competitive reaction
(iii) It is expensive and time consuming.
(iv) Often takes a long time to accurately assess level of initial and repeat demand.

3.4.2.2 TIME SERIES

This approach to sales forecasting rely on the analysis of historical data to develop a prediction for the future. The depth and sophistication of these analyses often vary widely. At one extreme, the forecaster might just forecast next year's sales to be equal this year's sales. This forecast might be reasonably accurate for a mature industry that is experiencing little growth. However, if there is some growth, the forecaster might allow for it by predicting the same percentage increase for next year that the company experience this year. Still further along the continuum, the forecaster might attempts to break historical sales into basic components by isolating that portion due to trend, cyclical, seasonal and irregular influences.

The first component, trend (T), is the result of basic developments in population, capital formation, and technology. It is found by fitting a straight or curved line through pass sales. The second component, cycle (c), captures the wavelike movement of sales. Many sales are affected by swings in general economic activity, which tends to be somewhat periodic. The cyclical component can be useful in medium-range forecasting. The third component, season (S), refers to a consistent pattern of sales movement within the year. The term season, describes any recurrent hourly, weekly, monthly, or quarterly sales pattern.

The seasonal component may be related to weather factors, holidays, and trade customs. The seasonal pattern provides a norm for forecasting short-range sales. The fourth component, erratic events (E), includes strikes, blizzards, fads, riots, fires, war scares, and other disturbances. These erratic components are by definition unpredictable, and should be removed from past data to see the more normal behavior of sales.

Time series analysis consists of decomposing the original sales series, Y, into the components, T, C, S, and E. Then these components are recombined to produce the sales forecast. The following is an example.

A company sold 12,000 units of its main product this year. It now wants to predict next year's December sales. The long-term trend shows a 5% sales growth rate per year. This alone suggests sales next year of 12,600. (i.e. 12,000 x 1.05). However, a business recession is expected next year and will probably result in total sales achieving only 90% of the expected trend-adjusted sales. Therefore, sales next year will more likely be 11,340 (i.e. 12, 600 x 0.90). If sales were the same each year, monthly sales would be 945 (i.e. 11,340— 12). However, December is an above-average month for that particular product, with a seasonal index of 1.30. Therefore, December sales may be as high as 1,228.5 (i.e. 945 x 1.30). No erratic events such as strikes, or new product regulations are. Therefore, the best estimate of new product sales next December is 1,228.5.

A newer time-series technique called exponential smoothing is now available. This is being used by a firm with hundreds of items in its product line, and wants to produce efficient and economical short-run forecasts. In its simplest form, exponential smoothing requires only three prices of in-formative: this period's actual sales, Qt; this periods smoothed sales, Qt; and a smoothing parameter, a. The sales forecast for next period's sales is then given by:

$$Qt + l = Qt^{-} (1 - Qt)$$

Where:

Qt + 1 = sales forecast for next period

a = the smoothing constant, where 0a < 1

Qt = current sales in period t.

t = smoothed sales in period t.

Example:

Suppose the smoothing constant is 0.3, current sales are N600, 000, and smooth sales are N500, 000.

Then sales forecast is:

t + 1 = 0.3 (N600, 000) + 0.7 (N500, 000)
= N180, 000 + N350, 000
= N530, 000

You will observe that the sales forecast is always between (or at an extreme of) current sales and smoothed sales.

Mother technique under time series analysis is the method of moving averages. This is conceptually simple. Let us consider the forecast that next year's sales will be equal to this year's sales. Such a forecast might be subject to large error, if there is a great deal of fluctuation in sales from one year to the next. To allow for such randomness, we might want to consider making use of some kind of recent values. For example, we might average the last two years sales, the last three years' sales, etc. The forecast would simply be the average that resulted. The term moving average is used because anew average can be computed and used as a forecast as each new observation becomes available.

Table 14.2 presents 15 years of historical data for a manufacturer of shirts, together with the resulting forecast for a number of years using two-year and four-year moving avenges.

Table 14.2: Annual and Forecasted Sales for a manufacturer of shirts.

				Forecasted		Sales
				Two-Year		Four-Year
Year		Actual		Moving		Moving
		Sales		Average		Average
1974		4,200 :				
; 1975		4,410 i				
1976		4,322		4,305		
1977		4,106		4,366		
1978		4,311		4,214		4,260
1979		4,742		4,209		4,287
1980		4,837		4,527		4,370
1981		5,030		4,790		4,730
1982		4,779		4,934		4,847
1983		4,970		4,905		4,904
1984		5,716		4,875		5,128
1985		6,116		5,343		5,395
1986		5,932		5,916		5,684
: 1987		5,576 i		6,024		5,835
i 1988	r	5,465 ;		5,754		5,772
1989				5,520		

As earlier explained, the calculation of moving averages is relatively simple. For instance, the entry 4305 for 1976 under the two-year moving average method, for example, is the average of the sales of 4,200 units in 1974 and 4,410 units in 1975. In the same vein, the forecasts of 5520 units in 1989 represents the average of the number of units sold in 1987 and 1988. Yu may attempt to verify other forecast in the table.

Advantages

(i) The time series approach to sales forecasting provides a systematic means for making quantitative projections of sales.

(i i) The method is objective in the sense that two analysts working on the same data series using the same forecasting technique and the same model should produce the same forecast.

Disadvantages

(i) It is not useful for new or innovative products

(ii) Factors for trend, cyclical, seasonal, or product life-cycle phase must be accurately assessed and included

(iii) Technical skill and good judgment required.

(iv) Final forecast may be difficult to break down into individual territory estimates.

3.4.2.3 STATISTICAL DEMAND ANALYSIS.

Statistical demand analysis is a set of statistical procedures designed to discover the most important real factors affecting sales and their relative influence. The factors most commonly analyzed are price, income, population and promotion.

The method consists of expressing sales (Q) as a dependent variable and trying to explain sales as a function of a number of independent demand variables X_i, X_2, ..., N_I; that is:

$$Q = f\ X_2, ...,$$

By making use of multiple regression analysis, various equation forms can be statistically fitted to the data in the search for the best predicting factors and equation.

Let us make use of the work of Palda (1964), who tried to measure cumulate advertising effects of a vegetable product. He found that the following demand equation gave a fairly good fit to the historical sales of the product in question between the years 1908 and 1960:

$Y = - 3649 + 0.665X_1 + 1180 \log X_2 \pm 774\ X_3 + 32; - 2.83X_5$ Where:

Y = Yearly sales in thousands of dollars

X_I = yearly sales (lagged one year) in thousands of dollars

X_2 = yearly advertising expenditures in thousands of dollars

X_3 = a dummy variable, taking on the value 1 between 1908 and 1925 and 0 from 1926 on

X_4 = year (1908 = 0, 1909 = 1, etc)

X_3 = disposable personal income in billions of current dollars.

It was found that all the five independent variables accounted for 94% of the yearly variation in the sale of the commodity under investigation between 1908 and 1960. How can we use this demand equation as a sales forecasting equation for the five independent variables as follow:

Sales in 1960 should be put in X_1;

The log of the company's planned expenditures for 1961 should be put in X_2;

0 should be put in X_3;

the numbered year corresponding to 1961 should be put in X_4; and estimated 1961 disposable personnel income should be put in X_5.

The result of multiplying these numbers by the respective coefficients and summing them gives a sales forecast (Y) for 1961.

Advantages

(i) It has great intuitive appeal

(ii) Requires quantification of assumptions underlying the estimates. This makes it easier for management to check the results

(iii) It provides a means of discovering factors affecting sales which intuitive reasoning may not uncover.

(iv) The method is objective if the results can be reproduced by different analysts using the same model and variables.

Disadvantages

(i) It presumes that historical relationships will continue into the future, hence the analysts may have a false sense of security in this regard.

(ii) It requires technical skill and expertise

(iii) Some managers are reluctant to use the method due to its sophistication.

4.0 CONCLUSSION

Sales forecasting, though crucial, is one of the grey areas of marketing management. It is crucial because without a proper sales forecast, the marketing executive cannot determine the type of marketing programme to use in order to attain the desired sales and marketing objectives. It is a grey area of marketing management in the sense that it is based on a number of assumptions regarding customer and competitor behaviour as well as the market environment. Hence, its reliability depends upon the extent of culmination of the uncertainty as predicted.

5.0 SUMMARY

Measuring current and future market size is one of the important responsibilities of marketing managers. A market is defined as the set of actual and potential consumers of a product or service. In this regard, a market is the group of buyers, and an industry is a group of sellers that serve it. The consumers in the market have varying interest, income, access, and qualifications for a particular product.

Measuring current market demand can be viewed in terms of total market demand or area market demand. Marketers can estimate total market demand using the chain ratio method. This method involves multiplying a base number representing every potential customer by a series of percentages. These percentages adjust the base number downward to develop an estimate of the approximate number of truly qualified potential customers. Area market demand is a way of estimating the demand within a particular city, or country. Two major methods are used for estimating area market demand: the market — buildup method and the multiple — factor index method.

Companies also want to know the actual industry sales in their markets as a way of judging their own relative success and strength of competitors. Making effective market decisions also requires that companies be able to forecast future demand.

Self — Assessed Questions

1.**Explain** why mistakes in forecasting can be very costly to a firm

2.What is a company sales forecast, and why is it important?

3 (a) Under what conditions in Jury of Executive Opinion useful for sales forecasting?

(b) Discuss its advantages and disadvantages.

6.0 TUTOR-MARKED ASSIGNMENTS 1. Given the following data:

Period	Number of Complaints
I	60
2	65
3	55
4	58
5	64

Prepare a forecast using each of the following approaches:

(a) The naïve approach
(b) A 3 — period moving average
(c) A weighted average using weights of 0.5 (most recent), 0.30, and 0.20
(d) Exponential smoothing with a smoothly constant of 0.40.

7.0 FURTHER READING

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UNIT 15: MARKETING RESEARCH

Table of Contents

1.0 INTRODUCTION

The key to most successful business enterprises is never to lose sight of the customer's needs. It is the customer who makes the ultimate decision about whether to purchase a product no matter what advertising, sales promotion, personal selling, and public relations they encounter. In this regard, it makes complete business sense to stay in close touch with consumers' needs and wants. For instance, the more managers know about their customers, the better they can satisfy their needs, hence the importance of marketing research to business today.

2.0 OBJECTIVES

At the end of the unit, you should be able to:

(i) Define marketing research
(ii)Describe the five steps in the marketing research process.
(iii)Outline the advantages and disadvantages of primary and secondary data.
(iv)Describe the data collection techniques in primary research.

3.1 MARKETING RESEARCH DEFINED

One of the most powerful tools available to marketers is **marketing research,** which has been traditionally defined as the systematic gathering, recording, and analyzing of information to help managers make marketing decisions. Ordinarily, this definition implies that Marketing research professionals play only a supporting role in the marketing process, i.e. a role confirmed to collecting and processing data. But marketing research in this new millennium is becoming an integral part of the decision — making process, so this definition has been expanded to reflect the wider role that researchers play. For instance, the American marketing Association now defines marketing research as:

"The function that links the consumer, customer, and public to the marketer through information—information used to identify and define marketing action; monitor marketing performance and improve understanding or marketing as a process. Marketing research specifies information required to address these issues: designs the methods for collecting information process; analyses the results; and communicates the findings and their implications".

This definition given by the American marketing Association gives marketing research a broader perspective, funding every aspect of marketing, because marketers need information to make decisions about all these areas.

Several characteristics of modem business encourage the use of marketing research by business organizations. First, the suppliers of products and services need to have information about final consumers in order to market their products and services more effectively. Second, as a company grows and starts distributing its products in a number of different markets, the managers of the company find themselves becoming more separated from the final consumers of their products.

In order to satisfy customers' wants and needs, as well as to design effective marketing programmes (while still earning a profit), manufacturers, retailers, suppliers of all kinds of services and many other organizations need certain kinds of information. At least five such information topics are of great interest to marketing managers. These five topics, and some of the questions marketing managers have regarding them are as follows:

. .

1. Target market: What is the best target market for the products or services being offered by the organization? How large is the target market and how can it be described? What are the attitudes, opinions, preference, lifestyles, etc. of its members

2.**Products/Services:** Regarding particular products and services, how satisfied or dissatisfied is the target market with what is currently available? What product features and benefits do those consumers desire? How do they compare the organization’s product with those offered by competitors?

3.Price: How much value does the target market place on the product in question? What products are they willing to substitute for the product in question? What prices are charged for those substitutes? What advantages e.g. in features or benefits or appeals — does the organization’s product have that might allow it to charge a higher price?

4.Distribution: What distribution channel is the target market most likely to use when purchasing the product in question? Is the organization’s pricing in line with what the target market expects to pay for the product when purchased through that channel? Does the pricing include the size of margin the channel traditionally expects to receive? Will the channel be able to provide the service or support needed for the product?

5.Promotion: What can the organization say in its advertisements about its product that will ap peal to the target market and lead them to consider the organization’s product more attractive than those offered by competitions? Through what medium/media (i.e. T.V. newspapers, billboards, radio, hand bills, jesters, etc) should the organization advertise? What specific vehicles (i.e. what specific T.V. programme or newspaper) should the organization use to carry the advertisement? How often should the advertisement appear, and how much money should the organization spend on advertising? Should personal selling be used and, if so, how? What kinds of promotion would have a favorable effect on the target market?

Marketing managers in most organizations need answers to some or all of these questions Obtaining answers to many of these question requires contact with final consumers.

Efforts made at getting informed on these fronts fall within an area known as Marketing Research. This is defined as the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing a firm/organization/company.

3.2 EMERGING ROLE OF MARKETING RESEARCH

(1) Marketing Research as a formally-organized information gathering and analyses unit is relatively new.

(2) Some marketers carry out "do-it-yourself' research.

(3) Some small business executives are in close touch with their market to obtain most of the information needed for marketing decision making through first-hand contacts with final users of their products.

(4) However, with the use of mass production and mass marketing, growing number of marketing executives have become more and more remote from their companies' final markets due to (a) geographical remoteness and (b) lengthening of the distribution channel.

(5) It is thus, generally no finger possible, especially in growing or already large company, for marketing decision-makers to communicate directly with final users e.g. listen personally to their complaints and suggestions.

(6) Hence, alternative ways of getting information on their markets for use in decision making is needed.

3.3 ORGANISATION OF MARKETING RESEARCH OPERATIONS

Varied approaches to the task of organizing the Marketing Research operation are found in different organizations. The approach adopted in any given case depends primarily on the reflection of the policy of the management, and the regard/premium such a management places on the research findings. There are two approaches generally in use:

3.3.1 LEAN APPROACH

Here, a company operates a small department/marketing of its own. This unit is often staffed with highly experienced people, and its function is supplemented by the use of outside research facilities.

This approach is particularly attractive to smaller companies, or those of moderate size because of the cost, experience or time factor in dealing with research assignments.

2.3.2 FULL MARKETING RESEARCH WITH THE COMPANY

Some bigger companies have all the potentials of building up a research department. They are generally well endowed to finance such an important unit. Highly skilled researchers are employed and these are well paid. In addition, these researchers are provided with necessary equipment/facilities to carry out their research functions.

- These large organization are of the opinion that by having their own Marketing Research departments, competitors will not be able to get the secrets of their findings and recommendation:
- Serves as a morale booster and it is fashionable;
- Management can exercise control on the activities of the department.

Qualities of the Departmental Manager

(a) **Technical computer competence:-** He should be able to translate management problems into viable research projects within available resources.

(b) **Personal integrity:-** This requires that the Research Manager interprets the findings objectively in accordance with generally accepted principles of scientific inquiry.

(c) **Effective Communication**

3.4 TYPES OF RESEARCH

1. Product Research

Product Research for marketing purposes is intended to create or improve a product, or to identify features that attract the consumers in order to gain their patronage, e.g.

(a)Price — For example, if a new product is introduced, Research is conducted to test whether the price is too high or too low for consumer acceptance. The market conditions and the activities of the competitors are considered before any recommendation is taken.

(b)Package design:- This is carried out if the current package design is becoming monotonous or fading away: Actions of competitors might even lead to researching into new designs for the package.

(c)Research can be instituted on the analysis of the competitive strengths and weaknesses of the existing products i.e. both the companies' products and those of the competitors.

(d)An investigation can also be conducted into new uses of existing products.

2. Consumer Characteristics

The consumer research attempts to identify users of a product by any characteristics, which will allow them to be segmented or differentiated from the non — users. Consumers are often categorized on the basis of age, sex, income, family, status, geographical position, class etc.

Examples of Research

(a)Why consumers prefer a product.
(b)How a product is used.
(c)The number that is used within a period.
(d)Why consumers are rejecting a product.

1. Market Analysis and Sales Research

A common problem that may face a producer is lack of adequate information about the size of the market, and also the dispersion of the consumers. The census date and other demographic studies can provide some useful information in this regard.

Examples of Research

(a)Composition of the market
(b)Size of the market and market potentials
(c)Consumer requirements and how they may be met
(d)The selling pattern
(e)Sales organization/promotion methods
(f)Marketing mix most suitable for the organization
(g)Measurement of the effectiveness of the salesman, sales calls, planning and evaluation of salesmen.
(h)Remuneration and incentives of salesmen.

2. Advertising Research

Many problems arise in the advertising departments of companies: such problems include the size of the adequate budget necessary and sufficient for advertising the company's products. In addition, problems may exist to the form of choosing the nature of advertising in terms of the theme, motivation appeal, copy and the selection of the medial.

3. Financial Research

This is concerned with profitability, product mix, selling and promotional costs; The overview task established the following facts about the company.

(a) Product performance and profitability
(b) The most lucrative areas of distribution
(c) A record of difference in volume and profit between the best and worst salesman, areas and products
(d) The most unfavorable aspects of sales: complaints of products, delivery, service
(e) The biggest and most profitable customers.
(f) The least profitable customers.

In conjunction with the financial department, the marketing manager will know the product mix and contribution per product. This is required to know where money really comes from.

3.5 BASIC SOURCES OF INFORMATION

• There are tow basic sources of information: (a) Primary and (b) Secondary The primary source is that which has been obtained through the use of original research and the result has not been published by any organization before.

Secondary sources are those which have been gathered by other people or agencies: and are already published.

A. Sources of Secondary information

1. Internal Sources

Valuable information can be obtained in a company if records are properly kept.

(a)Sales statistics — This is the cheapest and least time consuming
(b)Analysis of sales information.

Sales data classified in various ways can provide management with adequate information on sales accomplishment.

(i)Geographical division of sales
(ii)Sales by size or order
(ii) Sales by type of product and the customers
(ii)Seasonal sales and cost
(iii)Frequency of sales
(iv)Customer's socio-economic features
(v)Gross margin yielded by sales
(vi)Expenditure incurred during the sales of the products
(vii)Sales promotion budgets and delivery

Each of these can be separately analyzed and then used to address specific problems.

2. External Source of Secondary Information

These include all data obtained from sources other than one's own company:
e.g. published information from libraries, government sources, trade and professional papers, trade associations, Marketing Research services (- i.e. those who sell information for a fee).

B. Sources of Primary Information

Desk research comprises all types of research conducted within the marketing research department of a firm or agency, which can be based on either internal or external information sources.

Example of Internal:

(a) Sales records moving annual totals by areas, by salesman, by distribution, by class of customer, methods and channels of distribution, market segmentation.

(b) Product complaints, service complaints, servicing records

(c) Product records, Records in terms of profits and volume, product mix

(d) Production records — Labour demands and resources, value analysis.

Examples of External

(e)Industry figures

(f)Economic, social or political moves that are of consequence to the company.

There is a great deal of vital information hidden in company records or available in published records easily obtainable by any company. Generally all these • desk works should be attempted before any effort is made to undertake outside original field work which is highly specialized and very expensive.

From the market analysis resulting form desk research, a company should be able to build up a picture of internal and external facts; such as:

(i) Trends in the market — i.e what in happening to the market and of the company's share to the market;

(ii) Competitors' activities — i.e New moves and developments outside the Company;

(ii) The weaknesses and strengths of the company and the company's products;

(iii) Developments in the distribution system.. Lapses in the company's distributions; system. Areas neglected or not adequately covered by the company.

(iii) Contribution by line and by product mix.

The final profitability of the company depends on this knowledge, and it will form an important part of the marketing mix when management is considering the overall marketing strategy.

Note:- Some of these information arrives on the marketing research desk automatically, some has to be dug out of other departments, or collated from outside sources. Some information is collated daily, some weekly, and some yearly, depending on the relevance of the time frame in question.

- Field Research

  This comprises of all information gathered outside the department of the firm through the use of original primary sources.

  Though primary data is more costly, the data is usually more relevant to the issue at hand.

3.6 THE MARKETING RESEARCH PROCESS

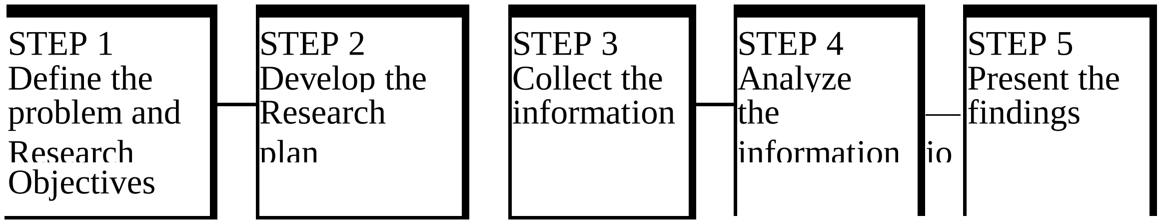
As should now be clearer, Marketing Research is undertaken to understand a marketing problem better. Managers requesting marketing research need to know enough about' its potentialities and limitations so that they can get the right information at a reasonable cost. If they know nothing about marketing research, they might allow the wrong information to be collected, or collected too expensively, or interpreted incorrectly. One protection is to work with highly experienced marketing researchers because it is in their interest to produce information that leads to correct decisions. Equally important is the need for managers to understand marketing research procedure in order for them to actively participate in its planning and subsequent interpretation.

Effective Marketing Research Involves Five steps:

(a)Defining the problem and research objectives
(b)Developing the research plan
(c)Collecting the information
(d)Analyzing the information
(e)Presenting the findings

The steps are illustrated in Figure 15.1

FIGURE 15.1: THE MARKETING RESEARCH PROCESS.



A

Step 1: Define the Problem

The first step is the marketing research process is to define the problem. Problem definition is a precise statement of the marketing problem to be investigated. When you undertake marketing research, you generally know there is a problem that must be defined too broadly or too narrowly.

Usually, the marketing manager and the research must work closely together to define the problem carefully, and they must agree on the research objectives is often the hardest step in the research process. The manager may know that something is wrong without knowing the specific causes. Imagine the case of the managers of a large retail store chain who hastily decided that falling sales were caused by poor advertising, and they ordered research to test the company's advertising. The outcome of the research however showed that current advertising was reaching the right people with the right message. It was later revealed that the reel problem was that the store chain was not delivering the prices, prices, products, and service promised in the advertising. In this example, you can see that careful problem definition would have added the cost and delay of doing advertising research.

Step 2: Develop the Research Plan

Having defined the problem and the research objectives, the next stage is to develop the research plan. Usually, this calls for decisions on data sources, research approaches, research instruments, sampling plan, and contact method.

Data Sources: The research can gather secondary data, primary data, or both. Secondary data are data that were collected for another purpose and already existed somewhere. Primary data, on the other hand, are data collected for a specific purpose or for a specific research project.

Very often, researchers start their investigation by examining secondary data to see whether their problem can be partly or wholly solved without collecting costly primary data. Details of both types have already been earlier discussed. Research Approaches Primary data can be collected in five ways: Observation, focus groups, surveys, behavioral data, and experiments. Let us briefly examine each of them.

Observational: A focus group is a collection of six to ten people who are invited to spend a few hours with a skilled moderator to discuss a product, service, organization, or other marketing entity. The moderator needs to be objective, knowledgeable on the issue, and skilled in group dynamics. Participants are paid a small amount of money for attending In addition, the meeting is held in pleasant surroundings and refreshments are served.

Survey Research: Surveys are best suited for descriptive research. For instance, companies undertake surveys to learn about people's knowledge, beliefs, preferences, and satisfaction, and to measure these magnitudes in the general population.

Behavioral Data: customers often lave traces of their purchasing behavior in store scanning data, catalog purchase records, and custom data bases. From each of these, much information can be collected.

Experimental Research: This is the most scientifically valid research is experimental research. The purpose of experimental research is to capture cense — and — effect relations by eliminating competing explanations of the observed findings.

Research Instruments

Marketing researchers have a choice of two research instruments in collecting primary data: questionnaires and mechanical devices. ***Questionnaires.*** These consist of a set of questions presented to respondents for their answers. The questionnaire is the most common instrument used to collect primary data, since it is quite flexible. However, it needs to be carefully developed, tested, and debugged before they are administered on a large scale. ***Mechanical instruments.*** Mechanical devices are occasionally used in marketing research. For example, galvanometers measure the interest or emotions aroused by exposure to a specific advert or picture. The tachistoscope flashes an advert to a person with an exposure internal that may range from less than one hundred of a second to several seconds e.t.c.

Sampling Plan

After deciding on the research approach and instruments, the marketing researcher needs to design a **sampling plan.** This generally calls for three decisions:

(a) Sampling unit: i.e. who is to be surveyed?
(b) Sample size: i.e. how many people showed be surveyed?
(c) Sampling procedure: i.e. how should the respondents be chosen? Here, in order to obtain a representative sample, a probability sample of the population should be drawn.

Table 15.2 describes three examples each of probability and non-probability samples.

Table 15.2: Probability and Non-Probability Samples

Type	**Description**
A. Probability Sample	
(i)Simple random sample	Every member of the population has an equal chance of selection.
(ii)Stratified random sample	The population is divided into mutually exclusive groups (such as age groups), and random samples, drawn from each
(iii)Cluster (or area) sample	The population is divided into mutually exclusive groups (such as city blocks), and the researcher draws a sample of the groups ton interview.
B. Non-Probability Sample	
(i)Convenience sample	The researcher selects the most accessible population members.
(ii)Judgment sample	The researcher selects population markers who are good prospects for accurate information.
(iii)Quota sample	The researcher finds and interviews a prescribed number of people in each of several categories.

Contact Methods

Once the sampling plan has been determined, the marketing researcher must decide how the subject should be contacted: mail, telephone, personal, or online interviews.

•*Mail questionnaire.* This is the best way to reach people who would not give personal interviews or whose responses might be brased or distorted by the interviewers. Mail questionnaires require simple and clearly worded questions. You should note however, that the response rote is usually very low.

Telephone interviewing: This is the best method for collecting information quickly. In addition, the interviewer is able to clarify questions if respondents do nut understand them.

•*Personal interviewing:* This is the most versatile method of contacting respondents. Through this method, the interviewer can ask more questions and record additional observations about the respondents. However, personal interview is the most expensive method and requires more administrative planning and supervision, than the other three. It is also subject to interview bras or distortion.

•*On-line interviewing:* A company can include a questionnaire on its Web page and offer in incentive to answer the questionnaire. At times, the company can place a banner on some frequently visited site inviting people to answer some questions and possibly win a price.

Step 3 Collect the Information

This phase of the marketing research process is generally the most expensive and the most prone to error. Four major problems have been associated with survey research:

some respondents will refuse to cooperate. Yet others will give biased or dishonest answers. Finally, some interviewers will be biased or dishonest.

Step 4 Analyze the Information

In this stage, the researcher turns the whole lot of data collected into information. This is done by firstly tabulating the data, calculating the responses, question by question, and then summarizing. Next, the marketing researcher analyses the data in a variety of ways. He may use software packages in the process of analysis. In general, the .analysis helps to understand the relationship between factors in the research, it also helps identify patterns and details that provide chins to the truth of the hypothesis formulated.

Step 5. Present the Findings.

The last step in the process is also the one that determines the next step management will take in making the marketing decision. This is why that marketing researcher needs to present the findings in a conclusive, complete way that is understandable to the people who must make the decision.

3.7 CHARACTERISTICS OF GOOD MARKETING RESEARCH

1. Scientific method: Effective marketing research uses the principles of the scientific method: careful observation, formulation of hypotheses, prediction, and testing.
2. Research creativity: At its best, marketing research develops innovative ways to solve a problem: a clothing company catering to teenagers gave several young men video cameras, then used the videos for focus groups held in restaurants and other places teens frequent.
3. Multiple methods: Good marketing researchers shy away from overreliance on any one method. They also recognize the value of using two or three methods to increase confidence in the results.
4. Interdependence of models and data: Good marketing researchers recognize that data are interpreted from underlying models that guide the type of information sought.
5. Value and cost of information: Good marketing researchers show concern for estimating the value of information against its cost. Costs are typically easy to determine, but the value of research is harder to quantify. It depends on the reliability and validity of the findings and management's willingness to accept and act on those findings.
6. Healthy skepticism: Good marketing researchers show a healthy skepticism toward glib as sumptions made by managers about how a market works. They are alert to the problems caused by "marketing myths."
7. Ethical marketing: Good marketing research benefits both the sponsoring company and its customers. The misuse of marketing research can harm or annoy consumers. Increasing resentment at what consumers regard as an invasion of their privacy or a sales pitch has become a major problem for the research industry.

The following are the seven essential characteristic of a good marketing research:

4.0 CONCLUSION

You have learned in this unit that marketing managers often require formal studies of specific situations. This is achieved through marketing research a function that links consumer, customer, and public to the marketer through the use of marketing research, marketing managers are able to improve the adds of making the right decisions.

5.0 SUMMARY

Marketing research is crucial to the success of modern companies. For instance, it provides the information that links marketers with their customers. In addition, it provides the background needed to make effective decisions on a wide range of issues.

Marketing resc,Irch is a five-step process of collecting information that is relevant to a specific marketing problem facing the company. First, the manager and researcher define the problem and set the research objectives. Next, they develop a research plan for collecting data from primary and secondary sources. Primary data collection is more involved, and requires selecting a research approach, choosing a contact method, designing a sampling plan, and developing a research instrument.

The fourth step involves the actual data collection.

The fourth step is implementing the market research plan by processing and analyzing the information collated in the third stage. The fifth and final step is to report the findings. These findings are then distributed to the right managers at the right times to help them make unformed marketing decisions.

Self-Assessed Questions

1.Describe the five steps in the marketing research process.

2.Suggest creative ways to help companies research the follow issues:

(a) A liquor company needs to estimate liquor consumption in a legally dry town

(b) A magazine distribution house wants to know how many people read a specific magazine in doctor's offices.

(c) A men's hair tonic producer wants to know at least four alternative ways to research how men use its products.

6.0 TUTOR— MARKED ASSIGNMENT

Question:

1. (a) Outline the advantages and disadvantage of primary and secondary data.

(c) List the sampling techniques used in marketing research

7.0 FURTHER READINGS

Kotler, P and G. Armstrong (1976): Principles of Marketing. 7th ed. London, Prentice—Hall international (UK) Ltd.

UNIT 16: MARKETING OF SERVICES Table of Contents

1.0 INTRODUCTION

In this unit, you will learn that marketers of services face a special marketing challenge because of the nature of service products. Most of the marketing concepts you have learned so far apply to services, but there are some additional considerations that are unique to services. These shall be our main focus here.

2.0 OBJECTIVES

After studying this unit, you should be able to:

(i) explain what service are
(ii) highlight the unique characteristics of services, and the marketing implications in these characteristics.
(iii) Identify and define strategies for marketing services, including differentiation, service quality, and productivity.

3.1 NATURE OF SERVICE

A service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.

Generally, a product is anything that can be offered to a market to satisfy a need or want. Usually, the word "product" suggests a physical object such as a car, telephone set etc. However, the concept is not limited to physical objects. Anything capable of satisfying a need can be called a product. The importance of physical goods lies not so much in owing them as in the benefits they provide. For instance, we don't buy food to look at it, but because it satisfies our hunger. We don't buy a microwave oven to admire, but because it cooks our food.

Actually, a service is a performance that delivers some combination of benefits to the buyers. A service can be provided by a machine (e.g automatic teller), a person (e.g. consultant), or a combination of both (e.g. mechanic). A service can be directed toward the buyer (e.g dental check-up) or toward the buyer's possessions (e.g. roof repair). All government agencies are service providers, as are schools, hospitals, and transportation systems.

As you already learnt in units 1 and 8, most products are actually a combination of tangible good and intangible service, **Goods — dominant products** rely primarily on the exchange of physical goods to fulfill customer needs. However, with service — dominant products, the majority of the exchange is a service. Although we talk about "goods" and "services" as separate categories, you can see that many products include elements of both.

Activities such as renting a hotel room, depositing money in a bank, taking an insurance policy, traveling on an airplane, visiting a medical doctor, getting a haircut, having a car repaired, watching a professional sport, seeing a movie, having clothes cleaned at a dry cleaner, and getting advice from a lawyer all involve buying a service.

3.2 CHARACTERISTICS OF SERVICES

Services have a number of distinctive characteristics, which create special marketing challenges and opportunities. These characteristics are summarized in Figure 16.1

Figure 1: Four Service Characteristics

Inseparability Services cannot be separated from their providers

Intangibility Services cannot be Is pen, tasted, felt, heard, or smelled before purchase

Perishability Service cannot be stored for later sale or use.

Variability Quality of services depends on who provides them and when, where, and how

3.2.1 INTANGIBILITY:

This means that services cannot be seen, tasted, felt, heard, or smelled before they are bought. For example, people undergoing cosmetic surgery cannot see the result before the purchase, and airline passengers have nothing but a ticket and the promise of safe delivery to their destinations.

To overcome intangibility, buyers usually look for "signals" of service quality. They draw conclusions about quality from the place, people, price, equipment and communication material that they can see. Therefore, the service provider's task is to make the service tangible in one or more ways.

Intangibility also leads to a special implementation and control challenges. For instance, whereas product marketer try to add intangibles to their tangibles offers, service marketers try to add tangibles to their intangible offers. For instance, a bank that wants to convey the idea that its service is quick and efficient. Must make this positioning strategy tangible in every aspect of customer contact. The bank's physical setting must suggest quick and efficient service: its exterior and interior should have clean lines, internal traffic flow should be planned carefully, waiting lines should seem short at teller windows and Automatic Teller Machines (ATMS), and background music should be light and upbeat. The bank's staff should be seen to be busy and properly dressed.

The equipment— computers, copy machines, current counters, desks etc. should look modern. The bank's advertisement and other communications should suggests efficiency, with clean and simple designs and carefully chosen words and photos that communicate the bank's positioning.

Consequently, a company's promotional programme must portray the benefits to be derived four the service, rather than emphasizing the service itself. From promotional strategies that may be used to suggest service benefits are:

(i) Visualization - depicting benefits with advertisement that show many features

(ii) An association, that is, — connecting the service with a tangible good, person, object, or a place. For example, the following animals listed in Table 16.1 are usually employed to depict the services offered by some service firms:

Table 16.1: Connection between some animals and service delivery

Animal	Perception
Elephant	The strongest animal
Dolphin	The smartest animal
Tiger	The most dynamic animal
Eagle	The sharpen eyes sight
Rhinoceros	The most Volatile animal

(iii)Physical representation. For example, some banks use colour — gold or platinum — for their credit card services to symbolize wealth and prestige Fast food chains, telephone companies, etc. dress their service representatives in clean, distinctive uniforms to stress visibility, cleanliness, and dependability.

(iv)Documentation i.e. citing facts and figures in advertisements to support claims of dependability, performance, care etc. For instance, insurance firms should always publicise claims already settled. In addition, services marketers cannot rely on normal measures of product quality to make sure they are offering the right level of performance. Instead, service marketers often we customer satisfaction surveys to monitor and maintain control over product quality.

2.2.2 INSEPARABILITY, VARIABILITY (HETEROGENEITY)

Service inseparability means that services cannot be separated from their providers, whether the producers are people or machines. If a service employee provides the employee service, then, the employee is a part of the service.

Because the customer is also present as the service is produced, provider — customer interaction is a special feature of services marketing. Both the provider and the customer affect the service outcome. Consequently, customers' opinions regarding a service frequently are formed through contacts with the production — marketing personnel and impressions of the physical surroundings in the factory.

Inseparability has a special meaning in many service industries. In some cases, a particular provider is so closely identified with a service that substitute providers will simply not suffice. For example, in the case of entertainment and professional services, buyers care a great deal about who provides the service. For example, it is not the same service at a Sunny Ade concert if Sunny gets sick and is replaced by one of his band boys. A legal defense supplied by Rotimi Williams differs from one supplied by Festus Keyams. Hence, when consumers have strongly provider preference, price is used to ration the limited supply of the preferred provider's time.

From a marketing point of view, inseparability frequently means that direct sale is the only possible channel of distribution, and an individual seller's services cannot be sold in very many markets. This characteristics limits the scale of operation in a services firm. As an exception to the inseparability feature, service may be sold by a person who is representing the creator — seller. For example a travel agent, insurance broker, etc. may represent and help promote services that will be sold by the institution producing them.

Variability (Heterogeneity)

Service variability means that the quality of services depends on who promotes them as well as when, where, and how they are provided. For example, some hotels such as Sheraton have reputations for promoting better service than others, and, within these good ones, one registration — desk employee may be cheerful and efficient whereas another standing just a few feet away may be unpleasant and slower. Even the quality of a single Sheraton's employee service varies according to his/her energy, and frame of mind at the time of each customer encounter.

Service firms can take several steps to help manage service variability. They can select and carefully train their personnel to give good service. They can provide employee incentives that emphasize quality, such as employee of—the — month awards or bonuses based on customer feedback. A firm can check customer satisfaction regularly through suggestion and complaints systems, customer surveys, and comparison shopping.

2.2.3 PERISHABILITY AND FLUCTUATING DEMAND

Service perishability means that services cannot be stored for later sale or use. For instance, unused telephone time, empty seats in a stadium or airplane and idle mechanics in a garage all represent business that is lost forever. Furthermore the market for services fluctuates considerably by season, by day of the week, and by hour of day. There are exceptions to this generalization regarding the perishability and storage of services. In health and life insurance, for example, the service is purchased by a person or a company. Then, it is held by the issuance company until needed by the buyer or the beneficiary. This is holding constitutes a type of storage.

The combination of perishability and fluctuating demand offers product — planning, pricing and promotion challenges to service executives. Some organizations have developed new uses for idle plant capacity during off-season. Advertising and creative pricing are also used to stimulate demand during slack periods. Some hotel offer lower process and family packages on weekends. Telephone service providers charge lower rates for long — distance calls during nights and weekends.

3.3 MARKETING STRATEGIES FOR SERVICE FIRMS Good service firms should always use marketing to position themselves strongly in chosen target markets. However, because services differs from tangible products, they often require additional marketing approaches. In a product business, products are fairly standardized and can sit on shelves waiting for customers. But in a service business, the customers and frontline service employee interact to create the service. Thus, service providers must work to interact effectively with customers in order to create superior value during service encounters. Effective interaction, in turn, depends on the skills of frontline service employees, and on the service production and support processes backing these employees.

Hence, successful service companies focus their attention on both their employees and customers. They usually employ the service — profit chain, which links serve firm profits with employee and customer satisfaction. This chain consists of five links.

Internal service quality i.e. supervisor employee selection and training, a quality work environment, and strong support for those dealing with customers. This results in:
Satisfied and productive service employees i.e. more satisfied, loyal, and hard working employees. Thus leading to:
(iii) Greater Service values i.e. more effective and efficient customer value creation and service delivery. Which leads to

(iv) Satisfied loyal customers i.e. satisfied customer, who remain loyal, repeat purchase, and refer other customers, hence leading to:
(v) Healthy service profits and growth i.e. superior service firm performance.

Therefore, reaching service profits and growth goals, begins with taking care of those who take care of customers. Evidently, service marketing requires more than just traditional external marketing using the 4PS

Service marketing also requires both internal marketing and interactive marketing.

Company External Marketing Employees Interactive marketing

3.3.1 INTERNAL MARKETING

Means that the service firm must effectively train and motivate its customer contact, employees and all the supporting service people to wins a team to provide customers satisfaction. In order for the firm to deliver if consistently high service quality, everyone must practice a customer orientation. Internal marketing usually precedes external marketing.

3.3.2 INTERACTIVE MARKETING

Means that perceived service quality depends heavily on the quality **of the** buyer — seller interaction during the service encounter. The customer **judges** service quality not just on technical quality (e.g success of a surgery) but also on its functional quality (whether the doctor showed concern and inspired confidence). Thus, professionals cannot assume that they will satisfy the customer singly by providing good technical service. They need to master interactive marketing skills or function as well.

Today, as competition and costs increase, and as productivity decreases, more marketing sophistication is needed. Hence, service companies face three major marketing tasks: They want to increase their competitive differentiation, service quality, and productivity. Let’s examine each of these, Customers Internal Marketing

3.3.2.1 MANAGING DIFFERENTIATION

Many service firms experience the difficulty of differentiating their services from those of competitors, especially in these days of intense price competition. This is even made worse by the attitudes of customers who view the service of different providers as being similar. They therefore care less about the provider than the price.

Price competition is can be tackled by developing a differentiated offer, delivery, and image. For instance, the offer can include innovative features that set one company's offer apart from competitors' offers .e.g. Airlines have introduced such innovation as in — flight movies, advance seating, air — to — ground telephone service, and frequent — flyer award programmes to differentiate. Some airlines also provide sleeping compartments hot showers, and cooked — to — order breakfasts.

The unfortunately thing here is that most service innovations are copied easily. This notwithstanding, the service company that innovates regularly will gain a succession of temporary advantages and an innovative reputation that may help it keep customers who want to go with the best.

It is possible for service companies to differentiate their service delivery in three ways — through people, physical environment, and process. The company can distinguish itself by having more able and reliable customer — contact people than its competitors have. Or it can develop a superior physical environment in which the service product in delivered. Finally, it can design a superior delivery process. (eg. Electronic home banking). Service companies also can work on differentiating their image through symbols and branding. e.g Lions/Elephant as a image of strength. (You may have a look at Table — 1 again).

3.3.2.2 MANAGING SERVICE QUALITY

One of the major ways a service firm can differentiate itself is by delivering consistently higher quality than its competitors do.

To this end, many service firms have now joined the total quality movement, having observed that outstanding service quality can give them a potent competitive advantage that leads to superior sales and profit performance.

The key is to exceed the customers' service — quality expectations. As one chief executive puts it, "promise only what you can deliver and deliver more than you promise!". These expectations are based on paste experiences, word of mouth, and service firm's advertising. If perceived service of a given firm exceeds expected service, customers will want to use the provider again. Customer retention is perhaps the best measure of quality, therefore, a service firm's ability to hang onto its customers depends on how consistently it delivers values to them. Hence, the service provider's quality goal should be "zero customer defections"

The service provider needs to identify the expectations of target customers concerning service quality. Unfortunately, service, quality is harder to define and judge than product quality. Moreover, although greater service quality results in higher costs, still, investments in service quality usually pay off through increased customer retention and sales. Whatever the level of service provided, it is important that the service provider clearly define and communicate that level so that its employees know what they must deliver and customers know what they will get.

Service providers should always take steps that will offer good service every time. They must also take steps that will allow them recover from service mistakes when they occur. In these regards, the first step to take is to empower frontline service employees — to give them the authority, responsibility and incentives they need to recognize, care about, and tend to customer needs.

Studies of well — managed service companies show that they share a number of common virtues regarding service quality:

(i) Top service companies are "customers obsessed. They have distinctive strategy for satisfying customer needs that wins enduring customer loyalty.
(ii) Well-managed service companies have a history of top management commitment to quality i.e. apart from financial performance, service performance are looked into.
(iii) The best service providers set high service quality standards
(iv) The top service firms watch service performance closely, i.e. both their own and

that of competition. For example they use methods such as comparison shopping, customer surveys, and suggestion and complaint forms. Some service providers also take regular measure of "ART" (an acronym for Accuracy, Responsiveness, and Timeliness)

(v) Good service companies also communicate their concerns about service quality to employees and provide performance feedbacks.

3.3.2.3 MANAGING PRODUCTIVITY

Service firms are under great pressure to increase productivity, especially with their costs rising rapidly. This can be done in several ways:

(i) The service providers can train current employees better, or they can hire new ones who will work harder or more skillfully for the same pay. OR they can increase the quantity of their service by giving up some quality eg. Some doctors who work in health maintenance organization have moved towards handling more patients and giving less time to a patient. The provider can "industrialize the service" by adding equipment and standardizing production.

However, companies must avoid pushing productivity so hard that doing so reduces perceived quality. Some productivity steps help standardizes quality, increases customer satisfaction. But other productivity steps lead to too much standardization and can rob customers of customized services.

4.0 CONCLUSION

You have learned in this unit that conceptually, services are marketed in the same way as tangible goods. In practice, however, the characteristics that differentiate services from goods lead to different marketing programmes.

5.0 SUMMARY

Most product offerings are a mix of tangible goods and intangible services, somewhere between mostly goods and mostly services. Services are separately identifiable, intangible activities that are the main object of a transaction designed to provide want — satisfaction. The characteristics that differentiate services from goods require different marketing programmes. Marketers have to find ways to make the service more tangible; to increase the productivity of providers who are inespable from their products; and to improve demand movements and supply capacities in the face of service perishability.

Self — Assessed Question

Highlight the unique aspects of service marketing.

6.0 TUTOR-MARKED ASSIGNMENT

Question:

Enumerate and explain the four service Characteristics

7.0 Further Reading

Kotler, **P** and G Armstrong (1976): Principles of Marketing. 7th ed. London, Prentice—Hall international (UK) Ltd.

NATIONAL OPEN UNIVERSITY OF NIGERIA

Form QST 1 Questionnaire

Dear Student,

While studying the units of this course, you may have found certain portions of the text difficult to comprehend. We wish to know your difficulties and suggestions, in order to improve the course. Therefore, we request you to fill out and send us the following questionnaire, which pertains to this course. If you find the space provided insufficient, kindly use additional sheet.

Course Code: Course Title:

1. How many hours did you need for studying each of these units?

Unit	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
No. of hours															
Unit	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
No. of hours															

2.Which of these units do you find most difficult to understand?

3.Please give specific problem you find difficult with the unit.

4.How would you like the unit improved?

Please Mail to: The Course Coordinator

THROUGH the Study Centre Manager

National Open University of Nigeria

Victoria Island, Lagos.

NATIONAL OPEN UNIVERSITY OF NIGERIA
Form QST 2
Questionnaire

In the questions below, we ask you to reflect on your experience of the course as a whole.

I_____I
I_____I
r
Course Code and Title
Mother tongue
I am registered for a Degree/Programme
Why did **I** choose to take this course?
Which study unit did I enjoy the most and why?
Which study unit did I enjoy the least and why[9]
Was the course material easy to understand or difficult?
Which particular topic do I understand better than before and how?
Does the course have any practical applications in the real world, e.g. for the work I currently do?...YES/NO? EXPLAIN
What aspects would I like to know more about or study further'?
How could the course be improved?
Other comments about the course *(Please lick)*

Items Excellent Very Good Poor Give specific examples,
Good if poor

Presentation Quality Language and Style
Illustrations Used (diagrams, tables, etc.)
Conceptual Clarity
Self Assessment Questions
Facilitators response to TMA Questions

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________
6. ______________________________
7. ______________________________
8. ______________________________
9. ______________________________
10. ______________________________