



NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: BHM 730

COURSE TITLE: FUNDAMENTALS OF MARKETING

COURSE GUIDE

Course Code	BHM 730
Course Title	Fundamentals of Marketing
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Introduction

BHM 730, Fundamentals of Marketing is a compulsory second semester course for Post Graduate Diploma students or learners of PGD Business Administration in the School of Management Sciences (SMS). It is a 2 credit unit course and the course material is divided into three sections or modules. The first two modules are made up of five units each, while the third module is made of six units, making a total of sixteen units in all.

This course guide is more of a summary of the course, Fundamentals of Marketing; it tells you in a nutshell what the course is all about, the main objectives of the course, how you can work your way through the material, some guidance on how to answer the Tutor-Marked Assignment. The material has been developed using examples from both local and international environment, so that anybody, irrespective of your nationality or your country of residence can flow with the course material.

There are some tutorial sessions which are linked up with this course. You are advised to attend these classes. Details of these tutorials will be made known to you from your study centre.

What you will learn in this course

This course focuses on the appreciation of functions and channels of marketing and its role in the corporate environment. You will also learn of the major elements of marketing strategy in relation to productive development, distribution channels, consumer relationship management, pricing and contemporary issues in marketing in relation with advertising and sales promotion.

Course aims

This course aims to give you a sound understanding of the major elements of marketing, which deals with identifying and meeting human and social needs. This will be achieved by giving you an overview of the different entities that marketing is involved in and these include goods and services, people (sellers and buyers or consumers), events, places, experiences, properties, organizations, information, ideas to mention but a few.

The course will give detailed information on the concept of marketing management and demand, value, quality, transactions, relationships and satisfactions. This course will equip you with critical thinking skills on the exchange process and the importance of marketing.

Course Objectives

Each of the units in the three modules of the course material has specific objective or purpose it is meant to fulfill. These unit objectives are at the beginning of each unit chapters. You are expected to read them before you begin to work through the unit so that you can work through the course purposefully and do what is expected of you by the units.

By meeting the overall objectives of this course you should have achieved the aims of the course. By the end of this course you should be able to do the following:

1. Explain the concept of marketing
2. Describe the five philosophies guiding marketing efforts
3. Discuss the importance of environmental scanning and environmental analysis.
4. Identify the two primary dimensions of strategic marketing planning

5. Explain the concepts of market segmentation and target market.
6. Outline the process consumers go through in making purchase decisions.
7. Explain components of customer relationship management.
8. Discuss the characteristic of business market demand.
9. Explain ethical issues in relation to business conducts.
10. Analyse the two primary functions of packaging.
11. Outline the steps in new product development
12. Explain the meaning of price and its roles in the marketing mix.
13. Explain services in relation to its unique characteristics and their marketing implications.
14. Identify and explain such contemporary issues in marketing as online marketing, sports marketing, etc.

Working through the course material

To complete this course successfully and be well grounded in it, you are expected to read the course material thoroughly and other texts, especially those cited under references/ further readings at the end of each unit. Each unit contains self assessment exercises you are meant to answer to test your understanding of the subject matter. You are required to complete and submit Tutor-Marked Assignments for assessment purposes, after which you are expected to sit for a final examination at the end of the semester. This course should take you about 15 weeks to complete, all things being equal.

The study units

The course is made up of 16 study units. Students are expected to study these units carefully, spending at least two to three hours on each study unit with absolute concentration. The study units are as follows:

Module 1

Unit 1 Introduction to Marketing

Unit 2 Marketing Management and Demand

Unit 3 Forces operating in the Marketing System.

Unit 4 Market –oriented Strategic Planning

Unit 5 Market Segmentation and Target Market Strategies

Module 2

Unit 1 Consumer Buying Behaviour

Unit 2 Consumer Relationship Management

Unit 3 Business Buying Behaviour

Unit 4 Ethical Issues in Business

Unit 5 Products

Module 3

Unit 1 New Product Development

Unit 2 Pricing Decisions

Unit 3 Marketing of Services

Unit 4 Sports Marketing

Unit 5 Online Marketing

Unit 6 Guerilla Marketing

Set Textbooks

There are particularly no compulsory set textbooks. This course material is designed to be self contained and self explanatory, but if you desire for more information or to acquire more knowledge, you can purchase any good textbook in Marketing, especially from among those in the references.

Assignment File/Exercises

The assignment file will be given to you on the registration of this course. You will use this file to submit all the Tutor-Marked Assignments to your tutor for assessment. Note that the marks you obtain from these assignments will count towards the final mark you will obtain for this course. You are expected to complete and submit four assignments. Further information on the assignment will be given to you by your tutorial facilitator.

Presentation Schedule

The presentation schedule which includes the dates for the completion and submission of the assignments and attendance to tutorials will be communicated to you at your study centre. Remember to submit all assignments by the due dates. Try to be diligent so that you do not lag behind in your work.

Assessment

There are two types of assessment in this course and these are:

- (i) Tutor-Marked Assignment

This assignment constitutes 30% of your total score. You are expected to do this assignment and hand it over to your tutor for grading.

(ii) Written Examination

At the end of each semester, you will be required to write an exam which constitutes 70% of your total score.

The summation of the Tutor-Marked Assignment and the written examination for each semester gives a total score of 100%.

How to get the best from this course

Open and Distance Education is based on self –learning and this entails the tutor and the learners working apart from one another. This means that you can study the self- explanatory and easy- to- read course materials at your own convenience, pace, time and at any location you may choose to. The self learning material has replaced the lecturer, the material will guide you and direct you the same way the lecturer will do in the classroom situation.

The study units provide you with exercises and assignments to do at appropriate points, just the way a lecturer would give you some exercises or assignments to do in the classroom situation. These exercises are meant to check your progress in the understanding of the course.

The following are practical strategies to help you work successfully through this course;

1. Read the guide thoroughly.
2. Arrange a study schedule to enable you study without distractions and try to stick to your study schedule.
3. Try as much as possible to find about necessary or important information as regards to dates for tutorials or due dates for the submission of assignments.
4. For every unit, Endeavour to commence reading from the introduction of the text, objectives, etc to have a full grasp of the text.

5. Keep in touch with your tutors and your study centre, so that they assist you to resolve any issue or difficulty that may arise concerning your schedule.
6. You should form and maintain the good habit of studying always, even after the submission of assignment or after examination to enhance the retention of the knowledge acquired.
7. If you have any question or problems with understanding the course material, do not fail to consult your tutor.

Summary

BHM 730, Fundamentals of Marketing focuses on the essential functions of marketing and the various channels of marketing. Upon the completion of this course, you will be equipped with the major aspects of marketing strategies in relation with production, distribution, pricing, advertising and promotion.

We wish you all the best in the course of your study in National Open University of Nigeria.

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Unit 1	Consumer Buying Behaviour.....
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MODULE 3.....

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MODULE 1

Unit 1	Introduction to Marketing
Unit 2	Marketing Management and Demand
Unit 3	Forces Operating in the Marketing System
Unit 4	Market-Oriented Strategic Planning
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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 this 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 organises 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 re-examine 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

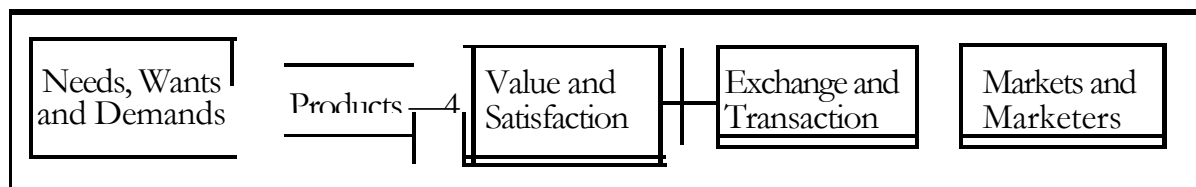
From our analysis of the definitions in section 3.2, we may view marketing generally as resting on six inter-connected platforms. These are: needs, wants, and demands; products; value and satisfaction: exchange, transactions and relationships; market; marketing and marketers. These inter-connected platforms 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 influentials 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 akamu; his clothing needs with simple buba and sokoto; and his esteem with a shell necklace. People's needs may 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 a television 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)(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 Y in return.

Transaction marketing is part 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.

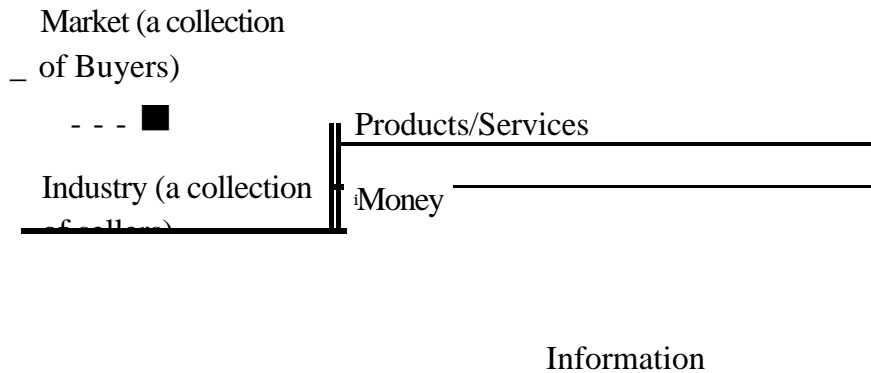
You can observe from the figure that sellers and buyers are connected by four arrows. The sellers send products, services, and communications to the market: in return, they receive money and information. The inner loop shows an exchange of money for goods: the outer loop shows an exchange of information.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



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 manufacturer's 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 manufacturers 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 find 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

1

- 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 long term 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 — Assessment Exercise

- 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

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Further Reading

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, cataract, 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 neighbourhoods 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 its 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 mass 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 insensitivity. 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 relationship with customers. Once the customers are dissatisfied, they may not want to 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. That 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, world-wide inflation, and neglected social services have questioned the appropriateness of the organisational goals of the marketing concept. The feeling is that the concept sidetracks the potential conflicts between consumers' interests, and long-run societal welfare.

Because of such matters, a call has been made for a new concept to revise or replace the marketing concept. This has led to the emergence of the societal marketing concept.

The concept holds 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. company profit, consumer want-satisfaction, and society interests.

4.0 CONCLUSION

Marketing management is the process by which marketers achieve their organisational objectives. The core of 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 relationships.

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.

Self— Assessment Exercise

Is there 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

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- 3.2 Environmental Scanning and Environmental Analysis
- 3.3 Approaches to the Marketing Environment
- 3.4 The Marketing Forces

3.4.1 External Forces: The Marketing Environment

14.1.1.1 Micro-Environment-

3.4.1.2 Macro-Environment

3.5 Internal Forces: Controllable Marketing Variables or the Marketing Mix

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 Further Reading

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 alternative 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 industry, 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 external or internal 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 affect 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 decision 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, manufacturing 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:** organisations 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 organisations.
- (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) Impending shortages of certain raw materials especially finite renewable resources (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 find 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 centre. 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' Environment mental Protection Agencies] play active roles in environmental 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

give 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 serious 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 other 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 MARKETING

VARIABLES OF 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~~^{finds} 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. In 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 mix 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 many 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 is 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 its external and internal environments.

Self -Assessment Exercise

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, CL. 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

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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.

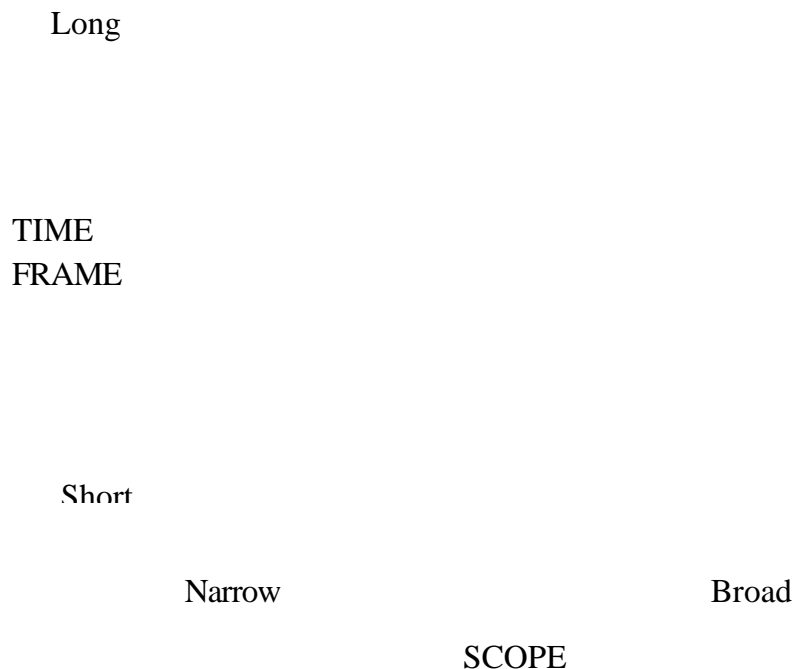
In the second place, strategic planning looks beyond immediate circumstances, trying to project market conditions five or ten years into the future. It is therefore important for marketers to be prepared for changes in the marketing environment, whether the changes are political, cultural, technological, 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



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 narrower 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

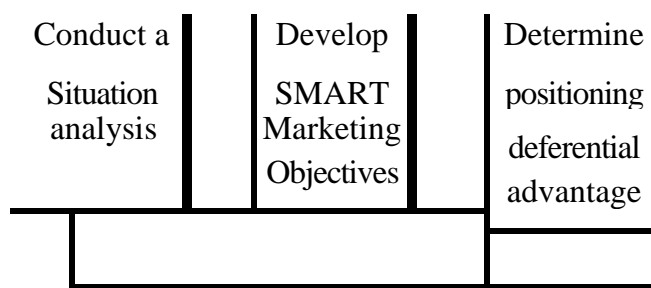
improvement of the current period's sales of a single product.

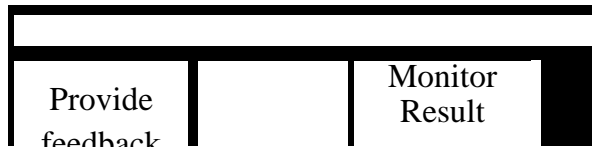
Within the business world, the use of the terms "top-down planning" and "bottom-up planning" are used to refer to planning processes that start at the top and the bottom of the organization, respectively. Each of these has its advantages. Top-down plans are usually developed by the people in the organization 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 finance department needs to engage in broad, long-range planning to make sure the company stays financially healthy from year to year.

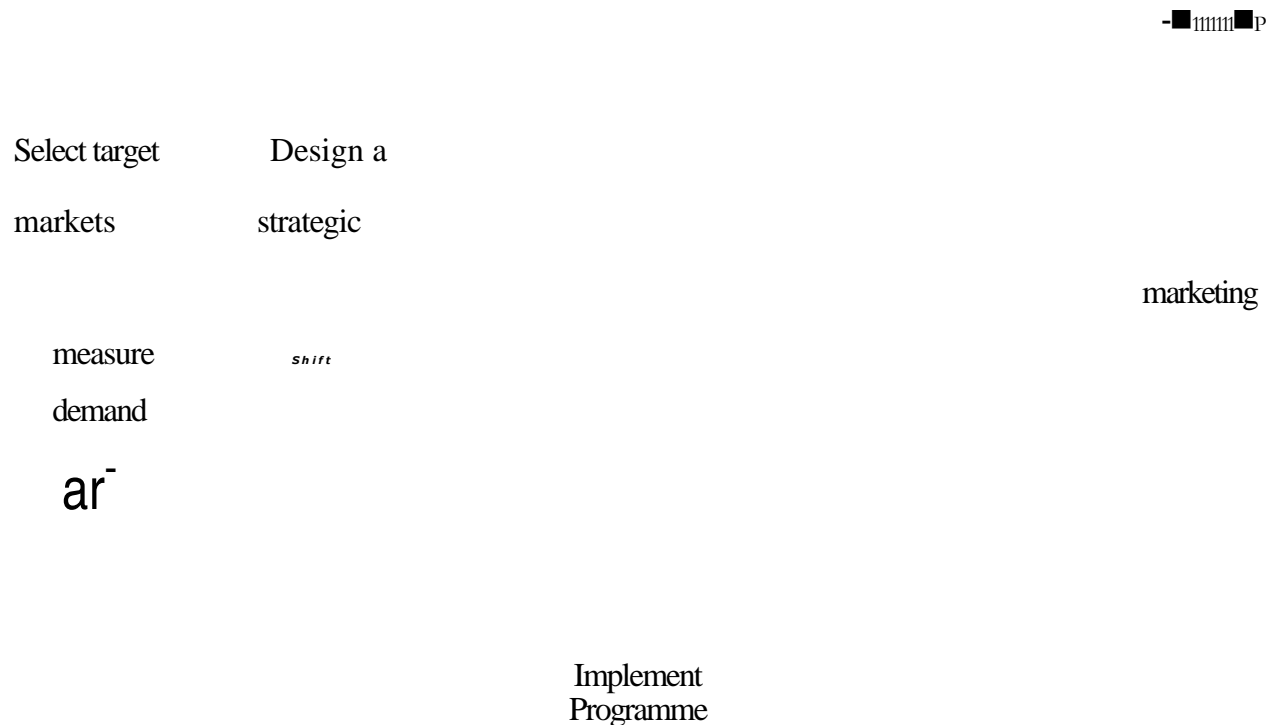
3.2 THE STRATEGIC MARKETING PLANNING PROCESS As illustrated by Figure 4.2, strategic marketing planning is a five-step process that assesses current performance; establishes specific marketing objectives; determines positioning and differential advantage; selects target markets and measures market demand, 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:



- (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: your strategy defines where and how you plan to compete. 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 realize 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 it 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 larger 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, Measurable, 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 is 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 customer and, 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 blueprint 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.

2.3.2 CONTENTS OF AN ANNUAL MARKETING PLAN

2.3.3 The following are the contents of an annual marketing plan:

(i) Executive Summary and Table of Contents:

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

(ii) Current marketing situation:

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) Opportunity and issue analysis:

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) Marketing strategy:

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 manager in order to obtain sufficient sales force support. Furthermore, he should discuss with the accountant to obtain sufficient funds for advertising and promotion.

(vi) Action programmes:

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 outline 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 wants 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 goal of strategic planning is to help 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 — Assessment Exercise

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.

Kotler, P (2000): Marketing Management. The Millennium Edition. New Delhi, Pretice —Hall of India.

UNIT 5: MARKET SEGMENTATION AND TARGET-MARKET SRATEGIES

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1.0 INTRODUCTION

From our previous discussion, especially in unit 1, you learned that organizations wishing to be successful in the discharge of their 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. one 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 is 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 into 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 are 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 diffuse 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 won't 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 meet 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 segmental 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 customer's 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 profits, 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 behaviouristic 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 characteristic. 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.

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 -1,000,000; etc.
Urban-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, adventuresome
Psycho logic:	VALS, VALS2, LOV
Behavioural Benefits desired	Examples vary widely depending on product: appliance-cost, quality, operating life; toothpaste-no cavities, plague control, <u>bright teeth, good taste, and low price.</u>
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

so forth. 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

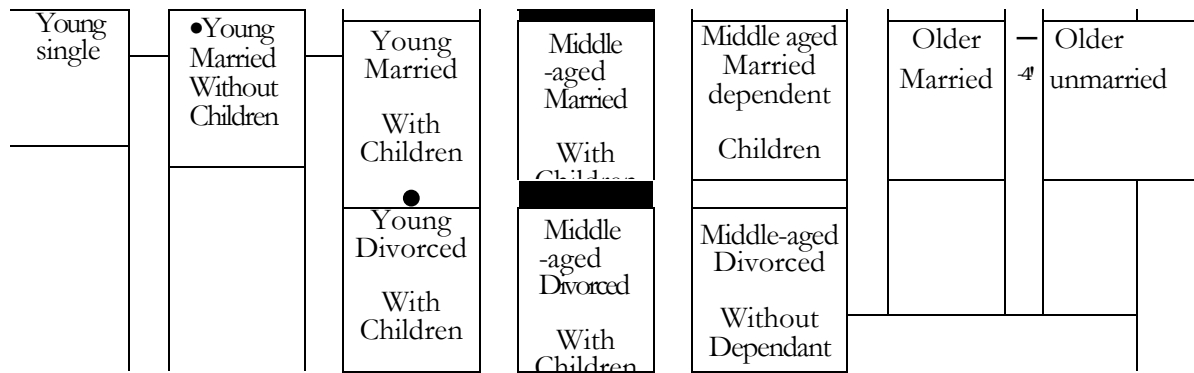
Children

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





—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 individual's 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 these limitations, 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, age 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 necessitated 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 believe that benefit segmentation variables are more accurate than demographic or usage segmentation. Variable in determining 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 definitely require 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 loyalist, i.e., consumers who buy one brand all the time

bSplit loyalist, i.e. consumers who are loyal to two or three brands

cShifting loyalist, 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 loyalist, the company can identify its

product's strength. In addition, by studying its split loyalist, 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 on small orders?
- 9.

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 needs 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 firm's 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 its 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 competitor's 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 investments.

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 cannot 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- Assessment Exercise

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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MODULE 2

- Unit 1 Consumer Buying Behaviour
- Unit 2 Consumer Relationship Management
- Unit 3 Business Buying Behaviour
- Unit 4 Ethical Issues in Business
- Unit 5 Products

UNIT 1: CONSUMER BUYING BEHAVIOUR

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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 in 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 DECISION 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 weighs 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 brand loyalty	Strong	Weak Developing

Involvement tends 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 from the perspective of the consumer, not the product. **Impulse buying** or purchasing with little or no advance planning is a form 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 made 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, and 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 information 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 unfavorableattitudes 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 product
- 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. Biggs can charge lower prices in the evening for its foods.

The second question concerns the impact of past or future events. For example 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 influences 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 force 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 psychological 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- Assessment Exercise

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 2: Customer Relationship Management

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1.0Introduction

Ethical issues and government policies are twine elements that a manager should critical looked into before entering into any form of business. This was examined in the previous unit studied. This unit looked into of the strategies of managing customer and company relationship

Maximizing customer value means cultivating long-term customer relationships. In the past, producers customized their offerings to each customer. However the industrial revolution ushered in an era of mass production. To maximize economies of scale made standard goods in advance of orders and left it to individuals to fit into whatever was available. But these days, products moved from built-to- order marketing to built-to- stock marketing. Thus, companies are now moving away from wasteful mass marketing to more precision marketing designed to build strong customer relationship.

Customer Relationship Management (CRM), is the process of managing detailed information about individual customer and carefully managing all customer ‘touch points’ to maximize customer loyalty. It is therefore not enough to attract new customers, but companies must keep them in order to increase their business.

This unit examined customer-company's relationship in relation to increasing sales and profits. It also looked into reasons why some companies failed to adopt customer relationship management (CRM).

2.0 Objectives

On successful studying of this unit, you should be able to:

- a. Define customer relationship management
- b. Explain customer relationship management
- c. Explain components of customer relationship management and
- d. Explain reasons why some companies failed to adopt customer relationship management

3.0 Main Text

3.1 Customer Relationship Management (CRM)

Customers are becoming harder to please. They are smarter, more price conscious, more demanding, less forgiving and they are approached by many more competitors with equal or better offers (Keller and Kotler, 2006: 146). The challenge according to Jeffrey Gitomer as reported by Keller and Kotler (2006) is not necessary to produce satisfied customers, several competitors can do this. Hence, the challenge is to produce delighted and loyal customers.

One technological approach designed specially to enable customer service and retention is customer relationship management (CRM). Ang and Buttle (2003) suggests that there are three main approaches: Strategic, where CRM is seen as a core business strategy; operational, CRM is about automating different aspects of an organization's selling, marketing and service functions; and finally analytical, where CRM is about manipulating data to improve the efficiency and effectiveness of each phase of the customer relationship lifecycle. Hence, CRM can be described as the delivery of customer value through the strategic integration of business functions and technology. CRM is the process of managing detailed information about individual customers and carefully managing customer 'touch points' to maximize customer loyalty. A customer touch point is any occasion on which a customer encounters the brand and product-form actual experience to personal or mass communications to casual observation. For example, in an hotel, the touch points include reservations, check-in and check-out, frequent-stay programs, room service, business service, exercise facilities, laundry service, restaurants and bars. CRM is the establishment, development, maintenance and optimization of long term mutually valuable relationship between consumers and organization.

CRM applications typically consist of call management, lead management, customer records, sales support and payment systems. These are necessary in order to respond to questions from customers and questions from internal stakeholders

about issues such as strategy, processes, operations and sales forecasts. These systems should be used to at each stage of the customer lifecycle in order to develop an understanding about customer attitudes and behavior that the organization desires. CRM should be used to assist in making decisions about whom to target, which customer differences should be used to assist in making decisions about which target, which customer differences should be taken into account and what impact this will have on profitability.

Customer relationship management enables companies to produce excellent real-time customer service through the effective use of individual account information. Based on what they know about each valued customer, companies can customize market offerings, services, programs, messages, and media. CRM is important because a major driver of company profitability is the aggregate value of the company's customer base.

Self Assessment Exercise 1

Briefly explain the term CRM

3.2. Framework for one-to-one Marketing in relation to CRM

Peppers and Rogers as reported by Keller and Kotler (2006) outline a four-step framework for one –to-one marketing that can be adopted on CRM marketing as follows:

- i. Identify your prospects and customers- Do not go after everyone, but build, maintain and mine a rich customer database with information derived from all the channels and customers touch points
- ii. Differentiate customers in terms of (a) their needs and (b) their value to your company. Spend proportionately more effort on the most valuable customers. Apply activity based costing and calculate customer lifetime value. Estimate net present value of all future profits coming from purchases, merging levels and referrals, less customer-specific servicing costs.
- iii. Interaction-Interact with individual customers to improve your knowledge about their individual needs and to build stronger relationship. Formulate customize offerings that are communicated in a personalized way.
- iv. Customization- Customize products, services and messages to each customer. Facilitate customer/company interaction through the company contact centre and website

A key driver of shareholder value is the aggregate value of the customer base.

Winning companies improve the value of their customer base by excelling at strategies such as:

1. Reducing the rate of customer defection

2. Increasing the longevity of the customer relationship
3. Enhancing the growth potential of each customer through share-of-wallet, cross selling and up-selling; and
4. Focusing disproportionate effort on high-value customers. The most valuable customers can be treated in a special way. Thoughtful gestures such as birthdays greetings, small gifts or invitation to special sports or arts events can send a strong signal to the customer.

3.3 Building Loyalty

While building customers loyalty, this involves costs. Thus, companies should be careful in building customer loyalty in relation to costs to be incurred. Five levels of investment in customer relationship building are briefly examined below:

- a. Basic marketing- The salespersons who sells the product
- b. Reactive marketing- The salesperson sells the product and encourages he customer to call if he /she has questions, comments or complaints
- c. Accountable marketing- The salesperson phones the customer to check whether the product is meeting expectation. The salesperson also asks the customer for any product or service improvement suggestions and any specific disappointments

- d. Proactive marketing- The salesperson contacts the customer from time to time with suggestions about improved products uses or new products
- e. Partnership marketing- The Company works continuously with its large customers to help improve their performance.

It should be noted that all these activities involved costs. Therefore, companies should carefully compare the costs and the benefits in terms of profits and sales-volume to be derived from such activities.

Notwithstanding, most companies practiced only basic marketing when their markets contain many customers and their unit profit margins are small. For instance, Boeing works closely with American Airlines to design airplanes that fully satisfy American requirement. An increasing essential ingredient for the best relationship marketing today is the right technology. These days, companies are using email, websites, call centers, databases, and database software to foster continuous contact between company and customers. For example:

The discount brokerage service Ameritrade provides detailed information to its customers, which helps to create strong bonds. It provides customized alerts to the device of the customer's choice, detailing stock movements and analyzes recommendations. The company's website permits online trading and provides access to a variety of research tool (Keller and Kotler, 2006).

This is similar to alerts sent by Nigeria Airlines reminding their customers about their booking with the such airlines. Similarly, MTN also alerted their teeming customer on their credit usage. To achieve this, these mobile telecommunication companies maintained databases of their customers.

3.3:1 Reducing Customer Defection

There are five main steps a company can take to reduce the defection rate, namely:

1. The company must define and measure its retention rate
2. The company must distinguish the causes of customer attrition and identify those that can be managed better
3. The company needs to estimate how much profit it loses and when it loses customers
4. The company needs to figure out how much it would cost reduce the defection rate and
5. Listening to customers- Some companies have created an on-going mechanism that keeps senior managers permanently as demonstrated by Banks in Nigeria through their 'customer care units'.

Self Assessment Exercise 2

State ways through which a company can reduce defection rate

3.4 Forming Good Customer Relationship

According to Berry and Parasuraman as reported by Keller and Kotler (2006) three retention building approaches have been identified, namely:

- a. Adding Financial Benefits- The financial benefits that companies can offer are frequency programs and clubs marketing programs. Frequency programs are designed to provides rewards to customers who buy frequently and in substantial amounts. For example, Mobile Telecommunication Companies in Nigeria used this promotion strategy through rewards of bonuses and other various gifts to their frequent users of their products Frequency programs are seen as a way to build long tern loyalty, with these customers, potentially creating cross-selling opportunities in the process. It should however be noted that the first company to introduce an frequency programs gains the most benefit, especially if competitors are slow to respond. After competitors respond, frequency programs (FP) can become a financial burden to all the offering companies, but some companies are more efficient and creative in managing FPs

Many companies have created club membership programs. Club membership can be open to everyone who purchases a product or service, or it can be limited to an affinity group or to those willing to pay a small fee. Although open clubs are good

for building a database or snagging customers from competitors, limited membership clubs are more powerful for long term loyalty builders. Fees and membership conditions prevent those with only a fleeting interest in a company's products from joining. Those clubs attract and keep those customers who are responsible for the largest portion of business. Some highly successful clubs include the following: Ikoyi club, Lagos-Nigeria; Apple- Apple encourages owners of its computers to form local apple-user groups. The user groups provide Apple owners with opportunities to learn more about their competitors; Harley-Davidson: The world famous Motorcycle Company sponsors the Harley owners group (H.O.G), which now numbers 650,000 members in over 1, 200 chapters. The first time buyer of a Harley Davidson Motorcycle gets a free one-year membership. The company also maintains an extensive web site devoted to H.O. G, which includes information on club chapters, events and special members – only section

- b. Adding Social Benefits- Company personnel works on cementing social bonds with customers by individualizing and personalizing customer relationship. In essence, companies turn their customers into clients. Donnelly, Berry and Thompson as reported by Keller and Kotler (2006) observed that “customers may be nameless to the institution; clients cannot be nameless. Customers are served as part of the mass or as part of longer segments; clients are served on an individual basis Customers are served by

anyone who happens to be available; clients are served by the professional assigned to them.”

E-commerce companies looking to attract and retaining customers that personalization goes beyond creating customized information. For examples, Skype website offers opportunities to the viewers to talk with the viewer. Another benefit of providing lives sales assistance as advertised on the web site is the ability to sell additional items. For Instance, Dallas-based specialty chain, the container store reaps the benefits of using live customer service personnel to augment its online orders

- c. Adding Structural Ties- The company may supply customers with special equipment or computers with special equipment or computer links that help customers manage orders, payroll and inventory. A good example is McKesson Corporation, a leading pharmaceutical wholesaler, which invested millions of dollars in FDI capabilities to help independent pharmacies manage inventory, order-entry processes and self space. Another example is Milliken and Company, which provides proprietary software programs, marketing research, sales training and sales lead to loyal customers.

Below is a misconception about adding structural ties as reported by Lester Wunderman, an astute observer of contemporary marketing thinks about “Loyalizing” customers misses the point. People can be loyal to country, family and beliefs, but less so to their toothpaste, soap or even beer. However, the marketer’s aim should be to increase the consumer’s proclivity to repurchase the company’s brand.

3.5 Reasons for not Adopting CRM

Listed below are some of the reasons why some companies failed to adopt CRM system

1. CRM is regarded as a mere add-on application that is expected to resolve all customer interface difficulties
2. Failure of systems to accommodate the wide array of relationships that organizations seek to manage
3. Failure to adopt CRM within a strategic orientation
4. Internal political issues concerning ownership of systems

4.0 Conclusion

Customer relationship management is a marketing strategy which aimed at improving relations between the customers and the company. Customer and company relationship is very important this is because companies operates under competitive environment and only those companies that knows their customers that will be able to retain them and improve on their sales and profits. Therefore, profits are tied down to retention of customers, repetitive purchases and quality services render to the keen customers.

5.0 Summary

This unit examined customer relationship management as a marketing strategy for improving company and customer relationship. It also looked into framework for one-to-to one marketing, building customer loyalty, ways of reducing customer defection, ways of forming good customer relationship and reasons why some companies failed to adopt customer relationship management.

6.0 Tutor Marked Assignment

What do understand by ‘adding Social Benefits’?

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Answers to Self Assessment Exercises and Tutor Marked Assignment

Self Assessment Exercise 1

Briefly explain the term CRM

Customer Relationship Management (CRM), is the process of managing detailed information about individual customer and carefully managing all customer ‘touch points’ to maximize customer loyalty. It is therefore not enough to attract new customers, but companies must keep them in order to increase their business. A customer touch point is any occasion on which a customer encounters the brand and product-form actual experience to personal or mass communications to casual observation.

Self Assessment Exercise 2

State ways through which a company can reduce defection rate

There are five ways through which a company can reduce the defection rate, namely:

1. The company must define and measure its retention rate
2. The company must distinguish the causes of customer attrition and identify those that can be managed better
3. The company needs to estimate how much profit it loses and when it loses customers
4. The company needs to figure out how much it would cost reduce the defection rate and
5. Listening to customers- Some companies have created an on-going mechanism that keeps senior managers permanently as demonstrated by Banks in Nigeria through their 'customer care un

Tutor Marked Assignment

Adding Social Benefits- This a marketing strategy whereby a company personnel works on cementing social bonds with customers by individualizing and personalizing customer relationship. In essence, companies turn their customers into clients. Donnelly, Berry and Thompson as reported by Keller and Kotler

(2006) observed that “customers may be nameless to the institution; clients cannot be nameless. Customers are served as part of the mass or as part of longer segments; clients are served on an individual basis Customers are served by anyone who happens to be available; clients are served by the professional assigned to them.”

UNIT 3: 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 powers that make them a highly attractive market. Moreover, world population forecasts and 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 NGOs, 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.

- i 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-term 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.

3.4.1.3 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 firm's 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) Firms 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 developing 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 re -buy.** This buying situation is somewhere between the other two in items 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 is 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. Postpurchase 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 organizations. 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 driver.

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 power in the firm.

iii. **Deciders**. These are 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 —re-buy situation. But someone 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 from 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 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 counterpart 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 'll buy from 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 defining 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 re-buy, or modified re-buy.

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, influencers, 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-Assessment Exercise

Differentiate in details between:

- The Reseller Market:
- The government market:

6.0 TUTOR-MARKED ASSIGNMENT

Question

A rational human being does 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

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UNIT 4: Ethical Issues in Business

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1.0 Introduction

National and Multinational Corporations are spread across the globe, but their operations vary from one another. Therefore it is imperative to know the ethical issues that governed their businesses. This is because domestic business is not the same with international business. Thus, the ethics that governed domestic businesses are quite different from that of international businesses. Ethical issues arise because of the differences in economic development, politics, legal systems and culture. The term ethics refers to accepted principles of right or wrong that governed the conduct of a person, the members of a profession, or the actions of an organization. Business ethics are the accepted principles of right or wrong governing the conduct of business people. This unit examines ethical issues as it affects business activities.

2.0 Objectives

On successful completion of this unit, you should be able to:

1. State ethical issues that affects business activities
2. Explain ethical issues in relation to business conducts

3.0 Main Text

3.1 Ethical issues in Business

Most of the ethical issues in businesses are rooted in the fact that political systems, laws, economic development and culture vary significantly from nation to nation. What is considered normal practice in one nation may be considered unethical in another. Because they work for an institution that transcends national borders and culture, managers, especially for international firms need to be particularly sensitive to these differences. Some of these ethical issues are thus briefly discussed below:

i Employment Practice

Working conditions vary from one nation to another, from one firm to another. This therefore raise some questions such as when work conditions in a host nation are clearly inferior to those in multinationals home nation, what standards should be applied? Those of the home nation or those of the host nation may apply something in between While some people may support that pay and work conditions should be the same across nation, how much divergence is acceptable? For example, Nigeria operates eight hours day work, while some nations such like Britain operates twelve hours day work. Also per day or hourly pay vary among nations of the world. For instance Nigeria is considered as one of the least pay country, hence, it is extremely difficult to suggest standards that should be applied.

However, international business managers should endeavour to study employment practices as they apply to those host countries of their business.

ii Human Rights

Questions of human rights can arise in international business and as well as on domestic business. Some basic human rights are not respected in some nations, especially by the developing countries. For instance, rights that we take for granted in developing nations, such as freedom of association, freedom of speech, freedom of assembly, freedom of movement, freedom from political repression and so on, are by no means universally accepted. For example, during days of apartheid system in South-Africa, blacks were not permitted to participate in socio-economic activities which were dominated by the whites. But after the independence, this practice was abolished. In addition, during military regime in Nigeria, many citizens including journalists and human right activists were wrongfully detained. However, Nigeria operates multi-party systems as a means of challenging the wrongs of the government in power. As business man you should understand politic- business relationship, this is because the effects on party in power may affect business activities either positively or negatively.

The issue of foreign multinational firms doing business abroad violates human rights is critical in international business. For example, Nigeria is a country where serious questions have arisen over the extent to which foreign multinationals doing business in the country have contributed to human rights violation? For instance, the largest foreign oil producer in the country –Royal Dutch Shell has been criticized in Niger Delta over environmental pollution. Recently, Jonathan's administration ordered Shell Company should bear some environmental costs of their operations in Niger delta. Notwithstanding, as business managers, issues of human rights should be critical studied and apply accordingly.

iii Environmental Pollution

Ethical issues arise when environmental regulations in host nations are inferior to those in the home nation. For instance, many developed nations have substantial regulations governing the emission of pollutions, the dumping of toxic chemicals and so on. Some of these regulations are often lacking in developing nations, such like Nigeria. For example, according to a 1992 report prepared by environmental activists in Nigeria in Niger Delta region, it state that

Apart from air pollution from the oil industry's emissions
Flares day and night. Producing poisonous gases that are
silently and systematically wiping out vulnerable air-
borne biota and endangering the life of plants, game and
man himself, we have widespread water pollution and
Soil/land pollution that results in the death of most
aquatic eggs and Juvenile stages of the life of fin
fish and shell fish on the other hand, whilst, on the other
hand, agricultural land contaminated with oil
spills, becomes dangers for farming, even when...

The implication in of this is that pollution controls applied by foreign companies in Nigeria were much lesser than those in developed nations, such like UK and USA. Therefore, should a multinational feel free to pollute the developing nations? Is there a danger that a moral management might move production to a developing nation because costly pollution controls are not required, and the company is therefore free to despoil the environment and perhaps endanger local people in its quest to lower production costs and gain a competitive advantage?

These questions take on added importance because some parts of the environment are a public good that no one owns but anyone can despoil. No one owns the

atmosphere or the oceans, but polluting both, no matter where the pollution originates, harm all. The atmosphere and oceans can be viewed as a global commons from which everyone benefits but for which no one is specifically responsible. In such cases, a phenomenon known as the tragedy of the commons becomes applicable. The tragedy of the commons occurs when individuals overuse a resources held in common by all, but owned by no one, resulting in its degradation. The phenomenon was first named by Garrett Hardin when describing a particular problem in sixteenth century in England.

Self Assessment Exercise

Describe tragedy of the commons

iv Corruption

Corruption has been a problem in almost every society in history and it continues to be one today. There are always have been and always will be corrupt government officials. Some businesses managers have taken advantage of this ill practice by making payments to these officials. For example, Carl Kotchian, the president of Lockheed, made a \$12.5 million payment to Japanese agents and government officials to secure a large order for Lockheed's TriStar Jet from Nippon Air. When the payments were discovered, US officials charged Lockheed with falsification of its records and tax violations. Although such payments were supposed to be an accepted business practice in Japan, the recreations created a scandal there too. The government ministers in question were criminally charged, one committed suicide, the government fell in disgrace and the Japanese people were outraged. Apparently, such a payment was not an accepted way of doing business in Japan. The payment was officials, to secure a large order that might

otherwise have gone to another manufacturer, such as 'Boeing'. This case took place in 1970s.

Recently, Senate Committee on Sale of Government Properties in Nigeria ordered Bureau for Public Properties (BPP) for public hearing over the sale of government properties during Obasanjo's administration. During the public hearing, the civil servants, and the communities where these properties were situated alleged that they were not carry along, and the money collected from such sales were not remitted to government accounts. It was revealed also during the public hearing that the foreigners who claimed to have bought these properties especially hotels, corporations, estates, etc, did not pay the actual money bided for these properties, and they have overused such properties without remittance to the government of Nigeria. The senate frown that this is an illegal act in Nigeria and thus the concerned victims are being prosecuted appropriately.

Similarly in Oil industry, some acts are considered lawful and unlawful in some nations. For instance, oil buckury and subsidy payments are considered lawful, hence Nigeria government paid oil marketers these subsidies, and illegal buckers are not always persecuted. Where attempts are made in persecuting the actors and actresses, some of these cases are not always conclusive in Nigeria. Whereas in advanced nations, such like UK and Canada, such acts are considered unlawful, and the actors and actresses are persecuted accordingly in relations to the laws of the country.

Research revealed that corruption reduces the returns on business investment and leads to low economic growth. In a country, where corruption is common, unproductive bureaucrats who demand side payments for granting the enterprise permission to operate may siphon off the profits fro a business activity. This reduces business incentives to invest and may retard a country's economic growth rate.

There are countless examples that could be cited, nevertheless, the message here is that business investors should know each country business practice, especially where he/she wish to do business.

v Moral Obligation

Multinationals has power to control their resources and to move production from country to country. Nevertheless, this power is constrained not only by laws and regulations, but also by the discipline of the market and the competitive process. Some moral philosophers argued that multinationals should give back something to the society where they derived profits. This is refers to social responsibility

The concept of social responsibility refers to the idea that business people should consider the social consequences of economic actions when making business decisions and that there should be a presumption in favour of decisions that have both good economic and social consequences. Advocates of this approach argued that business, particularly big successful businesses, such as Shell, Mobil, Total, etc need to recognizes their noble obligations and should give something back to the societies that made them in their business activities

On the contrary, there are examples of multinationals in Niger Delta of Nigeria, such Shell, Mobil, etc that have abused their power by neglecting social responsibilities. Most often, the areas of operations by these companies have been polluted. But, companies such as MTN, GLO, Airtel, etc in Nigeria have acknowledged a moral obligation to use their powers to enhance social welfare in the communities where they do business, by building schools, building hospitals, offering scholarships, etc.

In conclusion, as business managers, it is pertinent to critically study the ethics of the countries you wish to do business with and the policies that governed such business activities.

3.2 Theories of Business Ethics

This section examines three theories of business.

3.2.1 Stakeholder Theory

The stakeholder theory of the firm is used as a basis to analyze those groups to whom the firm should be responsible. In this sense, the firm can be described as a series of connection of stakeholders that the managers of the firm attempt to manage. A stakeholder is any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholders are typically analyzed into primary and secondary stakeholders. Primary stakeholder group is one without whose continuing participation in the corporation the business will survive as going concern. A primary group includes investors, employees, customers and suppliers, together with the public. The secondary groups are defined as those who influence or affect the operations of the corporation but not engaged in any transaction with the corporation and thus not essential for its survival.

3.2.2 Social Contract Theory

The social contract theory has a long tradition in ethical and political theory. In general, this theory considers the society as a series of social contracts between members of society and society itself. The social contract theory in business ethics argues that corporate rights and responsibilities can be inferred from the terms and conditions of an imaginary contract between business and society

An integrated social contracts theory, as a way for managers to take decisions in an ethical context, has been developed. Here, distinction is made between macro social contracts and micro social contracts. Thus, a macro social contract in the context of communities, for example would be an expectation that business

provides some support to its local community and the specific form of involvement would be the micro social contract. Hence companies who adopt a view of social contracts would describe their involvement as part of social expectation.

3.2.3 Legitimacy Theory

Legitimacy is defined as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions. There are three types of organizational legitimacy: Pragmatic, Moral and Cognitive.

It should be pointed out that legitimacy management rests heavily on communication. Therefore, any attempt to involve legitimacy theory, there is a need to examine some forms of corporate communications.

Self Assessment Exercise

Briefly differentiate between primary and secondary stakeholders

4.0 Conclusion

Laws, acts, policies and by-laws are inevitable as long people co-exist. It therefore implies that there is no society that exists without some governing rules and regulations. Likewise business do not operates in isolation. Business do operates under certain prescribed laws, Acts, norms, culture, etc. This is refers as business ethics. Business ethics are the accepted principles of right or wrong governing the conduct of business people. Understanding of these ethical laws as they affect business activities is inevitable in modern business activities. As business managers, you are at the liberty to go into any forms of business of your choice; however, you should understand the policies of the government in relation to such business.

5.0 Summary

In this unit, you learnt about business ethics, ethical issues in business activities, and theories of business ethics. Ethics as it applies to business vary from one country to another. This is because there are some factors which accounted for this, such as culture, political differences, etc. For one to be successful manager, there is a need to examine ethics issues as it apply to intended business

6.0 Tutor Marked Assignment

Briefly explain the concept of social responsibility

7.0References/Further Readings

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- Peter, S (2002) “One World”, The Ethics of Globalization
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Answers to Self Assessment Exercises

1. The tragedy of the commons describes when individuals overuse a resources held in common by all, but owned by no one, resulting in its degradation. The phenomenon was first named by Garrett Hardin when describing a particular problem in six-tenth century in England.
-

2. Primary stakeholder group is one without whose continuing participation in the corporation such corporation will survive as a going concern. A primary group includes investors, employees, customers and suppliers, together with the public. The secondary groups are defined as those who influence or affect the operations of the corporation but not engaged in any transaction with the corporation and thus not essential for its survival.

Answer to Tutor Marked Assignment

The concept of social responsibility refers to the idea that business people should consider the social consequences of economic actions when making business decisions and that there should be a presumption in favour of decisions that have both good economic and social consequences. Advocates of this approach argued that business, particularly big successful businesses, such as Shell, Mobil, Total, etc need to recognize their noble obligations and should give something back to the societies that made them successful in their business activities

UNIT 5: 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 think 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 programme 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 idea, a place, an event, an organization etc), or any combination of 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 set 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.
- (ii) The sellers' brand name and trademark instantly give legal protection for unique product feature that otherwise might be copied by competitors.
- (iii) Branding allows the seller attract loyal and profitable sets of customers.
- (iv) 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 package 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 than 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 all the firm's services, create consumer satisfaction and loyalty, and help 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 basis of the types of consumers that use them. These classes are: consumer products and industrial products. In the second place, these two groups 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 from here that any sub-division of consumers' goods should be based on consumer behaviour. In this regard, all consumer 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

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Examp les	Promoti on	Distri bution	P r i c e				Typic al Cust omer buyi ng habit		Maj or M ar ket ing Co
Cigarette s, soap, drugs, newspap ers, magazin es, chewing gums, grocery products	Mass Promotion by the producer	*Wid esprea d outlets *Conve nient locatio ns	I* L o w Pr ic e	L• Lo w cus to me r inv	* Little Com paris on or shop ping effo rt	* Littl e plan ning	* Freq uent Purc hase	(a) (c) (d) (e) (f) (g) (h) (i) (j) (k) (l) (m) (n) (o) (p) (q) (r) (s) (t) (u) (v) (w) (x) (y) (z) (aa) (ab) (ac) (ad) (ae) (af) (ag) (ah) (ai) (aj) (ak) (al) (am) (an) (ao) (ap) (aq) (ar) (as) (at) (au) (av) (aw) (ax) (ay) (az) (ba) (bb) (bc) (bd) (be) (bf) (bg) (bh) (bi) (bj) (bk) (bl) (bm) (bn) (bo) (bp) (bq) (br) (bs) (bt) (bu) (bv) (bw) (bx) (by) (bz) (ca) (cb) (cc) (cd) (ce) (cf) (cg) (ch) (ci) (cj) (ck) (cl) (cm) (cn) (co) (cp) (cq) (cr) (cs) (ct) (cu) (cv) (cw) (cx) (cy) (cz) (da) (db) (dc) (dd) (de) (df) (dg) (dh) (di) (dj) (dk) (dl) (dm) (dn) (do) (dp) (dq) (dr) (ds) (dt) (du) (dv) (dw) (dx) (dy) (dz) (ea) (eb) (ec) (ed) (ee) (ef) (eg) (eh) (ei) (ej) (ek) (el) (em) (en) (eo) (ep) (eq) (er) (es) (et) (eu) (ev) (ew) (ex) (ey) (fz) (ga) (gb) (gc) (gd) (ge) (gf) (gg) (gh) (gi) (gj) (gk) (gl) (gm) (gn) (go) (gp) (gq) (gr) (gs) (gt) (gu) (gv) (gw) (gx) (gy) (hz) (ia) (ib) (ic) (id) (ie) (if) (ig) (ih) (ii) (ij) (ik) (il) (im) (in) (io) (ip) (iq) (ir) (is) (it) (iu) (iv) (iw) (ix) (iy) (jz) (ka) (kb) (kc) (kd) (ke) (kf) (kg) (kh) (ki) (kj) (kk) (kl) (km) (kn) (ko) (kp) (kq) (kr) (ks) (kt) (ku) (kv) (kw) (kx) (ky) (kz) (la) (lb) (lc) (ld) (le) (lf) (lg) (lh) (li) (lj) (lk) (ll) (lm) (ln) (lo) (lp) (lq) (lr) (ls) (lt) (lu) (lv) (lw) (lx) (ly) (mz) (na) (nb) (nc) (nd) (ne) (nf) (ng) (nh) (ni) (nj) (nk) (nl) (nm) (nn) (no) (np) (nq) (nr) (ns) (nt) (nu) (nv) (nw) (nx) (ny) (oz) (pa) (pb) (pc) (pd) (pe) (pf) (pg) (ph) (pi) (pj) (pk) (pl) (pm) (pn) (po) (pp) (pq) (pr) (ps) (pt) (pu) (pv) (pw) (px) (py) (qz) (ra) (rb) (rc) (rd) (re) (rf) (rg) (rh) (ri) (rj) (rk) (rl) (rm) (rn) (ro) (rp) (rq) (rr) (rs) (rt) (ru) (rv) (rw) (rx) (ry) (rz) (sa) (sb) (sc) (sd) (se) (sf) (sg) (sh) (si) (sj) (sk) (sl) (sm) (sn) (so) (sp) (sq) (sr) (ss) (st) (su) (sv) (sw) (sx) (sy) (sz) (ta) (tb) (tc) (td) (te) (tf) (tg) (th) (ti) (tj) (tk) (tl) (tm) (tn) (to) (tp) (tq) (tr) (ts) (tt) (tu) (tv) (tw) (tx) (ty) (tz) (ua) (ub) (uc) (ud) (ue) (uf) (ug) (uh) (ui) (uj) (uk) (ul) (um) (un) (uo) (up) (uq) (ur) (us) (ut) (uu) (uv) (uw) (ux) (uy) (vz) (wa) (wb) (wc) (wd) (we) (wf) (wg) (wh) (wi) (wj) (wk) (wl) (wm) (wn) (wo) (wp) (wq) (wr) (ws) (wt) (wu) (wv) (ww) (wx) (wy) (yz) (za) (zb) (zc) (zd) (ze) (zf) (zg) (zh) (zi) (zj) (zk) (zl) (zm) (zn) (zo) (zp) (zq) (zr) (zs) (zt) (zu) (zv) (zw) (zx) (zy) (zz) (aa) (ab) (ac) (ad) (ae) (af) (ag) (ah) (ai) (aj) (ak) (al) (am) (an) (ao) (ap) (aq) (ar) (as) (at) (au) (av) (aw) (ax) (ay) (az) (ba) (bb) (bc) (bd) (be) (bf) (bg) (bh) (bi) (bj) (bk) (bl) (bm) (bn) (bo) (bp) (bq) (br) (bs) (bt) (bu) (bv) (bw) (bx) (by) (bz) (ca) (cb) (cc) (cd) (ce) (cf) (cg) (ch) (ci) (cj) (ck) (cl) (cm) (cn) (co) (cp) (cq) (cr) (cs) (ct) (cu) (cv) (cw) (cx) (cy) (dz) (ea) (eb) (ec) (ed) (ee) (ef) (eg) (eh) (ei) (ej) (ek) (el) (em) (en) (eo) (ep) (eq) (er) (es) (et) (eu) (ev) (ew) (ex) (fy) (ga) (gb) (gc) (gd) (ge) (gf) (gg) (gh) (gi) (gj) (gk) (gl) (gm) (gn) (ho) (hp) (hq) (hr) (hs) (ht) (hu) (hv) (hw) (ix) (jz) (ka) (kb) (kc) (kd) (ke) (kf) (kg) (lh) (li) (lj) (lk) (lm) (ln) (lo) (lp) (lq) (lr) (ls) (lt) (lu) (lv) (lw) (mx) (ny) (oz) (pa) (pb) (pc) (pd) (pe) (pf) (pg) (ph) (pi) (pj) (pk) (pl) (pm) (pn) (po) (pp) (pq) (pr) (ps) (pt) (pu) (pv) (pw) (qx) (ry) (sz) (ta) (tb) (tc) (td) (te) (tf) (tg) (th) (ti) (tj) (tk) (tl) (tm) (tn) (to) (tp) (tq) (tr) (ts) (tt) (tu) (tv) (tw) (ux) (vy) (wz) (xa) (yb) (yc) (yd) (ze) (zf) (zg) (zh) (zi) (zj) (zk) (zl) (zm) (zn) (zo) (zp) (zq) (zr) (zs) (zt) (zu) (zv) (zw) (zx) (zy) (zz) (aa) (ab) (ac) (ad) (ae) (af) (ag) (ah) (ai) (aj) (ak) (al) (am) (an) (ao) (ap) (aq) (ar) (as) (at) (au) (av) (aw) (ax) (ay) (bz) (ca) (cb) (cc) (cd) (ce) (cf) (cg) (ch) (ci) (cj) (ck) (cl) (cm) (cn) (co) (cp) (cq) (cr) (cs) (ct) (cu) (cv) (cw) (cx) (cy) (dz) (ea) (eb) (ec) (ed) (ee) (ef) (eg) (eh) (ei) (ej) (ek) (el) (em) (en) (eo) (ep) (eq) (er) (es) (et) (eu) (ev) (ew) (ex) (fy) (ga) (gb) (gc) (gd) (ge) (gf) (gg) (gh) (gi) (gj) (gk) (gl) (gm) (gn) (ho) (hp) (hq) (hr) (hs) (ht) (hu) (hv) (hw) (ix) (jz) (ka) (kb) (kc) (kd) (ke) (kf) (kg) (lh) (li) (lj) (lk) (lm) (ln) (lo) (lp) (lq) (lr) (ls) (lt) (lu) (lv) (lw) (mx) (ny) (oz) (pa) (pb) (pc) (pd) (pe) (pf) (pg) (ph) (pi) (pj) (pk) (pl) (pm) (pn) (po) (pp) (pq) (pr) (ps) (pt) (

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	*High price	*Little comparison of	*Special purchase effort		*Strong brand Preference and loyalty	(C) L S p e
Life insurance, encyclopedias, Red Cross blood donations	*Aggressive advertising, personal selling and other promotional tools by both	Varies	Varies			If aware, little or negative int	*Little product awareness, knowledge	(C) L U n s o

3.4.1.1 CONVENIENCE PRODUCTS

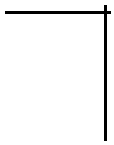
Convenience products are those products and services for which the probable gain from making price and quality comparisons is thought to be small relative to the value of the customer's time and efforts. Examples include cigarettes, soap, newspapers, magazines, chewing gum and most grocery products.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

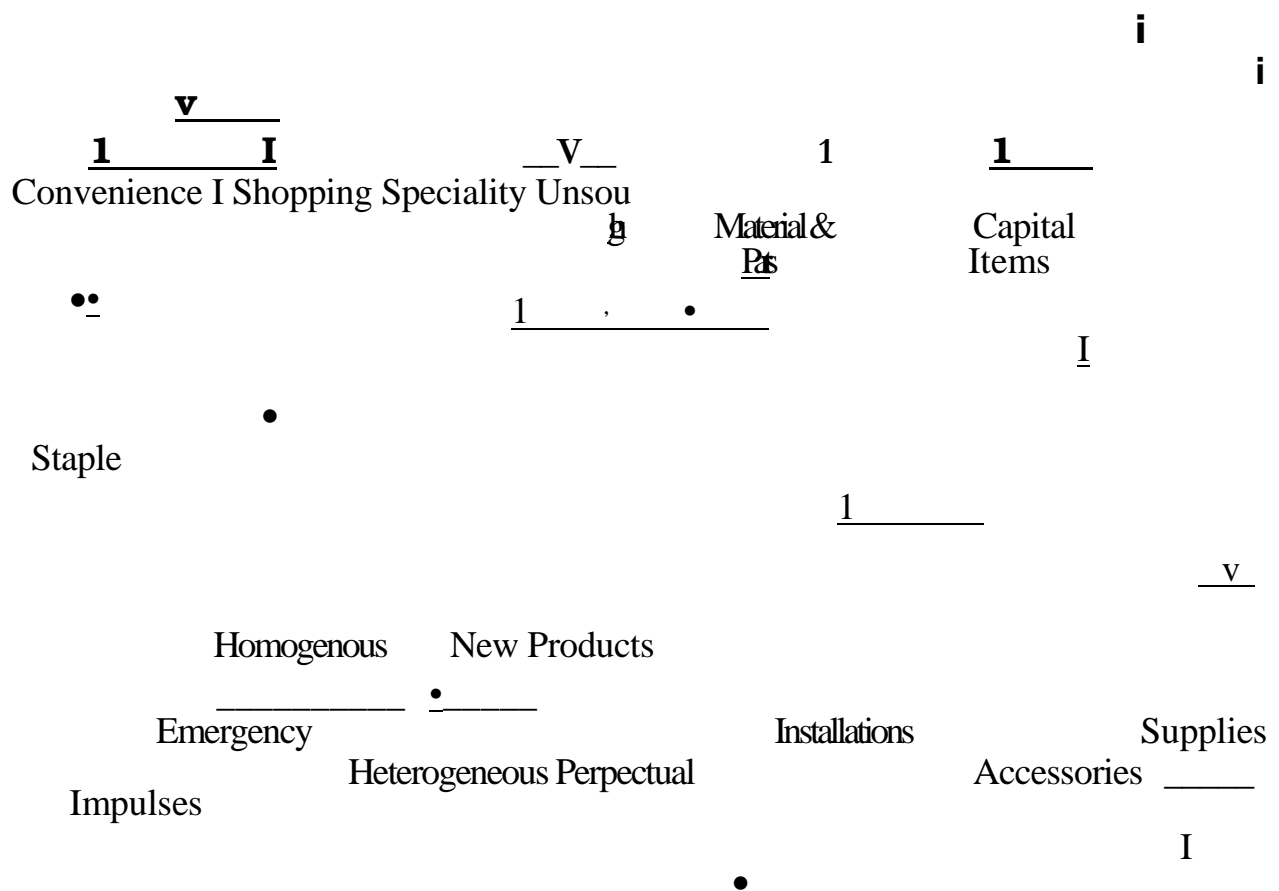
Convenience products can be subdivided further into three types, based primarily on how customers think about and buy such products:

- (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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Usually, staple items are offered for sale in many convenient places because of customers' reluctance to search very far. Hence, they are 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 be 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 products 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 products. 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 category shopping product.

3.4.1.3 SPECIALITY PRODUCTS:

Specialty 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.

Specialty 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 specialty products. The demand for specialty products is 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 them 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 event 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 larger 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 portable 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 -Assessment Exercise

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

MODULE 3

Unit 1	New Product Development
Unit 2	Pricing Decisions
Unit 3	Marketing of Services
Unit 4	Sports Marketing
Unit 5	Online Marketing
Unit 6	Guerilla Marketing

UNIT 1: NEW PRODUCT DEVELOPMENT

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7.0 Further Reading

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, organisations, 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 organisations: 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.

Firms 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 organisation must improve its organisational arrangements for handling the new-product development process. Secondly, the organisation 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-empting a market segment

- Exploring technology in a new way
- Capitalising 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 ESTABLISHING A WORKABLE ORGANISATIONAL STRUCTURE

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

- 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 professionalises 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-commercialisation work. When a product is ready for full-scale commercial marketing, it is turned over to the appropriate operating department.

- Product planning committee.** Organisations 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 organisational 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 organisational 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, organisational 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 organisation 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 a new 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 organisations. 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.Commercialisation.

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 formalised 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 emphasise. 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, firms 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 organisations 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 firms, 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 (b) channels Relation to present) product lines (c) Quality-price relationship (d) Number of sizes and grades
2. Durability	(f) Stability (g) Breadth of market (h) Resistance to cyclical (i) fluctuations Resistance to (j) seasonal fluctuations
3. Productive Ability	(k) Equipment necessary (l) Production knowledge and personnel (m) necessary Raw materials availability
4. Growth Potenti	(n) Place in market (o) Expected competitive situation-value (p) added Expected availability of end

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 commercialisation. 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 behaviour 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.

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, save 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 full advertising and promotions campaign in these markets as would be done in full 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 commercialise 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) Product-use test

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)Trade shows

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)Distributor and dealer display rooms

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: Commercialisation

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 segmented 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 organisation 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 commercialisation. The purpose of each stage is to determine whether the idea should be dropped or moved to the next stage.

Self — Assessment Exercise

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

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UNIT 2: 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 is 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 worker
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 firm 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 judgments 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

3.3.1 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 these 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 firm 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 Maximisation: Many firms use current profit maximisation 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 belief 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 forms, 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. Firms 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 poses 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 oligopolist is never sure that it will gain anything permanent through a price cut. On the other hand, if an oligopolist raises its price, its competitors might not follow this lead. In this instance therefore, the oligopolist might have to withdraw its price increase or risk losing customers to competitors.

In a **pure monopoly**, the market consists of just 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

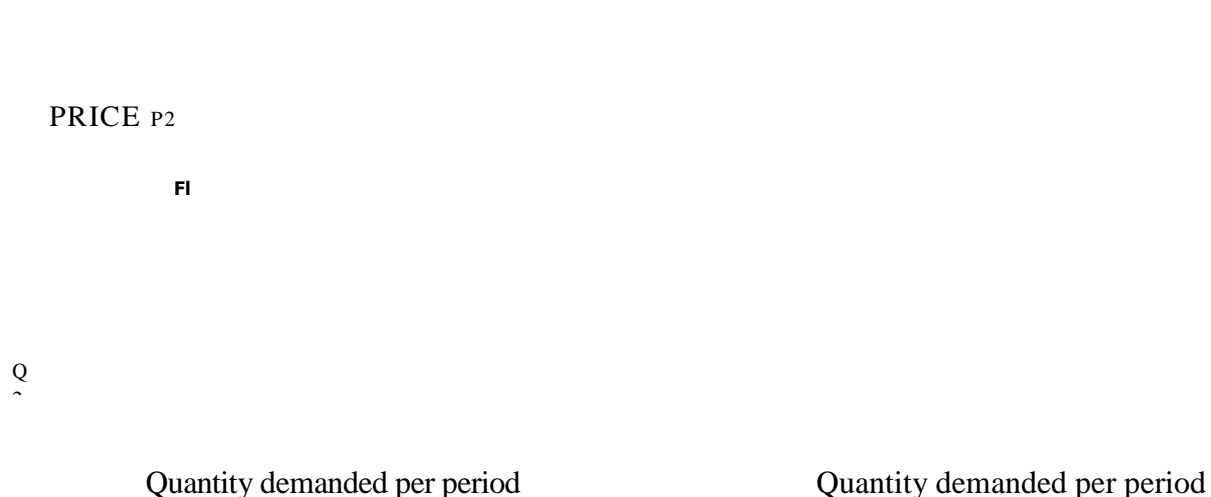
B = Benefits, and

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. Analysing the Price — Demand Relationship

Each price a firm charges will lead to a different level of demand. The relationship between the price charged and the resulting demand level is illustrated in the demand curve in Figure 11.2

Figure 11.2 Demand Curves



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_1 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_1 to P_2 lead to a relatively small drop in demand from Q_1 to Q_2 . In Figure 11.2 (B) however, the same price increase leads to a large drop in demand from Q_1 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 place its price close to that competitor's price 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 charge 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	500,000

Then the manufacturer's cost per jug is given by:

$$\begin{array}{rcl}
 & \textbf{Fixed Cost N 3 0 0 , 0 0 0} & \\
 \textbf{Unit Cost} = \textbf{Variable Cost} + & & \textbf{— -MO +} \\
 & \textbf{Unit Sal e} & \textbf{50,000} \\
 & & \textbf{=N16}
 \end{array}$$

Now, suppose the manufacturer wants to earn a 20 percent marketing on sales. The manufacture's marking price is given by:

$$\begin{array}{rcl}
 \textbf{Marking Price} = & \textbf{Unit Cost} & \textbf{= 1416} \\
 & \textbf{1—Desired Return on Sales} & \textbf{1—0.2} \\
 & & \textbf{=N20}
 \end{array}$$

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% of N40). This number is equivalent to a marking on cost of 100 percent (N20/ N 2 0)

Explanation for the Wide spread 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 costs 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 about 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 by 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 especially 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 profit 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	N 3,60,000	
	Labour	N 4,20,000
Fixed Costs	N1,20,000	
	Selling & Administrative	N1,80,000
Total investment in cash, Inventory and equipment		N8,000,000

Suppose the labour 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):

$$\begin{array}{lcl} 1. \text{Percentage over costs} & 1,20,000 & \\ & & = 11.1 \end{array}$$

	10,80,000		
2. Percentage on sales	1,20,000	=10	
			12,00,000
3. Percentage on capital employed	1,20,000		
			8,00,000

The revised costs are 14,11,58,000
 (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 9S/10. The cost is known to us and we have to find out the sales.

If $9S/10 = \text{N}11,58,000$ then $S = 3/4 \times 12,86,667$

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 N1,20,000 (15 percent on 3/48, 00,000). The sales value would then be N12,78,000 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 its 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 modern 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 by maximizing contribution in each 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 its 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 spite 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 Assessment Exercise

- 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 have on the pricing process.

7.0 FURTHER READING

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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. 10th ed. New York, McGraw-Hill, Inc.

UNIT 3: MARKETING OF SERVICES

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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 services 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 owning 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 summarised in Figure 16.1

Figure 1: Four Service Characteristics

Inseparability Services cannot be separated from their providers

Intangibility Services cannot be seen, 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) 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.

3.2.2 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 are frequently 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 Keyamo. 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 characteristic 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.

3.2.3 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 insurance company until needed by the buyer or the beneficiary. This 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 differ 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 service firm's 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

satisfied loyal customers i.e. satisfied customer, who remain loyal, repeat purchase, and refer other customers, hence leading to:

(iv) 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 work as a team to provide customers satisfaction. In order for the firm to deliver 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](#). eg. 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 is 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 past 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 "industrialise 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 customised 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 -Assessment Exercise

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.

Unit 4: Sports Marketing

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1.0 INTRODUCTION

Sports has become an important agent of globalisation, transversing various nations of the world and bringing different people of the world to speak one language either in the game of football, basket ball, Lawn tennis etc. Due its general acceptance by all races and religions of the world and its importance in peoples' lives, especially the game of football, sports is considered a profitable and sustainable marketing source.

This unit introduces you the concept of sport marketing and the three dimensions of sports marketing. The unit also distinguishes sports products from non- sports products and also explains the various benefits derived from sports marketing

2.0 OBJECTIVES

By the end of this unit, you should be able to:

1. Define the concept of Sports Marketing
2. Explain the different dimensions of Sports Marketing
3. Differentiate Sports products from Non-Sport Products

3.0 MAIN CONTENT

3.1 Definition and meaning of Sports Marketing

Sport marketing is the use of marketing principles for or within sports related environments. It is a subdivision of marketing which focuses both on the promotion of sport events and teams as well as the promotion of other products and services through sporting events and sport teams.

Sport Marketing is a service in which the elements promoted can be a physical product or a brand name. The goal is to provide the client with strategies to promote the sport or to promote something other than sports through sports.

One element that sport marketing takes advantage of is that athletes tend to be brand loyal and fans tend to be loyal to their favourite athlete and teams. This can be recognized through the contracts players and athletes sign with sports companies in which they get paid to wear or use their products in each game or sporting event. By doing so, the players and athletes and also their fans develop a loyalty to the products for a longer time.

There are three dimensions to sport marketing and these are:

1. Marketing of Sports

This involves designing or developing a “live” themed activity, occasion, and display or exhibit sporting event to promote a product, a team, cause or organization. It is a marketing strategy

This kind of marketing strategically aims at marketing the pure sports goods to the target market. This involves the advertising of sports events and sports teams or association such as the champions' league, the Olympics, the world cup, National Football League, through different media channel. In this type of marketing, the promotion is related to sports.

2. Marketing through Sports

This concept has been in use since the 80s but has gained more popularity in the last two decades due to the growth and expansion that the different types of sports have enjoyed

This kind of marketing and promotion can be carried out through (i) the sport or (ii) through the sports club. When the marketing is done through the sport, it is under the responsibility of the different sporting associations and when it is done through the sports club, the responsibility falls on the different sports clubs.

Marketing through sports involves the marketing of non sports products or the promotion of various products through sports related channels like sporting events, sporting teams and individual athletes, for example, Master Card sponsorship and advertisements in the champions' league and the world cup is a well known advertisement.

In marketing through sports, the promotion is not about the sports; to promote their products or services, companies and associations use different channels such as sponsorships of teams, or athletes, television or radio advertisement during the different broadcast sports events and celebrations and or advertisements on sporting venues.

3. Grassroots Sport Marketing

Grassroots Sport Marketing is a part of the field of marketing known as Social Marketing. It involves the promotion of sport to the public in order to increase participation. It is normally done with a much smaller budget than

marketing of sports teams and event or marketing of products through sports, as it does not bring any direct financial benefit. Although this type of marketing normally drives people to clubs where they will pay to play sport; however, it still needs to be subsidized in order to be run.

Street Marketing is an offshoot of grassroots marketing. It involves promoting of sports through billboards on the street and also through urban elements like street lighter, sidewalks etc to gain publicity during major worldwide sporting events such as football World Cup, Olympic Games etc.

3.2 Sports Products versus Non-sports products

In establishing a strategic environment for any dimension of sports marketing, it is necessary to make clear distinctions between sports and non-sports products.

A. Sports Products

There are three main categories of sports products and these are:

i. Spectator Sports

The main marketing objective in this category is to increase the ticket sales or generally, to increase the ratings of the broadcasting of sports events.

ii. Participation Sports

Unlike spectator sports, participation sports lacks the feeling of competition and involves the individuals into the sports experiences, hence the term, “participation sports”.

iii. Sporting goods, Apparel, Athletic Shoes and Sports-Related Products

Sporting goods are tangible products created for specific sport activity.

Apparel is a type of sports-related clothing. It may be either to facilitate participation, support or for fashion reasons.

Athletic shoes form a distinguished category due to its various designs and being in everyone's wardrobes.

Sports –Related Products may be referred to as souvenirs or any type of good that may be purchased during the participation in a sports activity for example beer.

Self Assessment Exercise

What do you consider to be the major marketing advantage for sports marketing?

B. Non-sports Product

Marketers of non sports products benefit from the sports environment using different levels of sponsorship strategies and these are:

i. Traditional Sponsorship

Here, the aim is to be able to use the logos and the trademarks of the sports property and to settle a relationship in the customers' minds of the target market of that sports property.

ii. Venue Naming Rights

Though this may be similar to traditional sponsorship, venue naming rights represent a special form of sponsorship because it is claimed that the sponsors receive a remarkably high value from naming values.

iii. Endorsement

This can be described as personal sponsorship for example; adidas is the personal sponsor of Lionel Messi while Nike is the personal sponsor for Cristiano Ronaldo

iv. Licensing

In this type of sponsorship, the licensor gets only the rights to use sport property's logos and trademarks during its marketing efforts. Official supplier is one of the most common categories of licensing. A popular example in recent times is that of Turkish Airlines being the official supplier of FC Barcelona.

3.3. Benefits of Sport Marketing

- ✓ Sport marketing drives memberships, sales and recognition. These are the major factors that are of immense benefit to the companies, the athletes, the associations, the leagues and sport event manager.
- ✓ When properly planned, effective marketing helps to understand the customer and the market place.
- ✓ Informed marketing decisions help increase the company's, club's or association's performance.
- ✓ Due to the status and importance in people's lives, sport is considered a profitable and sustainable marketing source.

4.0 Conclusion

Sports as an important agent of globalization, a very lucrative occupation , a form of leisure / relaxation and its general acceptability by people of all races and religion has become an important avenue for promoting not only sports but almost everything other thing that can impact or affect the human life. This is essentially the goal of sport marketing.

5.0 Summary

Sport marketing is a science in which the elements promoted can be a physical product or a brand. The goal is to provide client with strategies to promote the sport or to promote something other than sports through sports. There are three dimensions to sports marketing and these are: marketing of sports, marketing through sports and grass root marketing. To establish strategic environment for any dimension of sports marketing, there is need to distinguish sports from non-sports products i.e. spectacular sports, participation sports and sporting goods from endorsement, licencing and venue naming rights. The various benefits of sport marketing include enhancing the performance of the company, club and association.

6.0 Tutor-Marked Assignment

1. Mention and explain the different aspects of sports marketing.
2. How would you distinguish sports products from non sports products?

7.0 References/ Further Reading

Beech, John, Chadwick, Simon (2006) The Marketing of Sports. Prentice Hall and Financial Times.

Unit 5: On line Marketing

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1.0 Introduction

We are in the age and times of “here” and “now”; Individuals and organizations seem to be in hurry and everyone wants to obtain quick and immediate results. There is also the issue of tight schedules and very busy lifestyles, so everyone is looking for the quickest and the most convenient medium through which to transact business, to share information, to socialize etc., the internet is that medium. Internet marketing is the cheapest and the quickest way for companies to reach a wide target audience and it is also the most convenient way for consumers to purchase products and services.

This unit introduces you to online marketing and the different types of online marketing, the different business models that internet marketing is associated with and then the benefits and limitations of internet marketing.

2.0 Objectives

By the end of this unit, you should be able to:

1. Identify and define the different types of on-line marketing
2. Identify types of internet usage among companies
3. Acquaint yourself with some of the benefits and the limitations of internet marketing.

3.0 Main Content

3.1 On-line Marketing and the different types of online marketing

On line marketing, also known as internet marketing, web marketing or e-marketing is the marketing or promotion of products or services using the internet as a medium. In order to benefit from the new technologies in today's global environments, marketers are developing strategies which suit the digital world.

Internet marketing is considered to be broad in scope because it not only refers to marketing on the internet, but also includes marketing done through e-mail and wireless media.

Customer relationship management system and digital customer data are considered to be sub divisions of internet marketing.

Internet Marketing ties together the creative and technical aspects of the internet including design, development, advertising and sales.

Internet marketing refers to the placement of media along many different stages of the customer engagement cycle through the following types of internet marketing;

i. Search engine optimization

This is the process of improving the visibility of a website or a web page in search engines through the natural or unpaid search results.

ii. Search engine marketing

This is a form of marketing that seeks to promote websites by increasing their visibility in search engines result pages through the use of paid placement, contextual advertising and paid inclusion or through the use of free search engine optimization technique.

iii. Display advertising

This is the use of web banners placed on a third party website or blog to drive traffic to a company's own website and increase product awareness.

iv. Social media marketing

This is the process of gaining traffic or attention through social media websites such as face book, twitter and linkedIn.

v. Email marketing

This involves directly marketing a commercial message to a group of people using electronic mail.

vi. Referral marketing

This is a method of promoting products or services to new customers through referrals, usually by word of mouth.

vii. Affiliate marketing

This is a marketing practice in which a business rewards one or more affiliates for each visitor or customer brought about by the affiliate's own marketing efforts.

viii. Inbound marketing

This involves creating and freely sharing informative contents as a means of converting prospects into customers and customers into repeat buyers.

ix. Video marketing

This type of marketing specializes in creating videos that engage the viewer into a buying state by presenting information in video form and guiding them to a product or service. Online video is gaining wide popularity among internet users and companies see it as a viable method of attracting customers.

3.1.1 Types of internet Usage among companies

- **Brick and Mortar Company**

This operates in a real life only and uses internet to provide information. Organisations like universities are example of this.

- **Click and Mortar Company**

This type provides both in real life and through internet. Vatan computer is an example of this.

- **Click-only Company**

This operates only online and you cannot contact in real life with such company, you can only buy those items online.

Self Assessment Exercise

Mention the different styles of placing media during the different stages of the customer engagement cycle in internet marketing?

3.1.2 Business Models

A business model describes the rationale of how an organization creates, delivers and captures value, whether economic, social or any other form of value. The purpose of business model construction is part of business strategy.

Internet marketing is associated with several business models and these include:

- i. **E-commerce**

This is a model whereby goods and services are sold directly to consumers, businesses or from consumer to consumer using computers connected to a network.

- ii. **Lead-based websites**

This is a strategy whereby an organization generates value by acquiring sales leads from its website. It is similar to walk in customers in retail world. These prospects are often referred to as organic leads.

iii. Affiliate marketing

This is a process where a product or service developed by one entity is sold by other active sellers for a share of profits. The entity that owns the product may provide some marketing material for example, sales letters, affiliate links, tracking facilities etc. however, the vast majority of affiliate marketing relationships come from e-commerce business that offer affiliate programmes.

iv. Local Internet Marketing

This is a strategy through which a small company utilizes the internet to find and to nurture relationships that can be used for real-world advantages. Local internet marketing uses tools such as social media marketing, local directory listing and targeted online sales promotion.

3.2 Benefits and limitations of Internet Marketing

3.2.1 Benefits derived from internet marketing

- i. Internet marketing is relatively inexpensive when examining the ratio of cost to the reach of the target audience. Companies can reach a wide audience for a small fraction of advertising budget
- ii. The nature of the medium allows consumers to research and to purchase products and services conveniently. Therefore businesses have the advantage of appealing to consumers in a medium that can bring results quickly.
- iii. Internet marketers have the advantage of measuring statistics easily and inexpensively, almost all aspects of an internet marketing campaign can be traced, measured and tested in many cases through the use of an adserver.

3.2.2 Limitations of internet marketing

- i. One major challenge of internet marketing is the problem of scam. Many internet products are promoted with deception and this makes it difficult for one to know what one is buying. This is very common with products that are supposed to train or aid internet marketers in making money. Most of these products are empty boxes, in which there is essentially nothing there, yet a buyer is to make money by reselling this empty box to others.
- ii. The inability of the consumers to physically feel or try out the product can be a limitation for certain goods.
- iii. Internet marketing is completely based on the advertisement and the information that the advertisement and the information that the advertisement might lead to i.e. websites, blogs etc. , this makes it impossible for marketers to use the x-factor/personal touch factor/human touch factor to influence the audience.

4.0. Conclusion

Online marketing or e-marketing has registered its presence in this contemporary society as it has proven to be an inexpensive, convenient and a fast approach of exchanging goods and services. However, swindlers have taken advantage of its lack of personal touch or human touch factor to swindle unsuspecting customers of their money. This however has not hampered the wide spread and the popularity of online marketing.

5.0. Summary

Online marketing is broad in scope as it involves not only marketing in the internet but also includes marketing via email and wireless media. There are different types of online marketing and these include display advertising, search engine marketing, email marketing, affiliate marketing etc. There are several benefits of online marketing as well as limitations which include the ability of businesses to appeal to consumers through a medium that can bring results quickly and the inability of the consumers to physically feel or try out the product respectively.

6.0 Tutor Marked Assignment

1. What is a business model? Explain the several business models associated with internet

Marketing?

2. Describe the different types internet usage among companies?

3. What are some of the limitations and benefits of internet marketing?

7.0 References/ Further Reading

Beech, John, Chadwick, Simon (2006) The Marketing of Sports. Prentice Hall and Financial Times.

Unit 6: Guerilla Marketing

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3.2 Principles of Guerilla Marketing

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5.0 Summary

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7.0 References /Further Reading

1.0 Introduction

The term Guerilla marketing is easily traced to guerilla warfare which utilizes unusual tactics to achieve a goal in a competitive and callous environment. The term, “Guerilla marketing” was coined by Jay Conrad Levinson (1983) in his book, “Guerilla Marketing”,. The term has since entered the popular vocabulary and marketing textbooks.

The business environment is highly competition and in recent times marketers have evolved several approaches and strategies to stay above board. Guerilla marketing is one of such strategies. The aim of guerrilla marketing is to reach more people with limited budget and a more effective message.

This unit introduces you to the concept of Guerilla marketing, some of the key elements of guerilla marketing, the principles of guerilla marketing, the risks involved and the associated marketing trends.

2.0 Objectives

By the end of this unit, you should be able to:

1. Illustrate the strategy of guerilla marketing
2. Identify the key elements of guerilla marketing
3. Enumerate the principles of guerilla marketing
4. Identify the risks involved in guerilla marketing

3.0 Main Content

3.1 The Concept and Definition of Guerilla Marketing

The concept of Guerilla Marketing was invented as an unconventional system of promotion that relies on time, energy and imagination rather than a big marketing budget. Typically, guerrilla marketing campaigns are unexpected and unconventional, potentially interactive and consumers are targeted in unexpected places.

Guerilla marketing is an advertising strategy in which low-cost unconventional means for example graffiti, sticker bombing and flash mobs are used, usually in localized fashion or large network of individual cells to convey or promote a product or an idea. Customers are shocked and surprised in guerilla marketing as it involves unusual approaches such as intercept encounters in public places, street giveaways of products, PR stunts or any unconventional marketing intended to get maximum results(by way of reaching more people) from minimal resources. With this type of advertising strategy, customers are able to remember the things that surprised them.

The main objective of guerilla marketing is to create a unique engaging and thought provoking concept to generate buzz and consequently turn viral.

Viral (Buzz) Marketing is a marketing technique that encourages people to spread your message to others to make a difference in a short time. The message quickly spreads like a virus from one person to another.

Some key elements of guerilla marketing are

- i. Creativity
- ii. Unexpectedness
- iii. More for less

The pictures below, Figures 3.1.1 and 3.1.2 are perfect examples of guerilla marketing, the first is that of a pasta firm and the other, a beverage firm. In order to keep a place in the mind of its customers, the pasta company created a huge sticker of a face turned ships into permanent pasta nibblers. The Beverage Company also created replicas of ice cream and coffee on the roundabout in the high ways.

This technique of marketing breaks the traditional marketing rules; it is unique, highly visible, unexpected and sort of shocking. It is very successful in attracting a lot of attention as evident in the pictures of figures 3.1.2 and 3.1.2b of guerilla marketing by the Beverage Company.

Examples of Guerilla Marketing

Figure 3.1.1



Figure 3.1.2

Figure 3.1.2b



3.2 Principles of Guerilla Marketing

Levinson (1983) identified the following principles as the foundation of guerilla marketing and these are:

- i. The first principle is that guerilla marketing is specifically geared for the small business and entrepreneur- who need to make an impression in the industry as there are already existing players in the industry.
- ii. It should be based on human psychology rather than experience, judgment and guess work
- iii. The primary statistic to measure your business is the amount of profit, not sales
- iv. The marketer should also concentrate on how many new relationships are made each month
- v. Create standard of excellence with an acute focus instead of trying to diversify by offering too many diverse products and services.
- vi. Instead of concentrating on getting new customers, aim for more referrals, more transactions with existing customers and larger transactions
- vii. Use current technology as a tool to build your business
- viii. Messages are aimed at individuals or small groups, the smaller the better.

Self Assessment Exercise

What do you consider to be the basics of guerilla marketing?

3.3 Risk involved in Guerilla Marketing

- i. There is the risk of misrepresentation of the brand image intended to be promoted as word of mouth does not always present the brand image decided.

- ii. In many situations, Guerilla marketing is not very definitive if it tries to promote brand image thoroughly and creates false rumours about the brand.
- iii. There are also times that the devices used might be misunderstood, for example, in a particular case of guerilla marketing around Boston, USA, several magnetic boxes used to promote animated series of teen Aqua Hunger Force were mistaken for possible explosives and this led to the closure of bridges, several subway station as the police examined, removed and destroyed the devices.

3.4 Associated Marketing Trends

The term Guerilla Marketing is now often used more loosely as a description for non-traditional media such as :

1. Live-in Marketing- This involves real life product placement
2. Undercover Marketing- This involves subtle product placement
3. Experiential Marketing- This occurs when a customer meets with a product and uses it. They play a vital role while making the purchase decision. They provide greater interaction between firm and consumer
4. Tissue-pack Marketing- This involves hand to hand marketing.
5. Reverse Graffiti- This refers to clean pavement adverts
6. Undercover Marketing- This involves subtle product placement
7. Viral Marketing- This is done through social networks
8. Grassroots Marketing- This involves tapping into the collective efforts of brand enthusiasts
9. Buzz Marketing- This is word of mouth marketing (refer to 3.1 Concept and Definition of Guerilla Marketing above)

4.0 Conclusion

Guerilla Marketing is an inexpensive but non conventional way of promoting goods and services. It is highly visible, spontaneous and highly successful for attracting a lot of attention. It is highly recommended for small businesses or new entrants into any industry as a way getting attention from people or customers.

5.0 Summary

Guerilla Marketing was initially used by small and medium size (SMEs) businesses, but it is now increasingly adopted by large businesses. Guerilla marketing relies on time, energy and imagination rather than big marketing budget. Its main objective is to create a unique engaging and thought provoking concept to generate buzz. Guerilla marketing is founded on several principles; however the fundamental elements of guerilla marketing are creativity, unexpectedness and more for less. Though it generally considered to be an inexpensive advertising strategy, there several risks involved with guerilla marketing.

6.0 Tutor-Marked Assignment

1. Guerilla Marketing is founded on several principles. List six of these principles.
2. What are some of the risks associated with Guerilla Marketing?
3. Write short notes on (i) Buzz Marketing and (ii) Experiential Marketing

7.0 References / Further Reading

Beech, John, Chadwick, Simon (2006) The Marketing of Sports. Prentice Hall and Financial Times.

