**CHAPTER FIVE**

**MARKETING AND NEW VENTURE DEVELOPMENT**

**5.1 Marketing Research**

The American Marketing Association formally defines marketing research as follows:

*Marketing research is the function that links an organization to its market through the gathering of information. This information allows for the identification and definition of market-driven opportunities and problems .The information allows for the generation, refinement and evaluation of marketing actions. It allows for the monitoring of marketing performance and improved understanding of marketing as a business process.*

Marketing research is one aspect of Marketing Information System (MIS). It is concerned with acquiring of routine, non-routine internal as well as external information for marketing decision making. If properly conducted, it can assist a manager in making decisions which are more likely to be correct. Marketing research is defined as follows:

It is the systematic, objective, and formal process of identification, collection, analysis, interpretation and dissemination of actionable information for the purpose of improving decision making related to the identification and solution of problems and opportunities in marketing.

**5.1.1 The Marketing Research Process**

**1. Marketing problem or Opportunity identification**

The research process begins with the recognition of a marketing problem or opportunity. As changes occur in the firm’s external environment, marketing managers are faced with the questions. “Should we change the existing marketing mix? If so, how? Marketing research may be used to evaluate product, promotion, place (distribution), or pricing alternatives. In addition, it is used to find and evaluate new market opportunities.

The research process builds a foundation for the reminder of the text. The process begins with the recognition of a marketing problem or opportunity.

Once a problem has been sensed, the marketing researches come into the picture. The first responsibility of the researcher, whether from an internal staff or outside consulting firm, is to work with the marketing manager to precisely define or in cover the problem whose symptoms have been observed. Certainly, no area of marketing research requires more insight and creativity than the process of problem definition. It is the first step in arriving at a solution. It is also the most critical part of the marketing research process. Proper definition of a problem also provides a guidance and direction for the entire research process. Truly, a well defined problem is “half the battle” of conducting research.

1. ***Definition of the Research Objectives***

The culmination of the problem/opportunity formulation process is a statement of the research objectives. These objectives are stated in terms of the prices information necessary and desired to solve the marketing management problem. Well formulated objectives serve as a road map in developing the research project. They also serve as a standard which enables managers to evaluate the quality and value of the work were the objectives met and do the recommendations flow logically from the objectives and the research findings? Objectives must be a specific and unambiguous as possible. Remember that the entire research effort in terms of time and money is geared toward achieving the objectives.

1. ***Creating the Research Design***

The research design is the plan to be followed to answer the research objectives or hypotheses. In essence, the researcher develops a structure or framework to solve a specific problem. There is no single, best research design. Instead, the investigator faces an array of choices, each with certain advantages. Ultimately, trade- offs are typically involved. A common trade off is between research costs and the quality of decision –making information provided.

Generally speaking, the more precise and error free the information obtained, the higher the cost. Another common trade off is between time constraints and the type of research design selected. In summary, the researcher must attempt to provide management with the best information possible subject to the various constraints under which he or she must operate.

***4. Choosing a basic method of Research design***

A research design, either descriptive or casual, is chosen according to a project’s objectives. The next step is to select a means of gathering data. There are three basic research methods: survey, observation and experiment. Survey research is often descriptive in nature, but can be causal. Experiments are almost always casual, whereas observation research is typically descriptive.

***5. Selecting the sampling procedures***

The sample is actually part of the research design but is a separate step in the research process. A sample is a subset from a larger population. Several questions must be answered before a sample is selected. First, the population or universe of interest must be defined. This is the group from which the sample will be drawn. It should include all the people whose opinions, behavior, preferences, attitudes, and so on will aid the marketer’s decision making.

A probability sample is characterized by every element in the population having a known non-zero probability of being selected. Such samples allow the researcher to estimate how much sampling error is present in a given study.

Non probability samples include all samples that cannot be considered probability samples specifically; any samples in which little or no attempt is made to ensure that a representative cross section of the population is obtained can be considered a non-probability sample. The researchers cannot statistically calculate the reliability of the sample: that is, they cannot determine the degree of sampling error that can be expected.

***6. Collecting the Data***

Most data collection is done by marketing research field services. Field service firm, found throughout the country, specialize in intervene for data collection on a subcontract basis. Typical research study involves data collection in several cities and requires working with a comparable number of field service firms. To ensure that all subcontractor do everything exactly the same way, detailed field instructions should be developed for every job.

Besides interviewing, field service firms provide group research facilities, mail intercept locations, test product storage, and kitchen facilities to prepare test food products.

***7. Analyzing the Data***

After the data have been collected the next step in the research process is data analysis. The purpose of this analysis is to interpret and draw conclusions from the mass of collected data. The marketing researcher may use techniques beginning with simple frequency analysis and ultimately culminating to complex multivariate techniques.

***8. Preparing and Writing the Report***

After completing the data analysis, the researcher must prepare the required to present both written and oral reports on the project. When preparing and presenting these reports, the researcher should keep in mind the nature of the audience. The report should begin with a clear, concise statement of the research objectives, followed by a complete, but brief and simple, explanation of the research design or methodology. A summary of major findings should come next. The report should end with a presentation of conclusions and recommendations for management.

**5.2 Marketing Intelligence**

A marketing intelligence system is a set of procedures and sources used by managers to obtain their everyday information need about pertinent development in the marketing environment.

Information in this case can be obtained from:

1. Internal - Research and Development

* Internal records
* Employees

1. External - Customers

* Distributors
* Suppliers
* Government bodies

Marketing managers often carry on marketing intelligence by reading books, newspapers**,** and tradepublications; talking to customers, suppliers, distributors, and other outsiders; and talking with other managers and personal within the company.

In order to improve the quality and quantity of marketing intelligence:

1. Motivating and train sales forces- to gather information from the market.
2. Providing incentives to marketing intermediaries
3. Buying information from outside suppliers
4. Develop (establish) internal marketing information center.

**5.3 Competitive Analysis**

A competitive analysis is essentially a structured method of examining an organization or industry in order to provide a clear understanding of factors that affect a business.

It is made based on Porter’s five forces of competition:

* Bargaining power of suppliers
* Bargaining power of buyers
* Bargaining power of existing firms
* Availability of substitute products
* Barriers to entry

These five forces determine industry profitability and in turn are a function of industry structure- the underlying economic and technical characteristics of the industry.

* These can change over time but the analysis does emphasis the need to select industries carefully in the first place.
* It also provides a framework for predicting, apriori, the success or otherwise of the small firm.

For example, a small firm competing with many other small firms to sell a relatively undifferentiated product to a few large customers in an industry with few barriers to entry is unlikely to do well without some radical shifts in its marketing strategies. How many firms face just such a situation?

Potential Entrants

Industry Competitors

Rivalry among Existing Firms

Suppliers

Buyer

Substitutes

Threat of

New entrants

Bargaining Power of suppliers

of Suppliers Barganing power buyer

Threat of

Substitute Products or Services

Figure 5.1 Porter’s five competitive forces

**Bargaining Power of Suppliers**

Supplier power is likely to be high when there are only few suppliers giving an entrepreneur few options to shop for inventory.

* Whenever suppliers are few in number
* When products are not substitutable each other

**Bargaining Power of Buyers**

To what extent buyers impose a considerable influence on producers(suppliers)

Under the following conditions buyers influence producers:

* Whenever buyers are few in number and purchase in large volume relative to the total industry sales.
* Whenever products are not differentiated and can be easily substituted
* When switching cost of buyers is low
* When buyers have the ability to integrate backward and start to produce its input internally.

**Rivalry among Existing Firms**

It is concerned with competition among existing firms. This depends on:

* Size of firms -When firms have relatively similar size (either small or large), each of them can make similar type of decision.
* Perishability of products- If organizations are engaged in selling perishable products, they sell their products at the existing price.
* Low switching cost of buyers- tends to increase competition among existing firms.
* Attractiveness of the industry in terms of profit-when the industry profitable, it attracts more competitors and competition increases.
* The numbers of firms in the industry –When there are many firms (when firms are many in number), competition will increase.

**Availability of Substitute products**

When there are products which either serve similar purpose or satisfy similar needs and wants of customers.

**Barriers to Entry**

It includes forces that protect position of a firm from other or new competitors (entrants).

* Capital requirement-amount of capital required to operate in the market. If the type of business requires a large initial capital investment, fewer entrepreneurs are likely to enter the industry. For example, manufacturing computer requires millions of dollars in technology, facilities, and skilled people.
* Economies of scale- closely related to the capital requirement is the nature of a business that requires a large sales volume to offer a product or service at a competitive price.
* Reputation and good will of existing firms- when existing firms have good reputation- entry is difficult.
* Switching cost of buyers –When buyers assume low switching cost-entry will be easy.

-when switching costs are high, entry is difficult.

* Differentiation –The extent to which an enterprise can establish a brand image, service, product innovation, or reputation describes its differentiation or distinctive competency.
* Customer’s loyalty- If an existing firm builds hard core loyal customers, it will be difficult for new entrants. If customers are switchers (customers who purchase what is available), entry will be easy.
* Regulatory forces-The extent to which the government protects the industry. Example, ETV
* Access to distribution channels, necessary input and technological knowhow.

**5.4 Marketing Strategy**

Using this focus, organizations can achieve their objectives in two ways. They can better manage what they are presently doing and/or find new things to do. In choosing either or both of these paths, the organization must then decide whether to concentrate on present customers or to seek new ones, or both. Accordingly the following four marketing strategies are identified; market penetration, market development, product development and diversification. A two dimensional model known as Ansoff’s product/market matrix is developed to analyze alternative strategies available to an organization for achieving its objectives.

Ansoff’s product/market matrix (Organizational Growth strategies)

Product

|  |  |
| --- | --- |
| Current | New |
| Market penetration  strategy | Product development strategy |
| Market Development strategy | Diversification |

Current

New

Market

##### **Market penetration strategies**

These strategies pursued for present market and product. These strategies focus on improving the position of the organizations present products with its present customers and are effective when the market is growing or become saturated for existing products. There are three major approaches to increase current product’s market share in the current market.

1. Encourage existing customer to buy more of the product.
2. Attract competitor’s customers through attractive promotion
3. Convince non-users of the product to use the product.

In order to carry out this strategy and implement these three approaches certain tactics can be used: price reduction, advertising that stresses the different benefits of the product, packaging the product in different sized packages or making the product available in different locations.

###### **Market Development Strategy**

This strategy is the strategy of seeking new market for the existing product. The strategy is that:

1. Enter in to a new geographical market
2. Identify a new marketing segment for current product
3. Use additional new distribution channels.

***For example:***

* A government social service agency may seek individuals and families who have never utilized the agency’s services.
* A manufacturer of automobiles may decide to sell automobiles in a new region which it has not entered before.
* An athletic clothing and footwear company may decide to develop a line of fitness clothing for children

###### **Product Development Strategy**

This strategy may enforce management to consider some new product development possibilities such as: design and develop a new product, modify the quality of existing product, and modify the features of existing product. For example:

* A candy manufacturer may decide to produce biscuits and offer to its customers.
* A social service agency may offer additional services to present clients.
* A hotel adds a new item in its menu.

###### **Diversification**

This strategy makes the business to be less dependent on one or few products in the market place. This strategy can also be pursued whenever there is a good opportunity outside the current business market and product. Diversification can be:

**Types of diversification**

Diversification is of four types:

1. Horizontal integration
2. Vertical integration
3. Concentric diversification
4. Conglomerate diversification
5. **Horizontal integration:** in this type of diversification, a company adds up same type of products at the same level of production or marketing process. This may happen internally or externally. Internally a company may decide to enter a parallel product market condition to the existing product line. Externally, a company combines with a competing firm. Two or more competing firms are brought together under single ownership and control.
6. **Vertical integration:** in this type of growth strategy new products or services are added which are complementary to the existing product or service line. New products serve the firm’s own needs by either supplying inputs or serve as a customer for its output. It involves moving backward or forward from the present product or service. Linkages are established between products, processes or distribution systems.
7. **Concentric diversification:** when a firm enters into some businesses, which is related with its present business in terms of technology, marketing or both, it is called concentric diversification. It is employed for one of the following purposes

* To counteract cyclical fluctuations in the present products or services
* To utilize the cash flows generated by the existing products or services
* To face saturation of demand for present product or service
* To gain managerial expertise in new fields of business or services
* To capitalize on the reputation of present product or service

1. **Conglomerate diversification:** in this growth strategy, a firm enters into business, which is unrelated to its existing business both in terms of technology and marketing. It may be adopted for the following reasons:
2. to achieve a growth rate higher than what can be realized through expansion
3. to make better use of financial resource with retained profits exceeding immediate investment needs
4. to avail of potential opportunities for profitable investment
5. to achieve distinctive competitive and greater stability
6. to spread the risk and
7. to improve the price earnings ratio and market price of the company’s shares