WHAT IS MARKETING? (3.1)

(Chapter 16 - AS level 3.1)

Marketing is the management process responsible for identifying, anticipating and satisfying consumers' requirements in order to profit.

Marketing involves :

- market research
- product design
- pricing
- advertising
- distribution
- customer service
- packaging

The roles of marketing are as follows :

- **Identifying customer needs** through market research
- **Gain information on customers:** by understanding why customers buy their products, a firm can develop and sell better products in the future
- **Satisfying customer needs** by producing and selling goods and services
- **Maintaining customer loyalty:** building customer relationships through a variety of methods that encourage customers to keep buying one firm's products instead of their rivals'. For example, loyalty card schemes, discounts for continuous purchases, after-sales services, messages that inform past customers of new products and offers
- **Anticipate changes in customer needs:** the business will need to keep looking for any changes in customer spending patterns and see if they can produce goods that customers want that are not currently available in the market.

Marketing objectives

Marketing objectives are the goals set for the marketing department to help a business achieve its overall objectives. **Marketing strategy** is the long-term plan established for achieving these marketing objectives

Effective marketing strategies should be realistic, motivating, achievable, measurable, set by senior managers and clearly communicated to all departments in the organisation.

Marketing objectives are important as they provide a sense of direction and allow progress to be monitored against these targets.

Common marketing objectives :

■ Increase market share (*the portion of a market controlled by a particular company or product*.)
■ Increase sales revenue and profits
■ Raise awareness of their product
■ Enter new markets at home or abroad
■ Develop new products or improve existing products
■ Improve their brand image
■ Attract new customers + retain current customers

The importance of changing customer needs:

Firms need to always know what their consumers want (and they will need to undertake lots of research and development to do so) in order to stay ahead of competitors and stay profitable. If they don't produce and sell what customers want, they will buy competitors' products and the firm will fail to survive.

Why some markets have become more competitive:

- **Globalisation**: products are being sold in markets all over the world, so there are more competitors in the market
- **Improvement in transportation infrastructures:** better transport systems means that it is easier and cheaper to distribute and sell products everywhere
- **Internet/E-Commerce:** customers can now buy products over the internet from anywhere in the world, making the market more competitive

How businesses can respond to changing consumer wants and competition :

A business has to ensure that it maintains its market share and remains competitive in the market. It can ensure this by:

★ **Maintaining good customer relationships**: by ensuring that customers keep buying from their business only, they can keep up their market share. By doing so, they can also get information about their spending patterns and respond to their wants and needs to increase market share
★ **Keep improving its existing products**, so that sales are maintained.
★ **Introduce new products** to keep customers coming back, and drive them away from competitors' products
★ **Keep costs low to maintain profitability**: low costs means the firm can afford to charge low prices. And low prices generally means more demand and sales, and thus market share.

Market orientation and production orientation

Market orientated businesses base their product decisions on what consumers want established by market research.
A market or customer oriented business (often called ‘customer led’) will put the customer first and use market research to identify the needs and wants of consumers. This information is then used to develop products that will meet this demand. (example - mobile phone markets)

Benefits of market orientation :
✔ Less risk of product failing - you know it’s something at least some people want
✔ Greater flexibility if the market changes - product not fully developed yet

Limitations of market orientation :
✖ Market research can be quite expensive
✖ This process doesn’t always guarantee success - just because you know some people want it doesn’t mean that many will buy it

Product oriented businesses produce the product first and then try to find a market for it. Their concentration is on the product – its quality and price. Firms producing electrical and digital goods such as refrigerators and computers are examples of product-oriented businesses.

Benefits of product orientation :
✔ Quality can be assured - making a product they are very experienced in
✔ Customers may be willing to purchase luxury high quality items

Limitations of product orientation :
✖ They assume they know what customers want - but this may not be the case
✖ Very risky - high chance of failure
✖ Money spent on developing the product is wasted if no one wants it

There are also two other approaches to marketing worth mentioning :

Asset led marketing : where a business bases new products on the firm's existing products and strengths instead of purely want the customers wants (like apple)

Societal marketing : making marketing decisions based on not just consumer wants but also ‘what's good for society’ - such as wooden furniture made from sustainably and ethically sourced materials. This may give the businesses a competitive advantage as they may be able to charge higher prices for ethical goods and attract consumers who care about stuff like that

Supply and demand

Demand is the quantity of a product that consumers are willing and able to buy.

Factors affecting demand :

- **Price of the product** - demand may decrease if price rises or increase if price falls
- A **change in consumers tastes and preferences**
- **Prices of competitors** products - if competitors prices cheaper for same quality then that's the product most will buy
- **Change in income** - if there is a recession and income falls then consumers will be less likely to buy expensive products
- **Population -** Increase in population increases the demand for goods in the market
- **Advertising** of the product itself - the promotional activities

Supply is the quantity of a product that firms are prepared to supply at an agreed upon price.

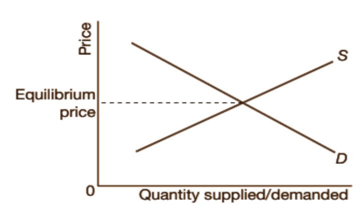
Factors affecting supply :

- **Price** - firms will be more willing to supply a product if the price rises and will supply less as the price falls (a failing business may not be able to pay its suppliers)
- **Costs of production** e.g. change in labour or raw material costs
- **Taxes** imposed on the suppliers by government, which raise their costs
- **Subsidies** paid by government to suppliers, which reduce their costs
- **Weather** conditions and other natural factors - a storm could make supplying difficult
- **Geo-political issues -** a country at war will be less able to supply materials (Ukraine)

Additional info :

Equilibrium price : the price of a product in which the quantity of a product demanded by consumers and the quantity supplied by producers are equal. I.e where the supply line and demand line meet on the graph.

If the price is higher than the equilibrium price , there would be unsold stock. Suppliers don't want this so they'll lower the price. (**When product price is higher than equilibrium price, suppliers will lower their price of supplies**.)



If the price is lower than the equilibrium price, then that means stock will run out and there will be excess demand, this will lead to suppliers raising the price to make more profit, as the business will likely comply so they can meet demand. (**When product price is lower than equilibrium price, suppliers raise their price of supplies.**)

Market size, market growth and market share

Market size is the total level of sales of all producers within a market. Basically, it's the total number of likely buyers of your product or service within a given market. It can be measured by either units sold or total revenue.

The size of a market is important for three reasons :

- ★ A business can assess whether a market is worth entering or not (whether its profitable)
- ★ Firms can calculate their own market share
- ★ Businesses can tell if the market is getting bigger or smaller

Market growth is the percentage change in the total size of a market (volume or value) over a period of time. In simplicity, it's an increase in the number of people who buy a particular product or service.

Is it always better to enter a rapidly growing market? In many cases, yes, but not always – there will probably be many competitors entering the market at the same time so more competition - this means less chance of profit.

Market growth is affected by several factors :

- ❖ **General economic growth -** an economy in recession means less customers
- ❖ **Development of new markets and products** that take sales away from existing ones
- ❖ **Changes in consumer tastes -** new trends etc.

Market share is the percentage of sales in the total market sold by one business. Market share is used to give you an idea of how large, powerful or important your business is within its particular sector.

$$\textbf{Market Share} = \frac{\text{Total Sales of the Company}}{\text{Total Sales of the Market}} \times 100$$

A high market share can give a business the following benefits :

- ➔ **More power and influence over suppliers** - can bully them into selling for lower prices
- ➔ **Retail shops keen to sell product as its popular** - will offer discounts + give the products the best placement in the store
- ➔ The fact that an item or brand is the 'market leader' **can be used in advertising** - consumers like buying the most 'popular' brand

Problems with measuring market share and market growth

- Difficult to find accurate figures - constantly changing numbers makes it tricky
- Difficult to define the market itself - what businesses are a part of it and which aren't?

Niche and mass marketing

Niche Marketing is when a business identifies and exploits a small segment of a larger market by developing products to suit it. For example, Versace designs and Clique perfumes have niche markets - the rich, high-status consumer group.

Advantages of niche marketing :

- Small firms **can thrive in niche markets** where large forms have not yet been established
- If there are no or very few competitors, firms can **sell products at a high price** and gain high profit margins because customers will be willing be willing to pay more for exclusive products
- Firms can **focus on the needs of just one customer group,** thereby giving them an advantage over large firms who only sell to the mass market

Limitations of niche marketing :

- **Lack of economies of scale** (can't benefit from the lower costs that arise from a larger operations/market)
- **Risk of over-dependence on a single product** or market: if the demand for the product falls, the firm won't have a mass product they can fall back on
- **Likely to attract competition** if successful

Mass Marketing is when a business sells the same product to the whole market with no attempt to target groups within it. For example, the iPhone sold is the same everywhere, there are no variations in design over location or income.

Advantages of mass marketing:

- **Larger amount of sales** when compared to a niche market
- Can benefit from **economies of scale**: a large volume of products are produced and so the average costs will be low when compared to a niche market
- **Risks are spread**, unlike in a niche market. If the product isn't successful in one market, it's fine as there are several other markets
- **More chances for the business to grow** since there is a large market. In niche markets, this is difficult as the product is only targeted towards a particular group.

Limitations of mass marketing:

- They will have to face **more competition**
- **Can't charge a higher price** than competition because they're all selling similar products

How to add value through marketing

Added value is the difference between the cost of materials bought in and the selling price of the product. It's a way of doing something to your product to make it more appealing to consumers, usually through as little cost as possible. Adding value to a product or service helps companies attract more customers, which can boost revenue and profits.

Good marketing can help encourage consumers to pay a high price for the product being sold (sometimes far exceeding what it should be priced at!) Marketing strategies that can achieve this are :

- Create an **exclusive image** surrounding your product that will make consumers feel prepared to pay a higher price - like the cars sold in Mercedes car showrooms
- Use **high-quality packaging** to separate the product from other brands (luxury chocolate)
- **Advertise the product in a distinctive way** that supports your 'up-market image'
- Create a ***unique selling point***
- **Advertise exclusive promotions and aftercare services -** warranties etc.

Important term to remember - can help you bullshit your way through many answers…

Unique selling point : a special feature of a product that differentiates it from the products of competitors. For example, using phrases like "new and improved" or "more advanced" when advertising

Market segmentation

Market segmentation is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. Each segment will require different methods of promotion and distribution. For example, products aimed towards kids would be distributed through popular retail stores and products for businessmen would be advertised in exclusive business magazines.

Ways that a market can be segmented :

- ❖ **Gender (**feminine / masculine products.)
- ❖ **Age** (the young and the old and all those in between)
- ❖ **Location** (someone living in India won't be advertised snow boots)
- ❖ **Socio-economic groups** (income, advertise value price stuff to low income areas)
- ❖ **Lifestyle** (health, spiritual etc)
- ❖ **Values** (religion, politics etc)
- ❖ **Use of the product** (home/ work/ leisure/ business)

Benefits of market segmentation :

✔ Makes marketing **cost-effective** as it only targets a specific segment and meets their needs - prevents business wasting money

✔ The above leads to higher sales and thus **more profit**

✔ Business may be able to **identify gaps in the market**, i.e groups of consumers that aren't being targeted and exploit this for profit

✔ Small firms unable to compete in the whole market are able to **specialise** in one or two market segments

Limitations of market segmentation :

✖ **Promotional costs** might be high as different advertisements and promotions might be needed for different segments

✖ **Requires a lot of market search** - this can be expensive

Industrial and consumer markets

Industrial goods are bought and used for industrial and business use. Industrial goods like machinery, plants, and raw materials that will be used in the process of making consumer goods.

Consumer goods are ready for the consumption and satisfaction of human wants. Consumer goods are commodities purchased by a buyer like clothing, food, and drinks.

While consumer marketing deals with product markets (think finished goods that are largely bought by individuals, like shoes, clothing, books, etc.) industrial marketing deals with factor markets, or highly specialised products and services for select consumers (think labour, machinery or unfinished products.)