UNIT 5

COMMERCIAL FUNCTION OF THE COMPANY

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I. THE MARKET

1. CONCEPT

Traditionally, the market has been the place where buyers and sellers met to carry out their commercial operations. This concept of the market was linked to a geographical place but, as a result of progress and communications, this term has exceeded its local character.

At present we define the market as the set of buying and selling acts associated with a specific product or service at a certain point in time, without reference to a specific place.

The market is made up of all the supply and demand for products and services. In it we can find all the competition of companies that fight to gain a foothold in it, and also all the people who demand these products.

As the market is very competitive, it is difficult for the company to reach all consumers. Therefore, it is divided into MARKET SEGMENTS to which it is most effectively directed.

2. TYPES OF MARKET

Markets can be classified in different ways based on a number of elements. Some of the classification criteria are as follows:

1) According to the volume:

- **Wholesale markets:** with a high volume of sales.
- **Retail markets:** low sales volume.

2) According to the number of offerers:

- **Monopoly:** there is only one single supplier of a service or product that is in high demand by the market. A company controlls exclusively the market and can establish the conditions and prices of sale.
- **Oligopoly:** there are few suppliers of a product, so they agree to establish conditions and prices. That way there will be no competition between them.
- **Perfect competition:** it is the most appropriate situation, as there are many sellers and buyers. None of them have an influence on the operation of the market, so it will be easier to achieve more beneficial prices for the customer.

3) According to transactions on services or goods:

- **Goods market:** merchandise and articles are acquired and traded.
- **Service market:** refers to contracts.

4) According to regulation:

- **Regulated markets:** the authorities are in charge of controlling the conditions of sale and prices.
- **Non regulated markets:** it is the market itself that is responsible for setting prices according to supply and demand, without the participation of the state.

5) According to the agents involved:

- **Consumer market:** which is supplied by retailers.
- **Retail market:** which is supplied by semi-wholesalers.
- **Semi-wholesale market:** which is supplied by wholesalers.
- **Wholesale market:** which is supplied by producers or manufacturers.

Taking this last classification as a reference, we are going to make a brief analysis of the agents that intervene in the market.

3. AGENTS INVOLVED IN THE MARKET

A) MANUFACTURERS OF GOODS AND SERVICE PROVIDERS

A manufacturer is a person or a registered company that makes finished products from raw materials.

The provision of services refers to the execution of tasks based on the experience, training and professional training (capacitación profesional) of a person in a certain matter.

B) DISTRIBUTION CHANNELS

The distribution channels are the set of means that the company uses to get the product from the manufacturer to the end customer.

C) THE PRESCRIBERS (ADVISORS)

A prescriber (prescriptor) is the person who has the ability to influence a certain audience when they share their opinion or assessment of a product, service or brand. Think for example on the "influencers", or the recommendation that a friend can make you.

D) BUYERS

These are the final recipients of the product or service. The way you buy (what, how, when ...) influence the final structure of the market.

4. TARGET MARKET (MERCADO OBJETIVO): MARKET SEGMENTATION AND SUBSEQUENT STRATEGY.

If a company is trying to sell “to everyone”, it is most likely that in the long term it will end up not selling to anyone.

The market is too large and consists of different customers with different purchasing needs. **Market segmentation** divides the market into groups with similar characteristics and needs in order to offer a differentiated and adapted offer to each of the target groups. This allows you to optimize resources and use your marketing efforts effectively.

To **segment a market**, various **variables** must be taken into account:

- **Geographic:** countries, regions, cities or postal codes.
- **Demographic:** gender, age, income, education, profession, social class, religion or nationality.
- **Psychographic:** lifestyle and personality.
- **Behavioral:** frequency of use of the product, search for profit, level of loyalty, attitude towards the product.

Market segmentation allows companies to use and design various types of strategies, depending on the type of product and the characteristics of the clients.

Types of Strategies

Three types of strategy are usually differentiated:

1) Differentiated marketing strategy. Companies design different marketing actions, each one aimed to a specific segment of the population. It is one of the most advantageous strategies, since there are different groups of consumers. However, it involves more expenses as different sales methods have to be designed for each group.

2) Undifferentiated or massive marketing strategy. On many occasions, companies decide to implement a common strategy for the entire market as they do not find significant differences among their consumers or there are no different segments. Although the company saves costs, the competition can appear more easily.

3) Concentrated marketing strategy. This type of strategy is very common in highly specialized companies. It is characterized because the company focuses on a certain segment of the market and designs a specific strategy for them. The downside is that focusing on a single market can be a risk factor if the market size is small.

II. THE MARKETING

Many people associate marketing with advertising and with the different strategies that companies use to convince consumers to buy their products. However, the concept of marketing is broader and we can say that it affects the entire company, from the production department to senior management.

In the 50s of the 20th century, marketing began to develop and today a company cannot be understood if it does not incorporate marketing into its organization.

For Philip Kotler, guru on this subject, marketing is "a social and administrative process through which groups and individuals obtain what they need and want through it, generating, offering and exchanging valuable products with their peers." From this definition, 3 characteristics are important:

1º.- **Two parts** intervene in the process, whether they are groups or individuals.

2º.- Both parties have **desires or needs** to satisfy.

3º.- An **exchange of supply and demand** is generated that satisfies the needs of both.

Today two **Types of Marketing** are distinguished:

- **Strategic marketing:** focuses on systematically and constantly analyzing market needs in order to develop profitable products that differentiate a company from its most immediate competitors, thus obtaining a competitive advantage. Its orientation is long-term.
- **Operational marketing:** refers to the activities of organizing sales and communication strategies, in the short and medium term, which aim to make the distinctive qualities of the products offered by the company known and valued to potential buyers.

Therefore, the difference between one and the other is that **strategic marketing** is a **system of ideas and market research**; while **operational marketing** is a **set of actions that allows the product to be brought closer to consumers**. Despite this, the objective of both is the same: to satisfy the needs of the clients.

In both cases, marketing uses a series of tools such as market research, advertising, promotion, distribution channels, pricing policies or communication instruments.

III. THE MARKETING-MIX

The marketing-mix is one of the classic elements of marketing. It was created by McCarthy in 1960 and is used to encompass (englobar) its four basic components: product, price, place (distribución) and promotion (comunicación).

These four variables are also known as the 4Ps because of their Anglo-Saxon meaning (product, price, place and promotion).

The 4Ps of marketing (the marketing mix of the company) can be considered as the traditional variables that an organization has to achieve its commercial objectives. It is necessary that the four variables of the marketing-mix be combined with total coherence and work together to complement each other.

Marketing mix- 4P's (1)

1. PRODUCT

Products are the goods and / or services offered by the company to satisfy a need or desire demanded by consumers.

The success of the company depends on offering a good product. Thus, for its design it is necessary to analyze the market to know if it needs that product or not. Having a good product (Good (bien) and / or service) is not a guarantee of the company's success, but it is a requirement to achieve it.

Types of products

- **Depending on whether or not they can be perceived by the senses**, a distinction is made between tangible and intangible products.

- **Depending on their duration**, we can speak of perishable (perecederos) and non-perishable products. And, within non-perishable products, long or short-lived products. Or, what is the same, durable or non-durable products.

Depending on whether or not they are produced within the borders of a certain country, we speak of national or imported products.

- **Depending on the destination of the products**, or who buys them, two classes of products can be distinguished. On the one hand, the so-called **consumer products**. And, on the other hand, **products intended to be reincorporated in a production process or for resale**, or products intended for a company or business.

  Analyzing this last criterion:

- **Consumer products.** These are products purchased by the end consumer, merely for domestic use. Taking into account how the purchase is made, the following types of consumer goods can be distinguished:

  - **Convenience products for the consumer:** those that, due to their low price, the consumer will not waste much time deciding which product to definitely buy. They can be considered *commodities* and are chosen based on geographic proximity or other criteria related to convenience.

  - **Comparison products:** are those in which, due to their considerable price, the consumer finds it interesting to carry out a comparative analysis of qualities, characteristics, prices or others, before deciding on one in particular.

  - **Special goods (or specialty):** those in which, due to the identification with the brand or the desire to possess products with unique or special characteristics, a percentage of consumers are willing to pay a higher price for them.

  - **New products, or accessory or alternative products,** that do not cover a need in themselves, and to which the customer arrives as a result of advertising.

- **Products intended for a company or business.** These types of products are not acquired by the final consumer of the same, but are acquired to return to the market again, whether or not they are subject to a transformation. Within this type of products can be distinguished:

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  - **Capital goods (bienes de capital)** when they are related to the company's production processes. They can be equated to machinery, facilities and tools. However, tools usually consist of smaller tools.
  - **The goods that are incorporated into the production process** are the raw materials, whether animal, mineral or vegetable; and supplies. Previously

processed materials and components may or may not be incorporated into said processes.

Product characteristics

The main factors that define the personality of a product are:

- **Core:** physical, chemical and technical properties of the product, which make it suitable for certain functions and uses.
- **Quality:** assessment of the elements that make up the core, based on standards that must appreciate or measure the qualities and allow them to be compared with the competition.
- **Price:** last acquisition value. This characteristic has acquired a strong role in the current marketing of products and services.
- **Packaging:** protection element with which the product is equipped and which, together with the design, has a great promotional and image value.
- **Design, shape and size:** they allow, to a greater or lesser degree, the identification of the product or the company and, generally, they configure its own personality.
- **Brand, names and graphic expressions:** they facilitate the identification of the product and allow its memory associated with one or another characteristic. Today it is one of the main assets of companies.
- **Service:** set of values added to a product that allows us to be able to establish differences with respect to the others. Nowadays, it is what the market values the most, hence its development through the so-called *perception marketing*.
- **Product image:** global opinion that is created in the mind of the consumer according to the information received, directly or indirectly, about the product.
- **Image of the company:** global opinion in the memory of the market that positively or negatively intervenes in the criteria and attitudes of the consumer towards the products. A good company image supports, in principle, newly created products; as well as a good brand image consolidates the company and the rest of its products.

Levels of a Product

A product is much more than something tangible and physical; it satisfies a set of customer needs. According to Kotler, "a product is everything that is offered to the market to capture their buying attention, and that, in addition, satisfies a need or desire", being possible products a service, a store, a person, or a simple idea. For this reason, this author proposes different levels that are part of a product, among which we highlight:

- ***BASIC PRODUCT:*** The main and intrinsic characteristics of the product. It is normal or the most basic for what the product serves. For example, a vehicle to drive.

- ***EXPECTED PRODUCT:*** It is one that is made from the basic product and covers the conditions and characteristics expected by the consumer. It involves aspects such as quality, brand, design, packaging, style. For example, that power, safety, comfort, etc.
- ***INCREASED PRODUCT:*** Product planned from the basic and expected product, where the characteristics of the product are amplified. For example, that the car has an adequate after-sales service.
- ***POTENTIAL PRODUCT:*** Includes all the improvements and transformations that the product could incorporate in the future. Add value in the future. For example, innovations of the same vehicle model.

Product Life Cycle

1. Introduction

The product is launched for the first time on the market. We are facing a stage full of uncertainty and risk. In addition, it is the stage that entails a higher cost, since it is the first approach of the product to the consumer, so it is necessary to carry out a market study and invest in communication campaigns and promotional marketing actions.

Strategies: The key in this stage of the life cycle of a product consists in defining and working on the positioning and investigating the market's response to the product, in order to react quickly and reorient the strategies if necessary.

2. Turbulence

Strong upheavals (convulsiones) can occur in the product's trajectory, both by external or market pressures and internal by the company itself in its political and personnel struggles.

Strategies: Try to domain the circumstances that produce them since the solution will come soon.

3. Growth

The product is positioned in the defined segment, and begins to be accepted by consumers. This causes sales and therefore profits to increase.

Strategies: The key in this stage is to strengthen (reforzar) the positioning and make modifications to be able to adapt the product to the growing demand.

4. Maturity

It Occurs when the product has reached the top in terms of market share. Sales continue to increase, but at a slower and declining rate, until it reaches the point that they stabilize and subsequently begin to stop.

Strategies: At this stage, competition is already considerable, so it is not only necessary to compete in prices, but also other relevant factors for consumers must be identified and worked on, to achieve a product and a differentiated value proposition.

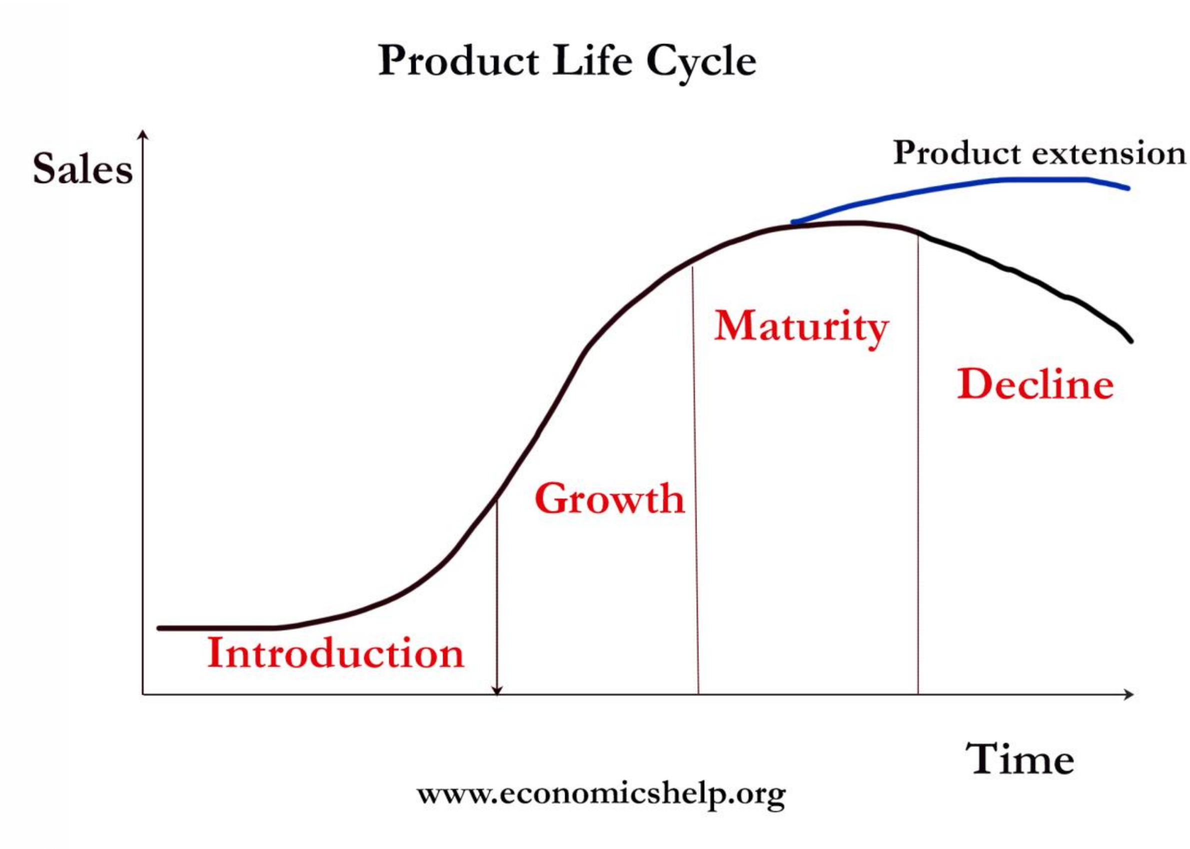
The key in this stage is to anticipate the drop in sales, looking for proposals and innovations that make the product attractive again in order to sustain sales.

5. Decline

No company wants to reach the decline phase, since it is the last stage of the life cycle of a product. Sales gradually begin to decline as the product has been replaced by other more attractive options for consumers.

Profits can turn into losses and, therefore, that the product stops being profitable for the company, if the necessary measures are not taken.

Strategies: The key at this stage is to minimize investment and plan actions where different aspects are taken into account: replace the product or modify it to focus it on the market again.



2. PRICE.

Price is a marketing variable that synthesizes the commercial policy of the company. For the potential customer, the value of the product is manifested in objective and subjective terms, since it has a very particular scale when assessing the different attributes of which it is composed.

We can define the price as the quantitative estimate that is made on a product and that, translated into monetary units, expresses the acceptance or not of the consumer towards the set of attributes of the product, taking into account the ability to satisfy needs.

Pricing methods (Métodos de fijación de precios)

- **Pricing based on margins.** The price is set by margins or percentages on the total cost. This system ignores competitors' prices, current demand, and the value that consumers assign to the product, in addition to the perceived value.
- **Pricing method: target price.** This system is also calculated on the cost. By analyzing the Break-even point (punto muerto) we can know the amount of product that we have to sell at a certain price to cover all the fixed and variable costs related to the manufacture and sale of products.
- **Pricing method: based on demand.** This type of method takes as a starting point the price that consumers would be willing to pay for a good or service, this can be done:
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    - *Determination of the price from the demand.* First, the price that the demand is willing to pay is calculated and then it is studied if with the costs we have we can have benefits.

    - *Determination of the price by chain margin.* The price that the demand is willing to pay is calculated, then the percentage that the distributors take and finally the cost of the product.

- **Pricing method: based on competition.** After an investigation on the competition, a price is assigned to the products based on the prices established by the competing companies.

- **Pricing method: value based.** They offer the consumer the greatest possible value. By value we understand the proportion between the benefits that the consumer obtains from a product and the sacrifice represented by acquiring it. The maximum that the consumer is willing to pay marks the price limit.

Price types

Price types refer to the different strategies used to define the value of a product or service within the market. In the process of defining prices, a wide range of factors is considered (production and distribution costs, the supply of the competition, the state of the economy).

- ***PREMIUM PRICE.*** This pricing strategy involves launching the product with a higher price than the competition to achieve a premium positioning.

    - In these cases, it is necessary that the good or service being promoted has differentiating characteristics that justify the extra cost: superior quality, packaging, or even the decoration of the establishments.

- ***PENETRATION PRICES.*** This type of pricing is usually applied in order to capture a customer base during the first stage of a product's life.

    - The strategy is to enter the market at a lower price than competitors to attract the attention of potential customers.
    - This can be a strategy that gives good results in the long term, however, it can represent losses in the first life cycle of the product.

- ***PRICE OF THE ECONOMY.*** This is a type of price that aims to attract those consumers who focus their attention on prices. This strategy aims to reduce the costs associated with production and marketing in order to offer a lower priced product.

    - These are goods that are consumed in a common way and not as a luxury item. This can be very convenient for certain companies because it ensures a constant cash flow.

- ***"DESCREMADO" PRICE.*** It is a strategy designed to maximize the benefits that the company receives during the launch of new products and services.

    - This method involves keeping prices high during the introductory phase. However, subsequently the company gradually reduces prices as competitors appear on the market.

    - This pricing strategy seeks to allow companies to maximize profits in the first life cycle of the product.

- ***PSYCHOLOGICAL PRICE.*** Psychological pricing refers to techniques that salespeople use to encourage customers to respond emotionally, not in a logical or practical way.
    - Its objective is to increase demand by creating an illusion of greater benefit to the consumer.
    - An example of this strategy is when an item is priced at 9.99 instead of 10. Although the difference is not significant, this trend works because consumers pay more attention to the first number instead of the number. latest.

- ***PACKAGE PRICES.*** This type of price is based on the sale of several items within a package to offer it to users at a lower price than if they bought them individually. This strategy is effective for mobilizing products that take the longest time to sell. However, it also helps customers perceive a greater benefit, as they feel that they receive something for free.

    - Package prices are most effective for companies that sell complementary products. For example, a restaurant can take advantage of this strategy by including dessert on each plate.

- ***GEOGRAPHICAL PRICES.*** It refers to the variation in prices according to the geographical location where the products are offered. It is usually influenced especially by changes in the currency as well as the inflation processes of each country.

3. PLACEMENT (DISTRIBUTION)

It is an instrument of the marketing-mix through which the exchange between the producer and the consumer is performed.

The distribution can be simple or channel level 0, when there is no intermediary, the contact is direct (physical, telephone or virtual) or the most normal is that it is complex, that is, when a distribution network is used with intermediaries.

The intermediary is a subject outside the product, normally he / she has his own objectives and performs functions (bringing the product closer to the consumer) for which he / she receives remuneration. The appearance of intermediaries gives rise to distribution channels:

- **Short or level 1 channels:** There is only one intermediary. This intermediary, no matter what size it is, is a retailer (it has a direct relationship with the consumer).
- **Long channel or level 2:** When there are at least 2 intermediaries, a wholesaler or warehouseman and a retailer.
- **There may also be higher-level channels**, level 3 for example, when there is also an importer.

Intermediaries perform functions of transport, storage, financing, installation, repair, training, creation of assortment (surtido), optimization of travel, etc. Generally, all these functions increase the price of the product; So, the more intermediaries, the higher the price.

The elements that intervene when deciding whether to use one channel or another are:

- Number of consumers: the more consumers a long channel will be used.
- Technical products usually use a short channel.
- Repetitive purchase products use a long channel.
- Rational purchase products use a short channel.
- High volume products tend to have short channels.
- Agricultural products have long or extra-long channels.

Types of intensity of distribution:

- **Exclusive distribution:** when only the establishments of a certain chain have that product for sale (typical of high-end products).
- **Selective distribution:** the producer selects the intermediaries who are going to sell his product.
- **Intensive distribution:** we try to reach all the points of sale where it makes sense to sell this product (typical of long channels and repetitive buying).

4. COMMUNICATION (or Promotion).

In marketing, 5 communication tools are usually considered, forming among all what is called "communication mix":

1. Advertising.

2. Sales promotion.

3. Direct marketing.

4. Public relations.

5. Sales force.

A. ADVERTISING.

It is the best known communication tool. It is about presenting and promoting an idea or a service to achieve the desired end and that can be very varied: inform, increase sales, build loyalty, create a brand image, awaken needs, persuade the consumer, etc.

Advertising can be given in various media and formats: television, press, internet, billboards (vallas publicitarias), sporting events, etc. and therefore in video, audio, image format, etc. Its effect is generally long-term. A television campaign begins to take effect on purchases after a month or two: that's why sun cream is advertised in spring and not in summer or children's toys some time before Christmas.

B. SALES PROMOTION.

They are incentives that are given to the consumer at the time of purchase, to stimulate quick or large purchases of a particular product. The most important advantages are: its immediate effect, flexibility since there are many promotion techniques, allows high personalization or segmentation, offers an increase in value. It is aimed at both consumers and suppliers, distributors, etc.

The possible **sales promotion techniques** that we can use are the following:

- **Free samples:** to publicize new products, especially sensory ones. It is quite expensive. It is important to give away the amount of product necessary to test it properly.
- **Discount coupons:** to encourage product testing, to build loyalty, when you want to lower the price of the product without transmitting an image of cheap (because it is not convenient for the brand to appear cheap).
- **Joint offers:** you have to be consistent. The idea is that a hotel and a car rental company get together, for example, and offer joint packs. The image of the other company should benefit and not worsen the image itself.
- **Gifts:** it is very effective, people are excited and loyal.
- **Game shows (Concursos) and raffles (rifas):** they involve the consumer, but his effort must be proportional to the benefit he obtains. The bases must be clear and the prize achievable.

- **Loyalty programs:** customer cards, clubs, VIP customer, etc. It is important to obtain customer information but it should not be abused. It must be made attractive so that people want to participate.
- **Free product:** 3x2. It is very effective and recommended for seasonal or perishable products, since you need to "get rid of them" (quitártelos de encima)
- **Amount of free product:** 20% more in each pot. It is very effective.
- **Successive purchase discount:** "second unit at half price".

C. DIRECT MARKETING.

In this case, the main characteristic is that direct communication between the company and the consumer is used. For example, telephone calls (telephone operators), website with the possibility of participation, mobile phone, etc. The company seeks to contact the consumer, either to provide information or to build loyalty or sell; but always with the aim of receiving instant feedback.

This type of communication allows interactivity and personalization, but care must be taken not to overwhelm consumers.

D. PUBLIC RELATIONS.

They are planned and systematic activities that the company uses to create, maintain and improve the image, relationship and trust of the company towards the general public. It is aimed at public institutions, distributors, clients, the press, workers, opinion leaders, etc.

The best known examples would be the presence at fairs, press conferences, sponsorship of sporting or cultural events, etc. The effect is also usually long-term and will be indefinite in time.

E. SALES FORCE.

It is the information and persuasion work carried out by sales professionals, that is, salespeople. In some sectors, the sales capacity of sellers is crucial to the consumer's purchase decision (for example, in the cars or electronics sector, where buyers are not experts in these áreas and prefer to be recommended). The effect of this tool is immediate, at the time of purchase.

5. EXAMPLES OF NEW TRENDS IN MARKETING

Marketing evolves in a dizzying way (forma vertiginosa). This new dynamic forces brands to take into account the technologies that are trend and associated practices, when planning marketing strategies. We can name:

- **Chatbots.** They are a new and effective way to stay in touch with your audience and followers through artificial intelligence on social networks, to answer questions, transmit offers and even make sales.
- **Voice Search.** Voice searches are based on artificial intelligence tools that interpret the way people speak.
- **Influencer Marketing.** Influencer marketing consists of achieving a series of collaborative links between brands and companies and those people with great visibility and prominence on the internet, who are known as ‘influencers’.
- **Artificial intelligence (AI).** AI can create purchase prediction models, such as Customer Journey models based on predicting behaviors that are based on certain events, such as customer scores based on their probability of purchase.
- **Ephemeral Content.** Stories from Instagram, Facebook and WhatsApp statuses are becoming more and more popular on social media. These contents stand out for being ephemeral, disappear after 24 hours, and are characterized by being informal and showing everyday scenes.
- **Video Marketing.** More than 80 percent of the content consumed on the internet is audiovisual. 9 out of 10 Internet users consume videos of the brands they follow on social networks. Video Marketing has a positive impact on sales.
- **Augmented reality.** It allows to generate memorable experiences for consumers. Mix the digital with the real through mobile applications.
- **The future of Retail**. Augmented and virtual reality, digital wallets, the use of robots in stores and deliveries via drones are just some of the trends that will revolutionize the future of the retail industry.
- **Remarketing.** Remarketing is a system that allows you to create tailored or personalized ads for users who previously visited a web page. It is a

solution associated with the objective of achieving a better return on investment (ROI).

- **Small Data.** Small data is data that is small enough for human understanding. It is data in a volume and format that makes it accessible, informative and actionable. The term "big data" is about machines and "small data" is about people.
- **Geomarketing.** It is based on geographic information systems allowing to analyze the situation of a business through the exact location of customers, points of sale, competition and other relevant factors, collecting them on a personalized map for each customer.
- **Onmichannel metrics.** Multichannel marketing refers to the interaction of brands with consumers using the combination of different communication channels. Analyzing the effectiveness of so many channels should be a priority by creating a strategy based on metrics, behavior tracking and comprehensive analytical reports.

IV. FRANCHISES

The franchise is a development system that consists of repeating a formula of proven success. It is an agreement by which a natural or legal person (the franchisor) assigns to another (the franchisee) a business model, transferring all the know-how that the former has experienced, launched, perfected and developed successfully .

It implies:

- The use of a common name or label or other intellectual or industrial property rights and a uniform presentation of the premises or means of transport that are the object of the contract.
- Communication by the franchisor to the franchisee of technical knowledge or know-how, which must be proper, substantial and unique.
- The provision continues by the franchisor to the franchisee of commercial, technical assistance or both during the term of the agreement; all this without prejudice to the supervisory powers that may be contractually established.

What does each of the parts achieve with this model?

The franchisee manages to open a business with a very powerful multinational brand, with products that will be a claim for customers. Just by having this brand, the franchisee will get many more customers than if he opened a neighborhood coffee shop.

For its part, **the franchisor** manages to expand its business and its brand easily, without having to manage each of the stores it owns in the world and, increasing monthly income with the payment of the franchisees. In addition, to pay for the brand, in many franchises, you must also pay for the products, since the provider is the franchisor itself.