



CHALIMBANA UNIVERSITY

Integrity. Service. Excellence.

DIRECTORATE OF DISTANCE EDUCATION

BMK 1102 : PRINCIPLES OF MARKETING

FIRST EDITION 2018

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**Chalimbana University,
School of Leadership
and Business Management,
Department of Accountancy
and Finance.**

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MODULE OVERVIEW

Introduction

This course is designed to provide students with an understanding of the principles of Marketing. Its major focus is on the management of the marketing activities and how marketing relates to overall organisational functioning, including the management of exchange processes between business units and consumers and between firms. It includes topics such as environmental analysis, strategic marketing, marketing planning, marketing research, customer behaviour, market segmentation, marketing strategies, market mix components, ethics, international marketing, and integrated marketing communication.

This is an extremely useful foundation course for further development of your general marketing management skills.

Rationale

For every business to thrive, there is need to look at how they can increase the demand for their products and services such as product design, marketing strategy and advertising strategy. This can happen if one has a clear understanding of the meaning and nature of the marketing environment. The course will expose learners to both the internal and external environment.

Aim

This course aims to introduce students to principles and problems associated with the marketing of goods and services.

Learning Outcomes

By the end of this course, learners should be able to:

- Define the basic concepts appropriate to the field of marketing.
- Demonstrate an understanding of the role and contribution of marketing within an organization.
- Explain the role of marketing in the social and economic structure of a country

- Describe the relationship between marketing and other major business activities such as production and finance.
- Develop a marketing plan.

Course Summary

This is an introductory course in the marketing discipline, designed to provide you with the basic concepts, tools and techniques used in modern marketing so that you can apply them to real-life problem-solving and decision-making.

The course focuses on basic marketing concepts, the role of marketing in the organization and in society. Topics include market segmentation, product development, promotion distribution, and pricing. Other topics are the internal and external environment, marketing research, international marketing, ethics and the impact of technology on integrated marketing communication.

The course illustrates how various facets of the marketing function interact with other areas of the business. It presents an overview of where the marketing function fits within the context of the organisation.

Study Skills

a) Find a Place to Study

Finding the right place to study has an impact on the effectiveness of time spent studying. The best study locations are comfortable and free from distractions.

b) Read Your Module

Modules are a great resource for studying marketing.

c) Do Your Activity Problems

One of the best ways of learning marketing is by practicing the marketing activity problems that are given at the end of each unit.

d) Form a Study Group

Forming study groups is an effective strategy for enhancing learning. It provides motivation and a collaborative learning environment. It also enables students to cover more materials than they could on their own.

e) Manage Your Time

Studying business management effectively is not about studying longer, it's about studying smarter. The following are proven time management tips for improving your performance in your marketing course.

- Don't procrastinate. Like math, many business courses are cumulative. This is because if you fall behind, it takes a lot of additional work and time to get catch up.
- Make a schedule. Make a realistic schedule and stick to it throughout the semester.
- Pace yourself. If you pace yourself, and begin your preparations far in advance, you will be ready for exams without needing to cram at the last moment.

Time Frame

37 hours.

Required Resources

Armstrong, G. and Kotler, P. (2008) Marketing: An Introduction. 12th Edition. Prentice Hall: New Jersey

Kotler, P., Armstrong, G., Harris, L. and Piercy, N. (2013). Principles of Marketing. 6th Edition. Pearson: Harlow

Recommended Reading

McDonald, M. (2007). Marketing Plans: how to prepare them, how to use them. 6th Edition. Elsevier: Amsterdam

Adcock, D., Halborg, A. and Ross, C. (2001). Marketing: principles and practice. 4th Edition. Prentice Hall: Harlow

Armstrong, M. (2012) *A Handbook of Human Resource Management Practice* 12thed, London, Kogan page.

Assessment**Continuous Assessment****50**

One Assignment

25%

One Test

25%

Final Examination**50%****Financial****100%**

UNIT 1

INTRODUCTION TO MARKETING

1.1 Introduction

Welcome to unit 1 of this module. This unit will introduce you to the marketing concepts that are used in the marketing strategies. These concepts lay the foundation for further study of marketing functions that you will explore in the next units. It will also look at the marketing mix, and the evolution of marketing.

1.2 Learning Outcomes

By the end of this unit you should be able to;

- define the term ‘Marketing’.
- explain the marketing concepts and the marketing mix variables.
- explain the evolution of marketing.

1.3 Time Frame

Three hours (3 hours)

1.4 Overview Of Marketing

1.4.1 What is marketing?

Kotler (2005), defines marketing as the “social process by which individuals and groups obtain what they need and want through creating offering and exchanging products and services that have value with others.”

1.4.2 Why is Marketing Important?

Marketing is important because it:

- a) Targets those customer groups whose needs are most consistent with the firm’s resources and capability.
- b) Helps in developing products and services that meet the needs of the target market better than competitors.
- c) Helps the firm to make its products and services readily available to potential customers.
- d) Develops customer awareness and appreciation of the value provided by the company’s offerings.
- e) Obtains feedback from the market as a basis for continuing improvement in the firm’s offerings.
- f) Works to build long-term relationships with satisfied and loyal customers

1.4.3 What is a Market?

A market consists of individuals and organizations who are interested and willing to buy a particular product to obtain benefits that will satisfy a specific need or want, and who have the resources to engage in such a transaction.

1.5 Marketing Concepts and Marketing Mix Variables

1.5.1 Marketing Concepts

The concepts in marketing enable marketers to fully comprehend the various tasks ahead in the field of marketing. The basic concepts in marketing that a marketer must know are as outlined below:

1.5.1.1 The Marketing Concept: This is a marketing philosophy which states that identifying customer's needs and want and then seeking to satisfy these identified needs and want in a more efficient and effective manner should be the sole objective of marketing while making profit.

This concept holds that marketers should first of all identify consumer's needs and wants in a proficient manner before offering any product to satisfy such a need or want.

To achieve this, a marketer must employ adequate research of his target market to identify what is it that the market will be willing to satisfy with his power of exchange.

1.5.1.2 The Concept of Need and Want: Without a need and want there would be no such thing as trade or business. Because the market is characterized with individual beings that have needs and wants, and are willing to satisfy these needs and wants such as; shelter, food, cloths, water etc. in order to have a suitable standard of living. Marketers then utilize this concept and then seek to satisfy it.

1.5.1.3 The Market-Society Concept: This concept holds that it's the responsibility of reputable marketing organizations to enhance the wellbeing of the society in which they do their business. Marketing organizations should realize the needs and wants of the society, and must come up with effective strategies to meeting these needs ahead of their competitors.

1.5.1.4 The Product Concept: The product concept holds that the market would definitely patronize that product perceived as of higher quality standard, hygienic, and a product that can match with their styles while satisfying their needs and wants. Organizations having fully understood this concept, devote their time, energy and resources in developing good and quality products that can satisfy the desires of the target Market.

1.4.1.5 The Exchange Concept: This is a concept that holds that the business world is all about making exchanges of goods, services and ideas for something of value. So a good marketer must develop valuable products that can satisfy the target market. Consumers have different levels of purchasing powers, so marketers should employ this opportunity to offer assorted product sizes, prices, etc. to match with their purchasing powers.

1.5.1.6 The Production Concept: The concept of production in marketing means that marketers should employ effective strategies to make their products available and affordable in the market because consumers will only choose that product which is available and affordable.

1.5.1.7 The Promotional Concept: The promotional concept in marketing holds that, a product will hardly gain sufficient market acceptance and awareness unless the product is backed up with effective promotional strategies.

Promotion is simply the forms of communications which marketers use to pass relevant messages to the market, informing the market about its newest or existing company's product brand in the market, its features and advantages, and how and where to find it.

1.5.1.8 The Distributional Concept: Distribution concept holds that manufactured goods are not to remain in the place of production for a long time, so marketers employ this concept of distribution to ensure that finished products are easily moved to the target market.

1.5.1.9 The Concept of Consumerism: The consumerism concept holds that consumers need to be protected from inferior products in the markets. Consumerism in most countries has gained solid recognition and is adhered to.

Consumerism is an organized movement of government, the private sector, and the consumers, to strengthen and protect the rights of consumers from unwanted products and services.

As a marketer, you should be aware of this concept while offering your product brand to the market.

1.5.1.10 The Concept of Organizational Synergy: The concept of synergy in an organization holds that, though the marketing department performs relevant and strategic activities in achieving some set organizational objectives, it however, depends largely on the commitment

and support from other departments. For example, the engineering department must work hand in hand with the marketing department in designing and producing effective and targeted product brands. The accounting department must also support the marketing manager in overseeing and allocating costs etc. So the concept of synergy enables marketing managers to work along with other department in the organization for the effective realization of the organizational set corporate goals.

1. 5.2 The Marketing Mix Variables

A marketing mix is a combination of decisions about product, place, price, and promotion. These are generally referred to as the four Ps of marketing. They are used to reach the target market and make a profit. The most important aspect of the marketing mix is the company's ability to direct all four Ps of marketing to the selected target market. If this is not done the message will confuse the consumer.

a) Product

Product decisions involve what product to make, when to make it, its level of quality, how many to produce and sell, its packaging, brand name, and warranties or guarantees.

Thus, in this area of the marketing mix, you need to decide what you are going to offer to the customers. Here you will have to identify the major product or service types that you will offer as well as associated or supporting products or services.

You will also have to decide on a name for your business or product. Another component of the product is the packaging. This is important as customers see both the name and the packaging as part of the product.

b) Place

Place decisions are based on how the product is to be distributed. Should it be sold directly to the consumer, for example, or should it be sold through wholesalers or retailers.

This is the area of marketing mix where you decide how you are going to get your products to the target market. If your product needs a location, it will also be dealt with here and in the process you will have to decide how it will be set up.

Further, your business may have export opportunities and this will also have to be dealt with as an aspect of distribution.

The product image, the price, the price of the product, and the potential market all have a bearing on place decisions.

c) Price

Price decisions are extremely important for all businesses along the channel of distribution. Producers must know what to price people in their target market are able and willing to pay. Other factors that affect price decisions are the quality of the item, the pricing strategy of competitors, and the billing methods and payment appropriate for the target market.

Different pricing strategies are used, depending on the target market and competition. If the target market is in a high income socio-economic group that buys for quality and prestige, then a product will be priced high to give it a quality and prestigious image.

You will also need to know what sort of flexibility you will need in terms of discounts, allowances and deals.

d) Promotion

Promotion decisions include all decisions on educating potential customers about the product and how to develop a good public image with promotional activities. This area of marketing mix deals with how you are going to make your target market aware of what you offer as well as why they should buy your products.

Which media – newspaper, radio, television, or magazines, for example, are best for reaching a target market? The competitive edge, the design of the advertising, the choice of the message, and when to advertise is also an important decision.

1.6 The Evolution of Marketing

In tracing the development of the marketing concept, it is customary to chart three successive stages in the evolution of modern business practice. These stages are as follows:

a) Production Orientation

The production orientation to marketing focused on producing goods and services. High production efficiency, often through large scale production of standardized items, was the central focus. It was believed that customers would purchase the products as long as they were of reasonable quality.

b) Sales Orientation

At one time most companies were sales oriented. That is, their goods and services were produced and sold without regard for consumer preferences. Little attempt were made to research consumers' needs or desires. Goals were limited to short term profits. The main aim was to sell what the firm makes, rather than to make what the customer wanted.

c) Marketing Orientation

The marketing concept or orientation holds that the key to successful and profitable business rests with identifying the needs and wants of consumers and providing products and services to satisfy them. It is the work of the producer to identify the needs and wants and preferences of the consumer and then satisfy them better than the competitors would.

Every marketing oriented firm focuses on consumer satisfaction and directs its resources to produce the goods and services that customers want. A successful marketing oriented firm sets long-range goals that are achieved by responding to changing and emerging consumer preferences.

1.7 Summary

In this unit we have given an overview of marketing. We have also discussed the marketing concepts and the marketing mix variables. We have equally looked at the evolution of marketing. As a student of marketing, you will find this unit to be very important in the sense that it gives a general overview of marketing.

1.8. Activities

1. State why marketing is important.
2. Discuss the evolution of marketing.
3. Discuss the four major aspects of a marketing mix.

UNIT 2

ENVIRONMENTAL FORCES IN MARKETING

2.1 Introduction

Welcome to unit 2 of this module. In this unit, we are going to discuss the meaning and nature of the marketing environment. We are also going to identify the components of the marketing environment, as well as discuss the internal, and external environments. The unit will further expose you to how you can conduct an environmental scanning. Furthermore, we shall also discuss the impact of the environment on marketing.

2.2 Learning Outcomes

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

- explain the meaning and nature of the marketing environment.
- describe the components of a marketing environment.
- identify the internal and external environment of marketing.
- explain marketing environmental scanning.
- discuss the impact of the environment on marketing.

2.3 Time Frame

Three hours (3 hours)

2.4 Meaning and Nature of Marketing Environment

a) The Meaning of the Marketing Environment: The meaning and nature of the marketing environment are interrelated. Thus in discussing the meaning of the marketing environment, its nature is also captured.

To begin with, it is important for the learner to note that the marketing activities of the business are affected by several internal and external factors.

While some of the factors are under the control of the business, most of the other factors are not and as such, the business has to adapt itself to avoid being affected by changes in these factors. These external and internal factors group come together to form a marketing environment in which the business operates.

Marketing Environment is the combination of external and internal factors and forces which affect the company's ability to establish a relationship and serve its customers. The marketing environment of a business consists of an internal and an external environment.

The internal environment is the company specific and includes owners, workers, machines, materials etc. The external environment is further divided into two components: micro & macro. The micro or the task environment is also specific to the business. It consists of factors engaged in producing, distributing, and promoting the offering.

The macro or the broad environment includes larger societal forces which affect society as a whole. The broad environment is made up of six components: demographic, economic, physical, technological, political-legal, and social-cultural environment. A company's marketing environment consists of the actors and forces outside of marketing that affect marketing management ability to build and maintain successful relationships with target customers.

b) The Nature of Marketing Environment: The nature of marketing environment consists of the micro-environment (customers, competitors, distributors, and suppliers), and the macro-environment (economic, social, political, legal, physical, and technological forces) these shape the character of the opportunities and threats facing a company and yet are largely uncontrollable.

2.5 Components of the Marketing Environment

The marketing environment is made up of the internal and external environment of the business. While internal environment can be controlled, the business has very less or no control over the external environment.

2.5.1 Internal Environment

The internal environment of the business includes all the forces and factors inside the organization which affect its marketing operations. These components can be grouped under the Five Ms of the business, which are:

- Men
- Money
- Machinery
- Materials
- Markets

The internal environment is under the control of the marketer and can be changed with the changing external environment. Nevertheless, the internal marketing environment is as important for the business as the external marketing environment. This environment includes the sales department, marketing department, the manufacturing unit, the human resource department, etc.

2.5.2 External Environment

The external environment constitutes factors and forces which are external to the business and on which the marketer has little or no control. The external environment is of two types:

2.5.2.1 Micro Environment

The micro component of the external environment is also known as the task environment. It comprises of external forces and factors that are directly related to the business. These include suppliers, market intermediaries, customers, partners, competitors and the public.

- **Suppliers** include all the parties which provide resources needed by the organization.
- **Market intermediaries** include parties involved in distributing the product or service of the organization.
- **Partners** are all the separate entities like advertising agencies, market research organizations, banking and insurance companies, transportation companies, brokers, etc. which conduct business with the organization.
- **Customers** comprise of the target group of the organization.
- **Competitors** are the players in the same market who targets similar customers as that of the organization.
- **Public** is made up of any other group that has an actual or potential interest or affects the company's ability to serve its customers.

2.5.2.2 Macro Environment

The macro component of the marketing environment is also known as the broad environment. It constitutes the external factors and forces which affect the industry as a whole but don't have a direct effect on the business. The macro environment can be divided into 6 parts.

a) The Demographic Environment

The demographic environment is made up of the people who constitute the market. It is characterized as the factual investigation and segregation of the population according to their size, density, location, age, gender, race, and occupation.

b) The Economic Environment

The economic environment constitutes factors which influence customers' purchasing power and spending patterns. These factors include the GDP, GNP, interest rates, inflation, income distribution, government funding and subsidies, and other major economic variables.

c) The Physical Environment

The physical environment includes the natural environment in which the business operates. This includes the climatic conditions, environmental change, accessibility to water and raw materials, natural disasters, pollution etc.

d) Technological Environment

The technological environment constitutes innovation, research and development in technology, technological alternatives, innovation inducements also technological barriers to smooth operation. Technology is one of the biggest sources of threats and opportunities for the organization and it is very dynamic.

e) Political-Legal Environment

The political & legal environment includes laws and government's policies prevailing in the country. It also includes other pressure groups and agencies which influence or limit the working of industry and/or the business in the society.

f) Social-Cultural Environment

The social-cultural aspect of the macro environment is made up of the lifestyle, values, culture, prejudice and beliefs of the people. This differs in different regions.

2.6 Scanning The Marketing Environment

A company's marketing environment consists of factors and forces outside marketing that affect management's ability to build and maintain successful relationships with target customers".

The marketing environment offers both opportunities and threats.

By conducting systematic environmental scanning, marketers are able to revise and adapt marketing strategies to meet new challenges and opportunities in the market place.

Environment scanning is a constant, important activity. This process includes gathering, filtering and analyzing information related to the marketing environment. It also includes monitoring the changes taking place in the environment and forecasting future status of each factor.

Such analysis helps to spot opportunities and threats in the environment, and pinpoints the ones that are specifically relevant to the company. The company's marketing people have the responsibility for scanning and identifying significant changes or trends in the marketing environment.

Marketing research and marketing intelligence system are the methods used by companies for environment scanning and gathering vital information about changes. Customers' behaviour and competitors' activities are also important factors to be watched in the environment.

The environment continues to change at a rapid pace.

2.7 The Impact of the Environment On Marketing

Every business, no matter how big or small, operates within the marketing environment. Its present and future existence, profits, image, and positioning depend on its internal and external environment. The business environment is one of the most dynamic aspects of the business. In order to operate and stay in the market for long, one has to understand and analyze the marketing environment and its components properly.

2.7.1 The Economic Environment

Economic environment is the most significant component of the marketing environment. It affects the success of a business organization as well as its survival. The economic policy of the Government, needless to say, has a very great impact on business. Some categories of business are favourably affected by the Government policy, some adversely affected while some others remain unaffected. The economic system is a very important determinant of the scope of private business and is therefore a very important external constraint on business.

Economic forces can impact marketing decisions through their effect on supply and demand. Key factors are economic growth, unemployment, interest and exchange rates, and changes in the global economic environment such as the rise of China and Indian economies.

Marketers need to have contingency plans in place to cope with economic downturns and to be aware of the opportunities and threats arising from changes in the global marketing environment.

Economic environment describes the overall economic situation in a country and helps in the analysis Growth National Product (GNP) (per capita rate of economic growth, inflation rate, unemployment problems etc.

2.7.2 The Ecological and Physical Environment

The Ecological and Physical environment or natural environment is concerned with the environmental costs of consumption. It involves the natural resources that are needed as inputs by marketers or those that are affected by marketing activities.

Environmental concerns have grown steadily in recent years. Marketers should be aware of trends like shortages of raw materials, increased pollution, and increased governmental intervention in natural resources management. Companies will have to understand their environmental responsibility and commit themselves to the 'green movement'.

Potential shortages of certain raw materials, for examples, oil, coal, minerals, unstable cost of energy, increased levels of pollution; changing role of Government in environment protection are a few of the dangers the world is facing on physical environment forces. Other aspects of the natural environment which may increasingly affect marketing include the availability and cost of raw materials, energy and other resources, particularly if those resources and energy come from non-renewable sources.

In summary, there are five major environmental issues that impact marketing decisions. These are Combating global warming, pollution control, conservation of energy and other scarce resources, use of environmental friendly ingredients and components, and the use of recyclable and non-wasteful packaging.

Marketers need to be aware of the environmental consequences of their action, and the opportunities and threats associated with ecological issues.

2.7.3 The Technological Environment

The technological environment is the most dramatic force now facing our destiny. Technological discoveries and developments create opportunities and threats in the market. The marketer should watch the trends in technology. The biggest impact that the society has been undergoing in the last few years is the technological advancement, product changes and its effects on consumers.

Technological forces can impact the marketing decisions by changing the rules of the competitive game. Technological change can provide major opportunities and also pose enormous threats to companies. Marketers need to monitor technological trends and pioneer technological breakthroughs. They should also seek to use technology to improve marketing operations.

Technology essentially refers to our level of knowledge about 'how things are done'. That is understanding this aspect of the marketing environment is much more than simply being familiar with the latest hi-tech innovations. Technology affects not only the type of products available but also the ways in which people organize their lives and the ways in which goods and services can be marketed.

Computer-aided design (CAD) and computer-aided manufacturer (CAM) have shortened the time required for new products to reach the market and increased the variety of products that can be produced cost effectively. The benefits of CAD/CAM are clearly evident in the car industry. Mass production is in standardized models. Computer systems have also contributed substantially to the growth of various forms of direct marketing such as direct mail, direct response marketing etc.

2.7.4 The Political Environment

The political environment consists of factors related to the management of public affairs and their impact on the business of an organization. Political environment has a close relationship with the economic system and the economic policy. Some Governments specify certain standards for the products including packaging.

Some other Governments prohibit the marketing of certain products. In most nations, promotional activities are subject to various types of controls. In some countries, Government plays an active role as a planner, promoter and regulator of economic activity.

Businessmen, therefore, are conscious of the political environment that their organization face. Most Governmental decisions related to business are based on political considerations in line with the political philosophy following by the ruling party at the Centre.

Substantial number of laws have been enacted to regulate business and marketing to protect companies from each other, to protect consumers from unfair trade practices, to protect the larger interests of society against unbridled business behaviour. Changing Government agency enforcement and growth of public interest groups also bring in threats and challenges.

2.7.5 The Legal Environment

Marketing decisions are strongly affected by laws pertaining to competition, price-setting, distribution arrangement, advertising, employment relations, and many more etc. It is necessary for a marketer to understand the legal environment of the country and the jurisdiction of its courts.

The following are some of the laws that may affect business in Zambia:

- a) Factories Act (CAP 441) of 2006
- b) Minimum Wages and Conditions of Employment Act (CAP 276) of 2006
- c) The Companies Act (Chapter 388) of 2006
- d) Various laws by the Environmental Council of Zambia that aim at protecting the environment.
- e) Industrial and Labour Relations Act Number 27 of 1993
- f) Consumer Protection Laws
- g) Various Taxation Laws.

2.7.6 The social and cultural environment

Socio-cultural forces refer to the attitudes, beliefs, norms, values, lifestyles of individuals in a society. These forces can change the market dynamics and marketers can face both opportunities and threats from them. Some of the important factors and influences operating in the social environment are the buying and consumption habits of people, their languages, beliefs and values, customs and traditions, tastes and preferences, education and all factors that affect the business.

Understanding consumer needs is central to any marketing activity and those needs will often be heavily influenced by social and cultural factors. These cover a range of values, beliefs, attitudes and customs which characterize societies or social groups. Changes in lifestyle of people affect the marketing environment.

Culture influences every aspect of marketing. Marketing decisions are based on recognition of needs and wants of the customer, a function of customer perceptions. These help in understanding of lifestyles and behaviour patterns as they have grown in the society's culture in which the individual has been groomed. Thus a person's perspective is generated, groomed and conditioned by culture.

Socio- cultural forces can have an impact on marketing decisions by changing demand patterns and creating new opportunities and threats. Three major influences are changes in the demographic profile of the population, cultural differences within and between nations, and the impact of consumerism.

2.7.7 Essential for Planning

An understanding of the external and internal environment is essential for planning for the future. A marketer needs to be fully aware of the current scenario, dynamism, and future predictions of the marketing environment if he wants his plans to succeed.

2.7.8 Understanding Customers

A thorough knowledge of the marketing environment helps marketers acknowledge and predict what the customer actually wants. In-depth analysis of the marketing environment will help the marketer to understand the consumer behaviour better.

2.8 Summary

In this unit, we have looked at the meaning and nature of the marketing environment, components of the marketing environment, the internal and external environments, as well as environmental scanning. We also examined the impact of the environment on marketing.

2.9 Activities

1. Describe the components of a marketing environment.
2. Discuss the internal and external environments of marketing.
3. Discuss the impact of the environment on marketing.

UNIT 3

STRATEGIC MARKETING PLANNING AND FORECASTING

3.1 Introduction

Welcome to unit 3 of this module. You will remember that in unit 2 we looked at the environmental forces in marketing. We saw that there are mainly two major categories of environmental forces that affect marketing operations. We identified these as the internal and the external environments. Each of these are further subdivided into specific environments.

Today we are going to look at planning and forecasting as they relate to marketing. We are going to focus on measuring market demand, forecasting and marketing planning. You will discover that estimating market demand, and forecasting are all important in the sense that they will help you, the marketer, to plan effectively.

Marketing planning on the other hand, will help a business entity to decide on how to proceed with the marketing business. Strategic marketing planning in particular is one of the major tools that a business entity needs if it hopes to achieve success in the market place.

As we proceed we hope you will find this unit to be helpful, interesting, and easy to grasp.

3.2 Learning Outcomes

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

- explain how market demand can be measured.
- describe methods of forecasting.
- design a marketing plan.

3.3 Time Frame

Three hours (3 hours)

3.4 Measuring Market Demand

A market is composed of individual or organizations who are interested in and willing to buy a good or service to obtain benefits that will satisfy a particular want or need and have the resources to engage in such a transaction.

Estimates of market size and demand must be done in order to help the marketer and his organization to plan effectively. To estimate or measure the market demand, the following techniques may be used.

3.4.1 General Methods

- **Historical Data:** Market demand may be measured by assessing reliable historical data. Thus secondary data (historical data) about the demand pattern for a given product can help us to forecast future demand for a product. The marketer assumes that the trends of the immediate past will continue into the future. Some of the sources of data on market demand are government economic and business statistical reports, documented business sales reports, business performance evaluations and analysis in business magazines, market research reports, etc.
- **Local Production Figures, Exports and Imports Analysis:** This can be another way of estimating and measuring market demand. This will require the marketer to analyze the production figures, exports, and level of imports in the country. Arising from such an analysis, a marketer will be able to make approximations for sales trends and this can be used as the basis for projections of growth and market demand. The data for such projections are more commonly reported by the United Nations and other international agencies.
- **Analogy :** Another technique for measuring market demand is to use the technique of analogy. This assumes that demand for a product develops in much the same way in all countries as comparable economic development occurs in each country. The assumption here is that if the market demand for a product in country Y is high, it is also likely to be high for country X. Arising from this assumption, the marketer can estimate the market growth and demand potential for the same product in country X
- **Income Elasticity:** Measuring the change relationship between personal or family income and demand for a product can be used in forecasting market demand. As income increases, the demand for a product increases at a rate proportionately higher than income increases. The relationship also occurs when income decreases. Thus, demand will also decrease if

the income decreases. Income elasticity can be very useful, too, in predicting growth in demand for a particular product or group of products.

3.4.2 Estimating Area Market Demand

Companies need to estimate market potential of different cities, areas, provinces and even countries in order for them to select the best sales territories. The following are some of the methods that they can use.

- **Market build up method:** The market buildup method calls for identifying all the potential buyers in each market. Once they have been identified, the next step is to estimate their potential purchases
- **Market Factor Index Method:** A common method for calculating the area market potential is the market factor index method, also known as the buying power index. Under this approach, the Buying Power Index (BPI), is based on three factors, namely, the area's share of the nation's population, effective buying income, and retail sales. The buying power index for a specific area is given by:

$$\begin{aligned} \text{BPI} = & 0.2 \times \text{percentage of national population in the area} \\ & + 0.5 \times \text{the percentage of effective buying income in the area.} \\ & + 0.3 \times \text{percentage of national retail sales in the area.} \end{aligned}$$

3.4.3 Estimating Total Market Demand

Total market demand for a product or service is the total volume that would be bought by a defined consumer group in a defined geographic area in a defined time period in a defined marketing environment under a defined level and mix of industry marketing effort.

To find the total market demand, we use the following formula:

$$Q = n \times q \times p$$

Where Q = total market demand

n = number of buyers in the market.

q = quantity purchased by an average buyer per year.

p = price of an average unit.

3.4.4 Estimating Actual Sales and Market Share

Besides estimating total and area demand, a company will want to know the actual industry sales in its market. Thus, it must identify its competitors and estimate their sales. Industry's trade associations often collect and publish total industry sales. In this way, each company can evaluate its performance against the industry as a whole. Another way to estimate sales is to buy reports from marketing research firms that audit total sales and brand sales. A company can then compare its performance with that of the total industry or any other competitor to see whether it is gaining or losing in its relative standing.

3.5 Forecasting

The first key goal of good forecasting is to identify the full range of possibilities about the future. The second key to effective forecasting is to use multiple methods. The following are some of the forecasting methods that a marketer may use:

- **Observation Method :** One way of forecasting is to directly observe or gather existing data about what real consumers do in the product-market of interest. Observation based forecasting is attractive because it is based on what people actually do. From such observations, the marketer will then be able to forecast future trends in the product market.
- **Surveys or Focus Groups:** Another common way to forecast sales or estimate potential is to conduct surveys or focus groups. These are also known as **surveys of buyers' intentions**. One way to focus what buyers will do is to ask them directly. Surveys are especially important if buyers have already clearly formed their intentions. These methods can be done with various kinds of respondents. The major drawback of surveys and focus groups is that what people say is not always what they do.
- **Judgement :** Sometimes forecasts are made solely on the basis of experienced judgement, or intuition. Some decision makers have purely made decisions that are intuitive based. The importance of experienced judgement in forecasting cannot be overlooked. Judgement based forecasting may be done solely and intuitively or in concert with evidence-based methods.
- **Experiments and Market Tests:** Market tests of various kinds are used largely for new consumer products. Market tests such as experimental test markets may be done under

controlled experimental conditions in research laboratories or in live test markets with real advertising and promotion and distribution in stores.

- **Analogy:** An approach often used for new product forecasting where neither statistical methods nor observations are possible is to forecast the sales or market potential for a new product or product class by analogy. Under this method, the product is compared with similar historical data that are available. The conclusions are made and future estimates are forecasted.

The limitation of this method is that market competitive conditions may vary from when the analogous product was launched. Such conditions must be taken into account. The other limitation is that the new product and its pricing are never exactly like that to which the analogy is drawn.

- **Statistical Methods:** These use past history and various statistical techniques, to forecast the future based on an extrapolation of the past. The limitation of this method is that it is not useful for entrepreneurs or new product managers charged with forecasting sales for new products or new business since there is no history in their venture on which to base a statistical forecast.
- **Expert opinion:** Companies can also obtain forecasts by turning to experts. Experts include dealers, distributors, suppliers, marketing consultants, and trade associations. Many companies buy economic and industry forecasts from well-known firms. These forecasting specialists are in a better position than the company to prepare economic forecasts because they have more data available and more forecasting expertise.
- **Past-sales analysis:** Sales forecasting can be developed on the basis of past sales. Time series analysis consists of breaking down past time series into four components (trend, cycle, seasonal, and erratic), and projecting these components into the future. Exponential smoothing consists of projecting the next period's sales by combining an average of past sales and the most recent sales.
- **Test marketing:** Where buyers do not plan their purchases carefully, or where experts are not available or reliable, the company may want to conduct a direct test market. A direct test

market is especially useful in forecasting new product sales or established product sales in a new distribution channel or territory.

- **Composite or Salesforce opinion:** When buyer interviewing is impractical, the company may base the sales forecasts on information provided by the Salesforce. The company typically asks its salespeople to estimate sales by product for their individual territories. It then adds up individual territories to arrive at an overall sales forecast.

3.6 Elements and Components of A Marketing Plan

Any business, small or large, needs to decide how to proceed with marketing the business. This aspect of running a business is called the marketing planning process.

3.6.1. Definition of Marketing Planning

Marketing planning is the process by which businesses analyze the environment and their capabilities, decide upon courses of marketing action and implement those decisions. It is part of a broader concept known as strategic planning. Marketing planning is concerned with identifying and creating an organization's competitive edge.

A **marketing Plan**, on the other hand, is the result of the marketing planning process. It is a plan that sets out what the business wants to achieve through its marketing, how it will achieve this, and how much investment this will take. A marketing plan is also useful for the following reasons:

- It will help the business person to follow an organized approach.
- It helps establish specific directions for your business.
- It helps the business to be consistent in its actions.
- It sets objectives and direction for the business.

3.6.2. Write the Marketing Plan

It is important that you write down your marketing plan and document your decisions. Most marketing plans will begin with analysis of the current situation and ends with how you will ensure you achieve your objectives.

3.6.3 Components of a Marketing Plan

a) Executive Summary: The executive summary is simply a summary of the main goals and recommendations that are in the actual marketing plan.

b). Current Marketing Situation: This section of the marketing plan describes the current situation with regard to the marketing activities of the business. This component include information on the following:

- **Market description:** This identifies the major market segments and target markets. It includes customer profiles and factors that influence customers and their purchases.
- **Product Review:** The product review shows the sales, prices and profit margins of the major products in the product mix.
- **Competitive Review:** Competitive review identifies your major competitors and their marketing mixes.
- **Distribution Review:** The distribution review identifies developments and changes in the distribution channels of the business.
- **Broad business environment analysis:** The broad business environment analysis, analyses the trends in the broad business environment that might affect the business or its customers. The areas of importance are the economy, legislation, socio-cultural changes, technological developments, etc.

c). Marketing Analysis: The marketing analysis require you to make some judgements about your business. The basic objective of this is to organize the major findings regarding you marketing situation and your knowledge of your business relative to competitors. One way to do this is to use a SWOT analysis. A SWOT analysis is a summary of the major findings of your current situation analysis under the headings of Strengths (S), Weaknesses (W), Opportunities (O), and Threats (T).

d). Objectives: A marketing plan should have some objectives. A marketing objective is what you want to achieve through your marketing during the time frame of the plan. Marketing objectives are about products, customers, markets and to some extent financial objectives.

e). Marketing Strategy: A marketing plan should have a marketing strategy. A marketing strategy require you to decide on your target market, your positioning and your marketing mix in order to satisfy your target market.

f). Action Programs: A marketing plan should have an action plan. The action plan is the specific program of action to implement the strategies. It shows when activities will be started, reviewed and completed.

g). Projected Profits and Loss Statement and Budget: By doing a detailed action program, you will be able to develop a profit and loss statement for the business that reflects the projected effect of the marketing plan on the business.

h). Controls: Marketing control is the measuring and evaluation of the results of the marketing plan and taking the necessary corrective actions for success. Areas of importance here are sales analysis, profitability, expenses, and customer research. You should also regularly monitor performance in terms of marketing objectives.

3.7 Summary

This unit started by first introducing you, to the ways of measuring the market demand, then we proceeded to look at the methods of forecasting. We further, looked at the components of a marketing plan and how to write a marketing plan.

Under ways of measuring the market demand we covered, the historical data method, the analogy method, the income elasticity method, the analysis of local production figures, exports and imports method. While under forecasting methods, we covered observation methods, surveys or focus groups method, analogy method, statistical methods, experimental and market tests methods.

We finished our unit by looking at the elements and components of a marketing plan and how to write a marketing plan.

3.8 Activities

Answer the following questions

1. Describe the principal purpose of marketing planning.
2. Describe the eight components of a marketing plan.
3. Discuss ways of forecasting and measuring market demand.

UNIT 4

MARKETING RESEARCH AND ANALYSIS

4.1 Introduction

Welcome to unit 4 of this module. In the previous unit, you will recall that, we learned about planning as it relates to the marketing operations. We looked at, forecasting, how to measure market demand, and we ended by looking at marketing planning.

Today in unit 4, we shall discuss marketing research. Our focus shall be on the forms of research, the research process, and the marketing information system.

As a student of marketing, you will be expected to grasp the main idea behind these topics and be able to understand the marketing research process.

4.2 Learning Outcomes;

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

- define marketing research.
- state the forms of marketing.
- describe the marketing research process.
- explain the marketing information system.

4.3 Time Frame

Three hours (3 hours)

4.4 What Is Marketing Research?

Marketing research is the process of getting the marketing information needed to make sound business decisions. It involves the systematic gathering, recording, and analyzing of data about problems related to the marketing of goods and services.

Marketing research can apply to any of the functions of marketing. For example, a food manufacturer introducing a new product line would investigate the financial aspects, the staff requirements, the distribution network, and the potential sales for the proposed product line.

The primary emphasis of most marketing research, however is to obtain information about the preferences, opinions, habits, trends, and plans of potential customers.

4.5 Forms of Marketing Research

Marketing research has developed a number of broad divisions. These are outlined below.

- **Customer Market Research:** This type of research provides information on, (a) market

and market segment sizes, and (b) trends in the market which can be used for forecasting.

- **Advertising and Promotion Research:** This type of research provides information on, (a) the most suitable method of promotion, (b) the most suitable copy and campaign material, (c) the most suitable media to use, and (d) the effectiveness of the communications in achieving objectives.
- **Product research:** This type of research provides information on, (a) opportunities for new product development, (b) product design requirements, (c) comparative performance vis-à-vis competitors' offering, and (d) packaging.
- **Sales research:** This type of research provides information on, (a) the effectiveness of sales methods and techniques, (b) establishing sales territories, (c) the adequacy of remuneration methods, and (d) sales training requirements.
- **Distribution research:** This kind of research provides information on, (a) suitable distribution methods, (b) the appropriateness of channel members, and (c) the best location for warehouses and retail outlets.
- **Market environment research:** This kind of research provides information on, (a) political influences, (b) economic influences, (c) social influences, and technological influences.

4.5.1 The Nature and Scope of Marketing Research

Marketing research can take place in any functions of marketing. The most significant areas of research are:

- **Advertising Research:** Advertising research focuses on the advertising message and media. It is designed to measure two things. One is the effectiveness of the advertising message in producing the desired response in the people who receive it. The other is the effectiveness of the chosen media in delivering the message to the consumers.
- **Business Research:** Business research attempts to solve business problems related to long-range forecasting and future economic conditions. Business research usually looks at sales forecasting and economic forecasting.
- **Corporate Responsibility Research:** Corporate responsibility research deals with consumer concerns, social values, environmental impact, and policy studies. This type of research provides businesses with the latest public opinion on corporate responsibility and business ethics.
- **Operations Research (Distribution research):** Operations research looks at methods and procedures that will make a business more effective and efficient in distributing its goods and services. It is concerned about day-to-day policies, procedures, rules and regulations that might be improved upon, modified or changed to better serve customers and employees.

- **Product research:** product research is concerned about product design and acceptance, competitive products, testing of existing products, package design, and product usage. Product research measures new product acceptability by the consumers and identifies opportunities to meet changing customer needs.
- **Sales and Market Research:** Sales and market research focuses on customer analysis, sales and market analysis, test marketing, and target market characteristics

4.6 The Marketing Research Process

Five major steps are involved in the marketing research process. Each step must be performed sequentially and systematically to arrive at a solution to a problem. The following are the steps in the marketing research process:

Step 1: Problem Definition

Defining the problem is one of the most important steps in marketing research. Problem definition occurs when you have identified the problem that your proposed program of research intends to address. A marketing researcher should clearly state the problem.

Step 2: Design the Research

State whether you will follow a **qualitative** or **quantitative** research methodology.

Determine the data collection Method: This may be either through any of the following methods:

- Observation method.
- Survey method.
- Experimental method.

Determine **the contact methods:** This may be done through any of the following or a combination of them:

- Face to face contact or interviews.
- Telephone.
- Mail, or email.

Design the sampling plan

- From which population will the sample of respondents will be drawn
- What will be the sample size
- What will be the method of sampling

Step 3: Obtaining Data

During the second step in the marketing research process, data are obtained and examined about the problem and problems being studied. The word data means facts.

There are two types of data used in marketing research. These are primary data and secondary data.

Primary data are raw facts and figures obtained for the first time and used specifically for the particular problem under study.

Secondary data are facts that have already been collected, and are used for some other purpose than the current study.

Primary data are obtained using the following methods:

- **The survey method:** This is a research technique in which information is gathered from people directly through the use of questionnaires. This is a written list of questions pertinent to the identified problem. The survey method is the most frequently used method for collecting primary data.
- **The Observation Method:** The observation method is a research technique in which the actions of people are observed and recorded. This method is frequently used to get information about employee performance or customer behavior. The observation technique may either use natural or contrived observations.

With natural observation, customers or employee are observed by the researcher as they would naturally act in a given situation. For example the researcher may personally observe the customers as they shop, enter or leave a store. Sometimes, the researcher may choose to use hidden cameras to observe the customers or people under study.

Some observations are contrived (devised). For example, observers pose as customers to measure the effectiveness of the selling techniques used by sales people. The salespeople are observed with respect to approach, sales presentation, product knowledge, and suggestion selling.

For the observation technique to be successful, data from the observation must be recorded, actions must be identified and behaviours noted.

- **Experimental Methods:** this is a research technique in which one or more marketing variables are observed under controlled conditions.

For example, a business may want to compare the effectiveness of two different advertisements. To do so, the researcher will select two similar groups of consumers. One group is shown one advertisement, and another group is shown the other.

The adverts are the variables, while the two groups are the controlled condition.

If one advert gets a better response, the business may choose it for its advertising campaign.

The experimental method of marketing research is least used often. This is because of high costs of setting up the research situation.

Step 4: Data Analysis

The third step in the marketing research process is data analysis. Data analysis is the compiling, analyzing and interpreting the results of primary and secondary data collection.

The accurate compiling of data allows marketing researchers to carefully analyze and interpret data in order to make recommendations to management regarding the problem being studied.

Step 5: Recommending solutions to the Problem

Successful research usually results in the development of several alternatives or recommendations for solving a problem. Recommendations must be well written and well organized so that the appropriate business managers will understand them. This means the recommendations must be clear and well supported by the research data.

A typical research report outline includes:

- Title page.
- Acknowledgements to people who assisted in the research effort.
- Table of contents.
- Lists of tables, figures, charts, and graphs.
- Introduction (includes the problem under study, its importance, definitions, limitations of the study, and basic assumptions).
- Literature review (including the results of any secondary data reviewed for purposes of the research effort).
- Procedures used (research techniques used to obtain primary data).
- Findings
- Recommendations.
- Summary and conclusions.
- Appendices.
- Bibliography.

Step 6: Report the Results the Decision Maker

Report your findings in line with the objectives of your research. This is especially easier if at the beginning your marketing research started with clearly defined objectives.

Step 7: Implementing the Findings

After a research effort has been completed, the findings of the marketing research should be implemented.

Once the recommendations have been implemented, a business should carefully monitor the results. A Business needs to know whether the specific actions taken are successful and to what extent are they successful.

If for instance, the implemented recommendations lead to increased profits through better sales, increased efficiency, reduced expenses, or better opportunities, then the research effort has been worthwhile.

The results obtained through the marketing research effort should become part of the total information available to business for making future decisions.

4.7 The Marketing Information System

4.7.1 Introduction

Marketing information systems have been around for a long time. The original ones were paper based systems in which summarized information was stored in large filing cabinets. In comparison with the current notions of information systems, the early paper based systems were relatively inefficient. With the advent of computers, the opportunity developed for marketing information systems to become more sophisticated and efficient.

4.7.2 Definition of marketing information system

A marketing information system is a way of systematically gathering and giving helpful marketing information to the right people on continuous basis and at the tight time. It consists of people, equipment, and procedures to gather, sort, analyses, evaluate, and distribute needed, timely, and accurate information to marketing decisions makers.

4.7.3 The importance of information in marketing

The marketing process starts with a complete understanding of the marketplace and customer needs and wants. Thus, the company needs sound information in order to produce superior value and satisfaction for customers. The company also requires information on competitors, resellers, and other actors and forces in the marketplaces. Increasingly, marketers are viewing information not only as an input for marketing better decisions but also as an important strategic asset and marketing tool.

4.7.4 How the marketing Information system works

A well-designed information system begins and ends with users.

The marketing information system first assess information needs. The marketing information system primarily serves the company's marketing and other managers, but it may also provide information to external partners.

Then, the marketing information system develops information from internal databases, marketing intelligence activities and marketing research.

Internal databases provide information on the company's own operation and departments. Such data can be obtained quickly and cheaply but often needs to be adapted for marketing decisions.

Marketing intelligence activities supply everyday information and developments in the external marketing environment.

Market research consists of collecting information relevant to a specific marketing problem faced by the company.

Lastly, the marketing information system distributes information gathered from these sources to the right managers in the form and at the right time.

4.7.5 Constructing a simple marketing information system

Marketing managers need more and better information to make effective and timely decisions. Using new technologies, companies can obtain great quantities of information. Companies are now designing information systems to help managers to develop and manage market and customer information.

There are many ways of putting together a marketing information system. The required information can be classified in a number of different ways. One way of classifying the information is putting it according to the following categories:

- Internal information
- External information
- Position information
- Decision information
- Forecast information

- **Internal information:** Internal information is made up of sales reports, sales analysis, and cost analysis related to sales. Most of the raw data already exists within the organization and needs to be processed or analyzed so that it becomes helpful information. An information system facilitates this process.

- **External information:** This information refers to the size, structure, trends, opportunities and threats in the environment. It also includes information on competitors and customers. Employees, distributors, and customers contribute this form of marketing information.

- **Position information:** Position information is created by combining internal and external information. For example, one may combine the enterprise's sales and the sales of the competitors in the market to calculate market share. In a similar fashion, internal strengths and weaknesses can be compared to those of competitors to find the competitive advantage, unique selling points, and whether any competitive advantage is sustainable.
- **Decision information:** This kind of information results from various analyses, which can involve mathematical and statistical treatment of data.
- **Forecast information:** Forecast information can be based on either subjective opinions, ascertained by survey, or on statistical analysis of trends.

4.8 Summary

In this unit, we have looked at marketing research and its various aspects. We have specifically captured the concept of marketing research, forms of marketing research, and the marketing research process. We ended our discussion by looking at the marketing information system. After studying this unit, we expect you to be able to carry out a simple marketing research process, and to understand the importance of the marketing information system.

4.9 Activities

1. Discuss forms of marketing research.
2. Summarize the steps of the marketing research process.
3. Discuss the importance of a marketing information system and explain how the marketing information system works.

UNIT 5

CONSUMER BEHAVIOUR AND MARKET SEGEMENTATION

5.1 Introduction

Welcome to unit 5 of this module. In the previous unit we looked at marketing research and analysis, and its various aspects. We hope you enjoyed and was able to understand the unit well. Today we are going to learn about customer behavior and market segmentation. Our focus will be on consumer behavior, market segmentation, market targeting and positioning. Through this unit, you will be able to appreciate the role and importance of consumer behavior, market segmentation, targeting and positioning to the marketer.

5.2 Learning Outcomes

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

- describe the nature, scope and significance of consumer behaviour.
- explain the market segmentation concept and its importance.
- identify market targeting strategies.
- position your product offerings.

5.3 Time Frame

Three hours (3 hours)

5.4. Nature, Scope and Significance of Consumer Behaviour

5.4.1 What is Consumer Behaviour?

Consumer behaviour can be defined as the emotional, mental and physical activities that people engage in when selecting, purchasing, using, and disposing of products and services so as to satisfy the needs and desires. In brief, consumer behavior can be defined as the buying behavior of final consumers. These are individuals and households who buy goods and services for personal consumption.

5.4.2 The Nature of Consumer Behaviour

a) **Systematic process:** Consumer behaviour is a systematic process relating to buying decisions of the customers. The buying process consists of the following steps:

- Need identification to buy the product
- Information search relating to the product
- Listing and evaluating the alternative
- Purchase decision
- Post purchase evaluation by the marketer

b) Influenced by various factors: Consumer behaviour is influenced by a number of factors the factors that influence consumers include marketing, personal, psychological, situational, social and cultural etc.

c) Different for different customers: All consumers do not behave in the same manner. Different consumers behave differently. The different in consumer behaviour is due to individual factors such as nature of the consumer's lifestyle, culture etc.

d) Different for different products : Consumer behaviour is different for different products there are some consumers who may buy more quantity of certain items and very low quantity of some other items.

e) Vary across regions: The consumer behaviour vary across States, regions and countries. For instance, the behaviour of urban consumers is different from that of rural consumers. Normally rural consumers are conservative (traditional) in their buying behaviour.

f). Vital for marketers: Marketers need to have a good knowledge of consumer behaviour they need to study the various factors that influence consumer behaviour of the target customers. The knowledge of consumer behaviour enables marketers to take appropriate marketing decisions.

g) Reflect status: Consumer buying behaviour is not only influenced by status of a consumer but it also reflect it. Those consumers who owned luxury cars, watches and other items are considered by others as persons of higher status.

h) Result in spread effect: Consumer behaviour as a spread effect. The buying behaviour of one person may influence the buying behaviour of another person. For instance, a customer may always prefer to buy premium brands of clothing, watches and other items etc. This may

influence some of his friends, neighbours and colleagues. This is one of the reasons why marketers use celebrities like Shahrukh Khan, Sachin to endorse their brands.

- i) **Undergoes a change:** The consumer behaviour undergoes a change over a period of time depending upon changes in age, education and income level etc, for example, kids may prefer colourful dresses but as they grow up as teenagers and young adults, they may prefer trendy clothes.
- j) **Information search:** Search for information is a common consumer behaviour. Consumers cannot purchase goods and services if they are unaware that a good or service exists. When a consumer decides to buy a certain item, his decision must be based on the information he has gathered about what products our services are available to fulfill his needs. There might be a product available that would be better suited to the consumer's needs, but if he is an aware of product, he will not buy it.
- k) **Brand loyalty:** Brand loyalty is another characteristic of consumer behaviour. Brand loyalty is the tendency of a consumer to buy product products or services from a certain company that one likes or equates with having high quality goods and services. For example, if Naina's first car was a Honda as a teenager and the car lasted 200,000 miles, she might have a tendency to buy Hondas again in the future due to her previous positive experience. This brand loyalty may be so strong that she forgoes the information search all together when considering for next vehicle.

5.4.3 The Scope of Consumer Behaviour

- a) **Consumer behaviour and marketing management:** Effective business managers realise the importance of marketing to the success of their firm. A sound understanding of consumer behaviour is essential to the long run success of any marketing program. In fact, it is seen as a cornerstone of the Marketing concept, an important orientation of philosophy of many marketing managers. The essence of the Marketing concept is captured in three interrelated orientations consumers' needs and wants, company integrated strategy.
- b) **Consumer behaviour and nonprofit and social marketing:** In today's world even the non-profit organisations like government agencies, religious sects, universities and charitable institutions have to market their services for ideas to the "target group of consumers or institution." At other times these groups are required to appeal to the general

public for support of certain causes or ideas. Also they make their contribution towards eradication of the problems of the society. Thus a clear understanding of the consumer behaviour and decision making process will assist these efforts.

- c) **Consumer behaviour and government decision making:** In recent years the relevance of consumer behaviour principles to government decision making. Two major areas of activities have been affected:
- d) **Government services:** It is increasingly and that government provision of public services can benefit significantly from an understanding of the consumers, or users, of these services.
- e) **Consumer protection:** Many Agencies at all levels of government are involved with regulating business practices for the purpose of protecting consumers welfare.
- f) **Consumer behaviour and demarketing:** It has become increasingly clear that consumers are entering an era of scarcity in terms of some natural gas and water. These scarcities have led to promotions stressing conservation rather than consumption. In other circumstances, consumers have been encouraged to decrease or stop their use of particular goods believed to have harmful effects. Programs designed to reduce drug abuse, gambling, and similar types of conception examples. These actions have been undertaken by government agencies nonprofit organisations, and other private groups. The term "demarketing" refers to all such efforts to encourage consumers to reduce their consumption of a particular product or services.
- g) **Consumer behaviour and consumer education:** Consumer also stands to benefit directly from orderly investigations of their own behaviour. This can occur on an individual basis or as part of more formal educational programs. For example, when consumers learn that a large proportion of the billions spent annually on grocery products is used for impulse purchases and not spend according to pre-planned shopping list, consumers may be more willing to plan effort to save money. In general,as marketers that can influence consumers' purchases, consumers have the opportunity to understand better how they affect their own behaviour.

5.4.4 The Significance of Consumer Behaviour

a) Production Policies: The study of consumer behaviour effects production policies of enterprise. Consumer behaviour discovers the habits, tastes and preferences of consumers and such discovery enables an enterprise to plan and develop its products according to these specifications. It is necessary for an enterprise to be in continuous touch with the changes in consumer behaviour so that necessary changes in products may be made.

b) Price policies: The buyer behaviour is equally important in having price policies. The buyers of some products purchase only because particular articles are cheaper than the competitive articles available in the market.

c) Decision regarding channels of distribution: The goods, which are sold and solely on the basis of low price and economical distribution channels. In case of those articles, which are T.V. sets, refrigerators etc. Must have different channels of distribution. Thus, decisions regarding channels of distribution are taken on the basis of consumer behaviour.

d) Decision regarding sales promotion: Study of consumer behaviour is also vital in making decisions regarding sales promotion. It enables the producer to know what motive prompts consumer to make purchase and the same are utilised in promotional campaigns to awaken desire to purchase.

e) Exploiting marketing opportunities: Study of consumer behaviour helps the marketers to understand the consumers' needs, aspirations, expectations, problems etc. This knowledge will be useful to the marketers in exploiting marketing opportunities and meeting the challenges of the market.

f) Consumer do not always act or react predictably: The consumers of the past used to react to price levels as if price and quality had positive relation. Today, however, value for money, lesser price but with superior features. The consumers' response indicates that the shift had occurred.

g) Highly diversified consumer preferences: This shift has occurred due to availability of more choice now. Thus study of consumer behaviour is important to understand the changes.

h) Rapid introduction of new products: Rapid introduction of new product with technological advancement has made the job of studying consumer behaviour more imperative. For example, the information Technologies are changing very fast in personal computer industry.

i) Implementing the "Marketing concept": This calls for studying the consumer behaviour, all customers need have to be given priority. Thus identification of target market before production becomes essential to deliver the desired customer satisfaction and delight.

5.5 Market Segmentation Concept and its Importance

There are two approaches that a firm can use to sell their products in the marketplace. These are mass marketing and market segmentation.

5.5.1 Mass Marketing: Mass marketing is using a single marketing plan for one product to reach all consumers, usually a large group. Products that are mass marketed generally have a universal appeal and few basic feature to differentiate them from competitors.

To mass market a product, businesses select a single, general advertising theme that appeals to most people who use the product. The theme is designed to keep the name of the product before the general public.

The most important thing, for a product to be mass marketed is that it must have a universal appeal, e.g. products like household cleaners.

5.5.2 The Market Segmentation Concept: Market segmentation is the process by which the market is divided into distinct subsets with similar needs that lead them to respond similarly to particular product offerings and marketing programs. In other words, market segmentation is dividing up a market into several smaller groups with similar needs.

Market segmentation may also be defined as the process of identifying the clusters or segments of customers in a market which share similar needs and wants and will respond in a unique way to a given marketing effort.

5.5.3 The importance of market segmentation

- a)** It helps in profiling target audiences relative to their similar characteristics. Such audiences will usually need to be approached in a similar way via product promotion.
- b)** It helps in identifying opportunities for new product development. A good analysis will often yield a segment that is not having its needs met.

- c) It helps in the design of marketing promotion programs that are most effective for reaching homogeneous groups customers.
- d) It improves the strategic allocation of marketing resources. Well defined segments with specific products, serve as potential places for business.

5.5.4 Why the importance of market segmentation has increased

The importance of market segmentation has increased due to the following reasons:

- a) The availability of more focused marketing programmes such as special interest magazines.
- b) Increased variation and sophistication of needs due to higher education and income.
- c) Intense competition for customers among producers and product providers.
- d) Trend towards micro segmentation accelerated by technology, such as computer aided design, mass customization, etc.

5.6 Bases for Market Segmentation

Segmentation decisions are best made in one of the three ways. These ways are also known as descriptors or criteria. The three are framed in a question form. The questions are, “who are our customers? Where are our customer? How do our customers behave?”

To answer these questions the following descriptors are used.

a) Demographic Descriptors

The term demographic refer to statistics about personal characteristics of a population. Demographic factors are commonly used by all types of businesses to segment markets.

Thus, using demographics the **consumer** market may be divided or segmented in any of the following ways:

- Age
- Sex
- Income
- Occupation
- Education
- Race and ethnic origin
- Marital status

For **industrial markets**, the most common demographic factors for dividing or segmenting the market are through:

- Age
- Sex
- Position
- Size of industry
- Industry affiliation

For **international markets**, the most common demographic factors through which a market may be segmented are by:

- Countries
- Buying organizations.

b) Geographic Descriptors

A firm may use geographic factors to segment the market. Here a firm segments the market according to where the customers are located or live.

One important geographic characteristic is population density. Some retail stores, for example, will locate only in areas that have a certain minimum number of people per square kilometer.

Climate is another important geographic characteristic. For example, certain types of seed crops will only suit a certain climate but not the other. In such a situation, seed companies will therefore, only market certain seeds that are suitable to a given climate and region.

In general, it is also important to note that different areas vary in their sales potential, growth rates, cultures, climates, purchase rate, etc. They also differ in terms of trade areas, distance to the location, etc. All these factors affect how the market will be segmented geographically.

A firm may also opt use Geo-demographics segmentation. Under this type of segmentation, a firm uses both geographic and demographic descriptors to determine a suitable segment.

c) Behavioural Descriptors

The market may be segmented through its Behavioural aspects. This is based on what the potential customers do. The patterns of behavior that people follow in their daily lives, including how they spend their time and money.

Segmenting the market using the Behavioural descriptor may be done by focusing on the following:

Consumer needs.

- Benefits sought from a particular product or service.
- The importance attached to a product.
- Pre-defined specific features such as superior performance, delivery time, good service, etc.

Product usage and purchase influence

- Rate and the way the product is used.
- Purchase influence. Who makes the purchase decision?
- Loyalty. As reflected by the number of successive purchases made over time.

Life Style

This is when a market is segmented on the basis of the consumers' activities, interests and opinions. This may include using segmentation services that focuses on the following aspects:

- Principled-oriented consumers who are motivated by abstract and idealized criteria.

- Status oriented consumers who buy products that demonstrate personal success.
- Action oriented consumers who are guided by their need for social and physical activity, variety and risk taking.

Resources

- Psychological, physical, demographic, education, money, past experience, health, confidence, etc. All those factors that consumers draw on to make purchase decisions.
- Social class similarity in income, education and occupation.

Characteristics of a useful segment

An effective and useful segmentation will define its market base according to the following criteria:

- a) Size:** Segments must be big enough to give a business sufficient returns for all its marketing effort put in. Thus, there should be sufficient potential customers in each segment.
- b) Accessibility:** You should be sure that there are suitable ways for your products to reach the market as well as for you to communicate with the market.
- c) Distinctness:** Each segment must be clearly separate from others.
- d) Durability:** you need to be sure that the segment will be around for a while.
- e) Measurability:** You should be able to use a measurable variable as basis for your segmentation.

5.7 Targeting

Targeting is the act of choosing or selecting the market segment that a firm should enter and start doing business. A firm will only choose those segments that it believes are right for its business.

Furthermore, target segments should be selected on the firm's ability to match or exceed competing offers, as well as the economic attractiveness of the segment.

5.7.1 Targeting Strategies

There are three common strategies that are used in market targeting. These are outlined below:

a) Niche Market Strategy

Niche marketing is a strategy that involves targeting one or a few segments that consists of a number of customers who seek specialized benefits from a product. In other words, it is a market coverage strategy in which a firm goes after a large share of one or a few segments.

The niche approach is especially appealing when the company's resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or a few segments or niches.

Through niche-market strategy, the firm achieves a strong market position because of its greater knowledge of consumer needs in the niche it serves and the special reputation it acquires. It can market more effectively by fine-tuning its products, prices, and programs to the needs of carefully defined segments. It can market more efficiently, targeting its products, channels, and communications programs toward only consumers that it can serve best and most profitably.

Niching also offers smaller firms an opportunity to focus their limited resources on serving niches that may be overlooked by larger competitors.

Most firms begin with niche strategy to get a foothold against larger, more resourceful competitors, then grow into broader competitors.

One of the major reasons behind the niche-market strategy, is to help a firm to avoid direct competition with large firms. This is so because niches most often attract only one or just a few competitors.

The major drawback of the niche strategy, however, is that the business of a firm that rely on such a strategy can suffer greatly should larger competitors decide to enter the same segment with greater resources.

b) Mass-market Strategy

A business can pursue a mass-market strategy in two ways. First it can **ignore** any segment differences and design a single product and marketing program that will appeal to the entire market or to the largest number of consumers. The primary object of this strategy is to capture sufficient volume in order to enable the firm gain economies of scale and a cost advantage. Consequently, it is favoured by larger companies or larger business units. This strategy requires:

- Substantial resources, as well as production capacity and good mass-marketing capabilities.
- Sustainable investment.

The second approach to the mass-market is known as the **differentiated Market approach**. It is a market coverage strategy in which a firm decides to target several market segments and designs separate offers for each. Thus, under this approach, a firm must design separate products and marketing strategies for the different segments of a market. The main advantage of this approach is that it can help generate more sales.

The major drawback of mass-market strategy, however, is that it is costly. There are, for instance, costs for designing different products, manufacturing, inventory, marketing, etc.

c) Growth-market Strategy

Businesses that pursues a growth market strategy often target one or more fast growth segments, even though these segments may not be very large. It is a strategy often favoured by small firms to avoid direct confrontation with larger firms while building volume and market share.

Growth market strategy usually require strong research and marketing capabilities. One problem however, is that sustained fast growth often attracts large competitors.

5.8 Positioning

The final act in the target marketing process of segmentation is positioning. According to Lovelock (2004): "Positioning is the process of establishing and maintaining a distinctive place in the market for an organization and/ or its individual product offerings."

Positioning may also be defined as "the act of designing the company's offering and image so that they occupy a meaningful and distinct competitive position in the target customers' minds" (Kotler, 1997).

This is an important aspect of the positioning concept. Positioning is about what the buyer thinks about the product or organization. What matters is how the product is perceived.

Understanding the concept of product positioning is key to developing an effective competitive posture.

The following four principles can provide guidance to an enterprise that may want to position itself in the market segment:

1. An enterprise must establish a position in the minds of its targeted customers.
2. The position should be singular, providing one simple and consistent message.
3. The position must set a company apart from its competitors.
4. An enterprise cannot be all things to all people - it must focus its efforts.

5.8.1 The Positioning Process

Positioning a new brand in customers' minds involves a series of steps, as outlined below:

Step 1: Identify a relative Set of Competitive Brands Serving the Target Market

The focus of the analysis should be on examining:

- a) Customers' perceptions about the types of products they might consider as substitutes to satisfy the same basic need.
- b) How various brands or products appeal to customers.
- c) How an enterprise or a business unit is positioned relative to its competitors.

Step 2: Identify Determinant Attributes

Positioning whether for goods or services, can be based on a variety of attributes. Some common bases are the following

- a) **Features** are used in physical product positioning. An example of emphasizing features with consumer goods is the claim by a Zambian company known as Gracebridge, that: 'This is the most beautiful front cover book design ever made in Zambia.'
- b) **Benefits**, for instance one company's emphasis on safety, another company's emphasis on reliability, etc.
- c) **Parentage** includes who makes it. For instance, a phrase like this: 'At Chongwe College of Education, you are not just getting a Diploma but a University of Zambia Diploma.'

- d) **Manufacturing** process is often a firm's positioning effort. An example is Gracebridge's statement about its watches - 'we know it is perfect, but we take another 1000 hours just to be sure.'
- e) **Ingredients**, what is it made of.
- f) **Endorsements** by experts such as doctors and other professionals. ('Discover why Zambian Medical Doctors prescribe our wheelchairs.')
- g) **Comparison** with competitor's products is common (Gracebridge's candles lasts much longer than those from other candle manufacturers.')
- h) **Pro-environment** positioning seeks to portray an enterprise as a good citizen. ('while government leaders are debating climate, we are actually doing something about it' – Timberland).
- i) **Price/quality** can also be used by enterprises to position themselves as lowest price sellers of some specific products.

Step 3: Collect Data about Customers' Perceptions of Brands in the Competitive Set.

Having identified a set of competing brands, the marketer needs to know what attributes are determinant for the target market and the product category under consideration. He needs to know how different brands in the competitive set are viewed on these attributes. Typically this market knowledge is developed by conducting a research. A survey of consumers about their perception is required.

Step 4: Analyze the current position of the competitive Set

Positioning may be directed at a new brand not yet introduced or at repositioning one that already exists. Whatever the case, it is important to develop a clear understanding of the positioning of existing brands in the competitive set. There are two useful tools for doing so. One is the Positioning Grid, also called perceptual map. The other is the value curve.

The positioning grid provides a visual representation of the positions of various products or brands in the competitive set.

A value curve, on the other hand, indicates how products within a category compare in terms of the level – high or low.

Step 5: Determine Customers' Most preferred combination of attributes

There are several ways analysts can measure customer preferences and include them in a positioning analysis. For instance, survey respondents can be asked to think of the ideal brand within a category a hypothetical brand possessing the perfect combination of attributes (from the customer's view point). Respondents could then rate their ideal product and existing products on a number of attributes. An alternative approach is to ask respondents not only to judge the degree of similarity among pairs of existing brands but also to indicate their degree of preference for each. In either case, the analyst using appropriate statistical techniques, can locate the respondents' ideal points relative to the positions of the various existing brands on the product space map.

Another method of assessing customers' preferences and trade-offs among them is conjoint analysis. Customers are surveyed and asked their preferences among various real or hypothetical

product configurations, each with attributes that are systematically varied. By analyzing the resulting data, the marketer can learn which of the several attributes are more important than the others. These results can then be used in positioning analysis such as those described here.

Step 6: Consider Fit of Possible Positions with Customer Needs and Segment Attractiveness

An important criterion for defining segments is the difference in the benefits sought by different customers. Because differences between customers' ideal points reflect variations in benefits they seek, a market positioning analysis can simultaneously identify distinct market segments as well as the perceived positions of different brands. When customers' ideal points cluster in two or more locations on the product space map, the analyst can consider each cluster a distinct market segment. For analytical purposes, each cluster is represented by a circle that encloses most of the ideal points for that segment; the size of the circle reflects the relative proportion of customers within a particular segment.

Step 6 not only concludes the analysis portion of the positioning process and crystallizes the decision about the positioning a brand should hold, but it also can uncover locations in the product space where additional new brands could be positioned to serve customer needs not well served by current competitors. Thus a side benefit of the positioning process is recognition of underserved positions where additional products might be placed.

Step 7: write positioning statement or value proposition to guide development and implementation of marketing strategy.

The final decision on both the market targeting analysis discussed earlier and the results of a brand positioning analysis. The position chosen should match the preferences of a particular market segment and should take into account the current positions of competing brands.

It should also reflect the current and future attractiveness of the target market (its size, expected growth, and environmental constraints) and the relative strength and weaknesses of competitors. Such information, together with an analysis of costs required to maintain the position allows an assessment of the economic implications of different market positioning strategies.

Most successful products are positioned based on one or, at most, two determinant attributes, whether physical or perceptual. Using more attributes simply confuses customers.

Writing a Positioning Statement or a Value Proposition

A **positioning statement** is a succinct statement that identifies the target market for which the product is intended and the product category in which it competes and states the unique benefit the product offers. Given below is an example of a positioning Statement that reflects Volvo's marketing strategy in the USA:

Volvo's Position statement

For upscale American families, Volvo is the automobile that offers the utmost in safety.

Value Proposition

A value proposition is similarly explicit about what the product does for the customer (and sometimes, what it does not do) and typically also includes information about pricing relative to competitors.

Both positioning statements and value propositions should generally reflect a unique selling proposition that the product embodies. In this sense, they reflect the basis on which the marketer intends to win competitive advantage by differentiating the product from others.

A **Value proposition** typically looks like this:

- Target market.
- Benefits offered (and not offered).
- Price range (relative to competitors).

It is important that the positioning statement or value proposition states the benefits that the user of the product will obtain, rather than features or attributes of the product itself or vague or ambiguous platitudes about high quality or excellent service. By benefits, we mean the resulting end-use measurable consequences that the user will experience through the use of the product, in comparison to others.

The marketer generally writes positioning statement for use internally and by others such as advertising agencies, engaged to develop the marketing strategy. They are short and succinct, and are not written in catchy consumer language.

Thus, in a very real sense, the positioning statement or value proposition constitutes the foundation upon which the marketing strategy is built.

5.8.2 Physical Positioning

One way to assess the current position of a brand relative to its competitors is on the basis of how various brands compare on some set of physical characteristics.

Physical positioning is the kind positioning that focuses on establishing and maintaining a distinctive place in the market by providing products that have unique physical characteristics that can have a positive and lasting impact on the customer.

Physical product positioning analysis can provide useful information to a marketing manager. It can thus, provide the basis for coming up with new product lines, and for identifying and designing new products.

- Physical positioning is important because it can:
- Be an essential step in understanding a position analysis, which sets the foundation for brand positioning decisions.
- Help define the structure of competition by revealing the degree to which various brands compete.
- Reveal opportunities for new product entries.

- Contributes to better marketing and research and development interface by determining the key physical product characteristics.
- Indicate the presence of meaningful product gaps.

The major drawback of physical positioning, however, is that a simple comparison of only the physical dimensions of a product does not provide a complete picture of relative positions because, positioning ultimately occurs in the customers' minds.

Even though a brand's physical characteristics, package, brand name, price, and auxiliary services can be designed to achieve a particular position in the market, customers may attach less importance to some of these characteristics, or perceive them differently from what the firm expects.

Also, the customers' attitudes towards a brand are often based on social, or psychological attributes not amenable to objective comparison, such as perceptions of the brand's aesthetic appeal, sportiness, or status image.

5.8.3 Perceptual Positioning

As opposed to physical positioning, which focuses on physical characteristics, perceptual positioning on the other hand focuses on capturing the customer's perceptions regarding the non-physical attributes of the product. Perceptual positioning is very important.

Many customers do not want to be bothered about a product's physical characteristics because they are not buying these physical properties but rather the benefits they provide. A consumer can evaluate a product better on the basis of what it does than what it is.

The evaluation of many goods and services is subjective because it is influenced by factors other than physical properties, including the way products are presented, our past experiences with them, and opinions of others.

5.9 Summary

In this unit, we have discussed the nature, scope, and significance of consumer behavior. We have also looked at market segmentation, bases for market segmentation, targeting, and positioning. We hope that you have found this unit educative and that you have understood the importance of consumer behavior, targeting, and positioning to the marketing operation.

5.10 Activities

You can now attempt the following activities:

- 1). Explain the importance of market segmentation.
- 3). Describe the process of positioning a new brand into a customer's mind.

UNIT 6

PRODUCTS, SERVICES AND BRANDING STRATEGIES

6.1 Introduction

Welcome to unit 6 of this module. Assuming that you are running a small furniture business on behalf of your school. Your decisions about your product are extremely important to your marketing. This is so because they will help you to achieve two things:

- a). Satisfy the requirements of your target market.
- b). Meet your enterprise's business objectives.

In this unit, we are going to look at the role of products, services and branding strategies in marketing. You will learn about their importance to the marketing operations.

6.2 Learning Outcomes

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

- Explain the product concept.
- Describe consumer and industrial goods concepts.
- Describe the processes of product planning and development.
- Discuss the role and functions of packaging.
- Explain branding and be able to choose a suitable brand name for your product,
- State the product life cycle.

6.3 Time Frame

Three hours (3 hours)

6.4 The Product Concept, Consumer and Industrial Goods

A product is any item or service that satisfies the need of a consumer. A product can be a physical product such as leather belts. It can be a service such as a hair cutting salon. It can also be a mix of physical goods and services, such as a hardware store and free advice on building.

6.4.1 The Three Dimensions of a Product

A product has the following three dimensions

a) Basic or Core Product

The basic or core product is the most important benefit or need satisfaction that your customer expects to get from the product. This is worth noting because customers don't buy products simply for the sake of the product. They buy products because of what that product can do for them, in other words, for the benefits they get from the product.

b) Real Product

The real product is made up of the basic product plus all the physical aspects of the product or service offered to the target market. This includes, for example, the design, colour, quality specification, features, styling, brand name and packaging of the product.

c) Total Product

The total product is made up of the basic product, the real product, and all the extras added to the product. This includes the extra services such as advice, delivery, customer service, warranties and guaranties.

With the increasing competition in most markets, you will be more likely to be successful with your marketing by developing a competitive edge through offering original service and combinations that make up the total product. It is at the total product level that you must compete with competitors. It is important that you identify your total product offering and understand how it ties in to your customer needs.

6.4.2 Classification of Products

An enterprise needs to decide what type of product it is offering to the target market.

There are three major types of products:

a) Durable products

Durable products are products that last for some time. They are actual products rather than services. Examples of these products are machine tools such as washing machine, lawn mowers, etc.

b) Non-durable products

Non-durable products are products that are used up in the short term. They include products such as foodstuffs, drinks, household detergent, and nuts and bolts.

c) Services

Services are products that offer instant benefits when the service is performed as opposed to the product that involve using, buying or owning. The problem here is that customers cannot see a service. So the challenge for an enterprise is in showing the value of the service to customers.

6.4.3 Consumer Goods

Products can also be classified as consumer products or Industrial goods. Consumer products are products bought by an individual person for his or her own use. There are three major types of consumer products, namely convenience, shopping, and specialty products.

a) Convenience products

Convenience products are products that are purchased frequently. The customers do not take long to think about buying convenience products. Examples are soap, tooth paste, coffee, sweets, magazines, etc. the important aspect of these consumer products is that the product must be in stock and easily available to customers.

b) Shopping products

Shopping products are products for which customers actually shop around before buying. They compare all the alternatives in terms of price, quality, design, etc. Examples of shopping products are clothing, furniture, and household items such as vacuum cleaners, kettles, toasters, etc. An important aspect of this type of consumer product is that the customers need to know what makes your product different from that of the competitor.

c) Specialty products

Specialty products that the customer makes a special effort to obtain. Examples of specialty products are exclusive designer clothing, photographic equipment, innovative hi-fi equipment, etc. These products are usually only available at selected outlets. An important aspect of this type of consumer product is that it requires that the customer know what makes the product or the place selling the product or the place selling the product so special.

6.4.4 Industrial Goods

Industrial or business products are bought by a business for use in making other products or providing other services. There are several types of industrial products as indicated below:

a) Capital Equipment

Capital equipment is essentially equipment and machinery used for, or helping to produce, other products or services. Examples are office equipment, sewing machines, and agricultural machines. These products tend to be fairly expensive and last a long time. They usually require fairly high levels of technical knowledge and service maintenance that extends past the time of purchase of the product.

b) Materials and Components

Materials and components are products actually used in, or used up in, the making or delivery of the final product. This might be raw materials (e.g. potatoes in a fast food outlet serving chips) or processed materials (e.g. chemicals used to make paint). Materials whether raw or processed usually become part of the product. In other words, they change their form. Components also become part of the product but they don't change their form. Examples of components are spark plugs, buttons, nuts and bolts, etc.

c) Operating Supplies

Operating supplies are products which are used by a business, but not in the manufacturing of products themselves. Examples are oil, cleaning materials, paperclips and note pads. They are

relatively inexpensive and have a fairly short life span. The important aspects of this type of product are that it must be available to those who want it and it must be comparatively priced.

d) Industrial Services

Industrial services are those used by a business to support the production process. Examples are office cleaning, catering, waste removal, market research and auditing services. The important aspect of this type of product or service is that the customers need to be made aware of how the service you offer can help them to perform their tasks better and reach their objectives.

6. 5 Product Planning and Development

6.5.1 Nature and Scope of Product Planning

Product planning encompasses all the decisions a business makes in the production and sale of its products, including those decisions relating to packaging, aging, labelling, warranties, guarantees branding and product mix. A well-defined product plan allows a business to create sales opportunities , design appropriate marketing programs, develop effective advertising campaigns ,coordinate the product mix offered to customers add new products ,and delete older products that no longer appeal to customers.

6.5.2 Product Features

Every product has features designed to satisfy the wants and needs of customers. Business usually divide these features into three categories- tangible, extended and generic. It is a combination of all three that help sell a product.

- a) **Tangible products features** are those that can be seen, or described with specifications, models numbers or names. Tangible features include the types of material used in the construction of an item, its size, color, taste, weight, and special qualities such as performance efficiency.
- b) **Extended product features** are the values, emotions, image, or special services that customers expect with or from particular products. Values, emotions, and image include such things as sentimentality, love, convenience, prestige, status, and comfort. Service features range from familiar items, such as warranties, instructions for use, return policies, delivery, and repair, to such extras as cost- purchase training sessions and technical assistance.
- c) **Generic product features** are those products that relate to the customer's basic reasons for purchasing the product means to the customer in the broadest sense. For example, a car purchased for transportation, a telephone for communication, a radio for entertainment, and a two –week cruise for recreation.

6.5.3 Steps in Product Planning

Developing a product plan involves four key steps. Each step centers on a particular set of decisions that must be made if a business is to differentiate its products from others and compete successfully. The steps are as follows:

- i. Select the general type of product manufacturer or sell.

- ii. Specify the makeup of the product mix
- iii. Develop any required packaging and labelling.
- iv. Choose the extended features to be offered.

6.5.4 Product Development

New product development is one of the key methods that a business can use to try to ensure that it has a future. There are basically three types of new products. These are as follows:

- a) **Major innovations:** Major innovations are totally new products involving new combinations of technology, new formulations or new user benefits. This type of totally new product is fairly rare and involves quite a large element of risk for a business.
- b) **Product improvements:** Product improvements involve improving the existing product either slightly or substantially. This could take the form of product redesign, formula or ingredient changes.
- c) **Product additions:** Product additions are simply products that are imitations of existing products, or line extensions of products that a business person is already marketing successfully.

6.5.4.1 Product Development Process

The way to develop a new product will vary from business to business, but in general there are several steps that should be followed. These are as follows:

- a) **Idea Generation**

The first step is to generate ideas for possible new products. Obtaining ideas for new products must be an ongoing activity for all businesses. Product ideas can come from sources inside the company and outside the company. The following **internal sources** can be useful in this aspect:

- Your own research,
- Your own manufacturing process,
- market research,
- salespeople,
- customer service activities,
- managers in business,
- Employee suggestions.

On the other hand, the following **external sources** can also prove to be useful sources of generating ideas:

- Competitors' products,
- Customer feedback,
- Customer complaints,
- Customer suggestions,

- Outside specialists,
- Suppliers' suggestions.

b) Screening

Once you have generated ideas, screen or filter the ideas to see which ones are really offering business prospects for you. You will need to rate and rank the ideas to determine the attractiveness of the market for the proposed product, the fit between product and company objectives, and the capability of the company to produce and market the product. Opportunities with better growth potential are likely to be more attractive.

c) Business Analysis

At this stage, you will need to do some research as to what the product look should like, how customers will use the product, and what it will do for the customers. You will also need to determine how big the market for the product is, who the customers will be, what possible prices and profit margins are, and who the competitors will be. You will also need to do some financial planning in terms of cash flows, costs and profit projections.

d) Product Development

At this stage, the new product concept is developed into a physical product. You do this by developing a sample product (actual model).

The important task here is to ensure that the sample product is developed according to customer needs. To achieve this, there will be need to both carry out some research as well as to bring the customers on board.

You bring customers on board by conducting a product testing.

Product testing focuses on the functional aspects of the product and on consumer acceptance. Functional tests are carried out in the laboratory and in the field to check on such aspects as safety, performance and shelf life. Thus, consumers may identify problems and suggest improvements.

Besides conforming to these basic functional standards, products need to be tested with consumers to check acceptability in use. Experts can also be used in product development. Thus expert opinion can be evaluated to see if it can be of help.

The more input that potential customers have into the development of the product, the greater the likelihood of a successful outcome.

e) Market Testing

Once the product is developed, you may want to check everything by testing the product under market conditions before launching it onto the market. You may choose a small area to use as a test-market area, offer the product to customers, and implement the marketing mix you intend to follow. You will then evaluate and fine tune the marketing mix and see how the customers react to the product and the marketing mix.

f) Launching the New Product (commercialization)

At this stage you launch the product fully on to the market in the hope of winning competitive advantage. You may want to introduce the product onto separate areas of the market so as to be able to handle the product introduction and marketing, and the orders and demand for the product. You will also have to ensure that you monitor customers' reactions to the new product so as to make sure everything goes smoothly.

6.6 Packaging

A package is a physical container or wrapping for a product. Packaging is the design and production of the container of the product item so that it can be protected, stored, handled, transported, identified and marketed successfully.

6.6.1 Functions of Packaging

a) Promoting and Selling the Product.

Customer reaction to a product's package and brand name largely determine the success or failure of a product in the marketplace. A well designed package is a powerful selling device because it make a product stand out from its competition.

Attractive, colourful, and artistic packages have promotional value, too. Because a package carries a brand name, it serves as a constant reminder to the customer of the product's manufacturer.

A better container can even create new sales or help minimize possible lost sales to competitors for the same products.

b) Defining Product Identity.

Packages are often used to provide product identity. They do this by invoking prestige, convenience, status, or other positive product attributes in the eyes of the customer. Such packages can be a crucial part of an overall marketing strategy for a product.

c) Providing Information

Many packages provide information for the customer. They give direction for using the product and information about its contents, potential hazards, etc.

d) Meeting Customer Needs

Product packages usually come in various sizes to meet the needs of different market segments.

e) Ensuring Safe Use.

A package can improve product safety for the consumer. Many products formerly packaged in glass, for example, now come in plastic containers. This eliminates potential injuries from breakage. Countless other products are packaged in child-proof containers. These

have leads that are difficult to open and thus reduce the chances of accidental spills and poisonings.

f) Protecting the Product

A package must protect a product during transportation, storage, and display. It must also protect the product from breakage and spoilage. Basic protection materials for packages include cardboard, glass, metal, plastic, and wood.

6.6.2 Types of Packaging

A business must decide which type of packaging to use for its products. A number of choices are available:

- a) **Family Packaging:** In this type of packaging, all the products in the product mix have more or less the same packaging, for example, a range of shampoos with very similar packaging.
- b) **Individual Packaging:** In the case of individual packaging, each product gets its own special pack. This helps to give the product an image of exclusivity. For example a wine maker may choose a separate bottle and label for each of his wine products.
- c) **Reusable Packaging:** In this type of packaging, the packaging is deliberately designed to be used for another purpose once the containers have been used up.
- d) **Multiple Packaging:** In case of multiple packaging, several similar product items are packaged together.

6.7 Branding

A brand is a name, design, or symbol that identifies the products of a company or group of companies. Brands are good promotional devices because they help customers identify with a company and its products.

A **Brand Name** is a word or group of words that identifies a product and indicates a standard of quality and price.

A firm should also focus on developing the required branding, packaging and labeling of its products.

Branding identifies and helps to differentiate the goods or services of one seller from those of another. It consists of a name, sign, symbol, or some combination thereof. Brands consist of two types of attributes. These are:

- a) **Intrinsic Attributes:** These are the functional characteristics of a product. If a firm decides to alter the intrinsic attributes the effect will be that the product itself will be altered too.
- b) **Extrinsic Attributes:** These are attributes such as the brand name, marketing communication strategy used, etc. Altering these will not alter the product.

6.7.1 Benefits of Branding

Brands develop personalities and encapsulates the core values of a product.

For the **customer**, branding is important because:

- a) It makes it easier for the customer to identify the products.
- b) It provides continuity and consistency.
- c) It reduces risk.
- d) It helps gauge product quality.
- e) It provides psychological rewards (e.g. it satisfies certain status needs).
- f) It provides cues about the nature of source of the product and its values.

For the **manufacturer**, branding:

- a) Helps to differentiate the product.
- b) Make purchase decision easier.
- c) Enables premium pricing.
- d) Promotes loyalty. Some customers will always be loyal to the product and buy it all the time.
- e) Enables integrated marketing communications.
- f) Helps corporate identity,
- g) Provides legal protection for the product

6.7.2 The Strategic Role of Branding

Branding is strategically important because it can be used to:

- a) Defend the market share.
- b) Group brands.
- c) Protect established positions.
- d) Attack competing brands.
- e) Deter market entry by other brands.
- f) Help a firm to achieve customer retention.

6.7.3 Branding Strategies

There are several branding strategies that a firm may choose from. The following are the strategies:

- a) Individual Brands:** In this type of branding the firm provides a brand name for each product. Thus, the product is known by its name instead of the name of the company making the product.

The advantage of individual branding is that it reduces the risk should one product fail. This is so because the risk of one product failing will not affect the other products. Thus, such a risk will be confined only to that one product. The other advantage is that it promotes competition in multiple entries within the same product class.

- b) Family Brands:** in this type of branding, a firm uses one brand name to cover a group of its products. The advantages of this kind of branding are:

- i). It facilitates the promotion of product line items.**

ii). It is less costly compared to individual branding.

However, its main disadvantage is that it may prove ineffective if it covers both high quality products and low quality products. The inclusion of low quality products may destroy the family brand.

- c) **Co-Branding:** this strategy involves putting two brands together to form a new brand.
- d) **Global Brands:** these are brands that have a wider scale of coverage. Taking on many countries. Thus the brand of the manufacturer is sold globally in many different countries and continents world-wide.
The advantage of this kind of branding is that it dramatically improves sales and profit. However its main drawbacks are:
 - i). it requires heavy investment.
 - ii). It may attract negative association of the name in some countries.
- e) **National Brands:** These are brands of the manufacturer that are sold nationally. Like global brands, the advantages of these brands are that they are likely to increase sales and generate profits. However, they also need heavy investment.

National brands (also called manufacturer brands) are nationally recognized. Some national brands are so popular that they help attract customers to a business. National brands generate the majority of sales for most product categories.

National brands not only identify a product but also indicate a standard quality and price. They appeal to customers who want consistent quality, dependable product performance, status, and who will not take risks with unknown goods and services

- f) **Store Brands (Private Brands):** In case of private brands or store brands, products are sold under a brand name created by the retailer. In recent years, high quality store brands have gained considerable ground versus national brands. The main advantage of this type of a brand from the customer's side is that its products are relatively cheaper compared to other brands. Private brands appeal to customers who want quality and good performance but at a lower price. Many large stores and retail chains have private brands.

Private brands are popular because they are more profitable. They are better controlled by retailers because they cannot be sold by competitors and thus can lead to retailer (rather than to manufacturer) loyalty.

- g) **Unbranded Merchandise**

Some customers are unwilling to pay the higher prices of branded products. These customers often purchase generic products. Products that do not carry a brand name are known as generic products. They are often sold in supermarkets and discount stores. Such products are often priced lower than branded goods. They cost less because they are not heavily advertised.

Product planners must know their markets and customers well. By understanding buyer preferences for certain products, a business can provide a proper balance of products for its target market.

6.7.4 Trade Mark

A trade mark is a brand name, brand mark, trade character or a combination of these that is given legal protection. When used, it is followed by a registered trade mark symbol. When brand names, brand marks, trade characters are registered they cannot be used by competitors

6.7.5 After-Sale Services

These are services that are performed after the sales transaction has been completed. They are specifically performed by the seller on behalf of the buyer. They are mainly covered in what is termed as extended product features.

6.7.5.1 Extended Product Features

The other important elements of a product are its extended features. A firm must put in place the type of the extended product features that it may wish to offer. Discussed below are the common extended features.

1). Warranties

One of the common extended features that customers expect manufactures to provide is a warranty. This is a promise to stand behind the materials, construction, and performance of a product for a certain period of time.

A warranty is a promise, or guarantee, given to a customer that a product will meet certain standards.

A guarantee is another term for warranty. All warranties set time or use limits for coverage.

Businesses are not required by law to issue warranties. Most do, however, to convince their customers of the quality of their products.

Warranties come in two different forms. These are express, and implied warranties.

a) . Express Warranties

An express warranty is one that is explicitly stated, in either writing or spoken words, to induce a customer to buy. A warranty must be clearly worded so that customers can easily understand its terms. Spoken warranties, however, even if clearly worded, may not be enforceable unless they are reduced to writing.

There are two types of written warranties. These are a full warranty and a limited warranty. Under a full warranty, if a product is found to be defective within the warranty period, it will be repaired or replaced at no cost. Today, full warranties are rarely offered on consumer goods.

A limited warranty is one that offers less coverage than a full warranty. It may exclude certain parts of the product from coverage. It may also require the customer to bear some of the expense for repairs resulting from defects. It is not uncommon, for example, for a limited warranty to specify that the manufacturer will pay for replacement parts but charge the customer for labour or shipping.

b) . Implied Warranties

Most major purchases that customers make are covered by written warranties provided by manufacturers. Where there is no warranty, implied warranty laws apply.

An implied warranty is one that exists automatically by state law whenever a purchase takes place. There are two types of implied warranties. These are a warranty of merchantability and a warranty of fitness for a particular purchase.

A warranty of merchantability amounts to a promise from the seller that the product sold is fit for its intended purpose.

A warranty of fitness for a particular purpose arises when the seller advises a customer that a product is suitable for a particular use and the customer acts on that advice. If it turns out that the product is unable to perform the task, then the dealership must take back that item or product and refund the buyer's money.

c) . Warranty Disclaimers

Sometimes warranties have disclaimers to protect the business issuing them. A disclaimer is a statement that contains expectations to and exclusions from a warranty.

Disclaimers are often used to limit damages that can be recovered by a customer. A common form of disclaimer, for example, limits recovery to a refund of the purchase price and specifically excludes any other costs that may have been incurred by the owner as a result of the failure of the product to operate properly. Another form of disclaimer waives the customer's rights under implied warranty laws.

d) . The Role of warranties in product planning

Warranties are an important element of product planning. Customers expect them when they make a purchase.

From a business viewpoint, warranties are important because they:

- i). Makes a company to focus on customer needs.
- ii). Set clear standards of performance.
- iii). Generate customer feedback.
- iv). Encourage quality control.
- v). Boost promotional efforts.

2). Other Extended Product Features

In addition to warranties, product planners provide additional extended features to help create customer satisfaction after the sale.

Thus, other extended product features include delivery, installation, technical assistance and training.

Product planners must constantly evaluate a product's extended features from a customer viewpoint. They should be able to answer yes to questions such as these;

- i). Was the product delivered on time?
- ii). If installation was necessary. Was it done properly?
- iii). Was the bill for the product or service accurate and timely?
- iv). If needed was the service provided promptly, courteously, and correctly?
- v). If needed, were technical assistance and training provided?
- vi). Were directions for use properly written?

Extended product features are so important because they are often remembered and used long after the price of the product has been forgotten.

6.8 The Product Life Cycle

The product life cycle describes the stages that a new product goes through from beginning to end. The product life cycle is divided into four major stages, (1) market introduction, (2) market growth, (3) market maturity, (4) sales decline.

a). The introduction stage

The introduction stage, starts when the new product is first introduced to the market. In this stage, a product's sales growth is low. Profits are nonexistent at this stage because of the heavy expenses of product introduction such as promotional costs, heavy development heavy investment etc.

b). The growth stage

This stage is characterized by a period of faster sales and profit growth. Sales growth is fueled by rapid market acceptance and, for many products, repeat purchasing. Competitors enter the market, attracted by the opportunity for profit. They introduce new products features, which expand the market

Prices remain where they are or fall only slightly. Companies keep their promotion spending at the same time or at slightly higher level to meet competition and continue educating the market. Profits increase during this growth stage as costs are spread over a large volume and more efficient systems are developed.

Companies use several strategies to sustain rapid market as long as possible:

- i. Product quality is improved and new product features and models are introduced.
- ii. New market segments are entered.
- iii. Advertising is shifted from building product awareness to build product conviction and purchase.
- iv. Prices are lowered to attract more buyers.

c). Maturity stage.

At some point a product's sales growth slows down, and the product enters the maturity stage. This stage normally lasts longer than the previous two stages, and it poses strong challenging to marketing management. Most producers are in the maturity stage of the life cycle, and therefore most marketing management deals with mature products.

The slowdown in the sales growth causes supply to exceed demand. This overcapacity leads to greater competition. Competitors begin lowering prices, and they increase their advertising and sales promotion, and upping their research development budgets to find better versions of the product. These steps lead to a drop in profit. Some of the weaker competitors start dropping out, and the industry eventually contains only well-established competitors. In this stage, managers should consider modifying the market, products and the marketing mix if they wish to survive.

d) .The Decline stage

Sales and profits fall during the decline stage as new technology or changes in consumer tastes work to reduce demand for the product.

Sales decline for many reasons, such as technological advances, shifts in consumer tastes, and increased competition. Carrying a weak product can be very costly to the firm and not just in terms to reduced profit. There are also hidden costs. A weak product may delay the research for replacements, create a lopsided product mix, hurts current profits, and weakens the company's foothold on the future.

For these reasons, companies need to pay more attention to their aging products. The firm's first task is to identify those products in the decline stage by regularly reviewing sales, market shares, costs, and profit trends. Then, management must decide whether to maintain, harvest or drop each of these declining products.

6.9 Summary

In this unit, we have looked at the concepts of product, consumer and industrial goods. We have also discussed product planning and development, packaging, branding and product life cycle. We have further examined their role and importance in the marketing operations.

We believe you have also understood the importance of product planning, packaging, branding, and the product life cycle to the marketer and to the consumer.

6.10 Activities

1. Name three types of consumer products and four types of industrial goods.
2. Explain the advantages of Brands to the market?
2. Discuss three sources of developing new products and give some examples.
3. Describe the stages of a product life cycle.

UNIT 7

PRICING STRATEGY

7.1 Introduction

Welcome to unit 7 of this module. In this unit, we are going to learn about pricing. You will discover that pricing is one of the really crucial elements of the marketing mix. This is so because it affects the chances of long term success for a business because of its implication for profit. The significance of pricing lies in the fact that pricing is one of the elements in the marketing mix that brings in revenue, while the other three elements (product, promotion, and distribution) are costs.

7.2 Learning Outcomes

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

- set the product price and price objectives.
- adapt, initiate and respond to price changes.
- describe the major pricing approaches and strategies.

7.3 Time Frame

Three hours (3 hours)

7.4 Setting the Price and the Objectives

To discuss price setting and objectives we shall first begin by defining price, and then look at the objectives of pricing.

7.4.1 What is Price?

Price is the value of money (or its equivalent) charged for a good or service. It is usually expressed in monetary terms. It may also be expressed in non-monetary terms, such as free goods or services in exchange for the purchase of an item. Price is an important factor in the success or failure of a business because it helps establish and maintain a firm's image, competitive edge and profits.

The key to pricing is understanding the value buyers place on a product. Value is a matter of anticipated satisfaction. If consumers believe they will get a great deal of satisfaction from a product, they will place a high value on it. They will also be willing to pay a high price for it.

A seller must be able to gauge where a product will rank in the customer's estimation. Is the product valued much, valued little, or valued somewhere in between? This information can then be taken into consideration in the pricing decision. The seller's objective is to set a price high enough for the firm to make a profit, and yet not so high that it exceeds the value potential customer place on the product.

Many customers, for example, use price to make judgments about products and then companies that make them. To some customers a higher price means better quality from

a store or company. To other customers, a lower price means more for their money from a value oriented retailer or company. In these cases, price is a vital component of a store or company image.

Sometimes price is the main thrust of a firm's advertising strategy. Some retailers stress that they offer the lowest prices in town. In such cases, price plays an important role in establishing the edge a firm enjoys over its competition.

Finally prices helps determine profits. It is a major factor in determining the profitability of any product. You need to find the right price for your target market. Only then will you have a chance of being successful.

7.4.2 Objectives of Pricing

Outlined below are the objectives of pricing.

a) Share of the Market

A market is composed of all potential customers for a given good or service. When a firm sets out to obtain a specific percentage of the total sales in a given market, it is seeking market share.

In addition marketers are interested in their relative standing in relation to their competitors, or their market position. Pricing may play a role in establishing and maintaining a firm's market share and market position.

b) Return on Investment

Marketers may set a goal of achieving a specific return on investment based on given sales levels. This helps them to make a reasonable profit to plan for continued growth of the company.

c) Meeting Competition

Some marketers set their pricing goal simply to meet the prices of their competition. In so doing, they either follow the industry leader or calculate the average price and then position their product close to that figure. Some marketers chose to use non-price competition. In such a situation, the marketer will price his or her products higher than the competition because he or she believes the quality or the service that his or her company offers warrants the higher prices.

7.4.4 Setting the Price

7.4.4.1 Steps in Setting the Price

a) Determining Pricing Objectives.

What is your purpose in setting a price for your products? Do you want to increase sales volume or sales revenue? Do you want to establish a prestigious image for your product and your company? Do you want to increase your market share and market

position? The answers to these questions will help you define your objectives. These, in turn, will allow you to keep prices in line with other marketing decisions.

b) Study Costs

Since the main reason for being in business is to make a profit, give careful consideration to the costs involved in making or acquiring the goods or services you will offer for sale. Determine whether and how you can reduce costs without affecting the quality or image of your product.

c) Estimate Demand

Employ market research techniques to estimate consumer demand. The key to pricing goods and services is to set prices at the level consumers expect to pay. In many cases those prices are directly related to demand.

d) Study Competition

Investigate your competitors to see what prices they are charging for similar goods and services. Study the market leader. What is the range of prices from the ceiling price to the price floor? Will you price your goods lower than, equal to, or higher than your competitors?

e) Decide on Pricing Strategy.

Once you have considered all the above factors, select a pricing strategy that will achieve the objectives you have set. Estimate demand and costs involved and analyze your competition to arrive at a basic plan for pricing. At this point, you may decide to price your product higher than the competition's because, you believe, your product is superior. On the other hand, you may decide to set a lower price with the understanding that you will raise it once the product is accepted in the marketplace.

f) Set Price

After you have evaluated all the foregoing factors, you can now apply the pricing technique that match your strategy and set an initial price. Be prepared to monitor that price and evaluate its effectiveness as conditions change.

By applying all the principles you will learn from the basic pricing strategies, you will be able to establish a price for a given product or service. In so doing, you should set a price that will be most appropriate for your products.

7.5 Adapting the Price and Initiating and Responding to Price Changes

7.5.1 Initiating Price Increases and Cuts

Initiating **price increases** is likely to be carried out:

- i. When the value of the product is greater than the price,
- ii. In the face of rising costs (when production costs are rising)

- iii. When there is excess demand,
- iv. Where a harvest objective is being followed. (Harvest objective is one that focuses on the improvement of profit margins to improve cash flow)

7.5.2 Some of the Strategies for Initiating Price Increases

- i. Price Jump (a pricing strategy that seeks to increase the product price by full amount at one go)
- ii. Price unbundling. (Pricing each element in the offering so that the price of the total product package is raised).
- iii. Lower Discounts

7.5.2 Initiating Price Cuts

Initiating **price cuts** is likely to be carried out:

- i. When the value of the product is less than the price.
- ii. When there is excess supply.
- iii. Where a build objective is being followed.
- iv. Where a price war is unlikely.
- v. When there is a desire to pre-empt competitive entry.

7.5.3 Responding To Price Changes

A company has the following alternatives, if it wishes to respond to price changes by a competitor.

- a) It may opt to reduce the Prices of its products.
- b) It may opt to raise the perceived quality of its products.
- c) It may have to improve quality and increase the price of its products.
- d) It may have to launch a low price fighting brand.

The two major responses to price changes by the competitor are, (a) to follow the competitor and change the prices, or (b) to ignore that competitor and leave the prices unchanged (see points below)

7.5.4 When to follow Competitor-Initiated Price Increases and Cuts

Competitor-initiated price increases should be followed:

- i. When there are rising costs.
- ii. When there is excess demand.
- iii. When you have price-insensitive customers.
- iv. When the price rise is compatible with brand image.
- v. When the harvest or hold objective is being followed. (Hold objective is a strategy of defending a product in order to maintain market share)
- vi. Where there is need for sales margin improvement.

7.5.5 When not Follow Competitor-Initiated Price Increases

Competitor initiated price increases should not be followed:

- i. When costs are stable or falling.
- ii. When there is excess supply.

- iii. When you have price-sensitive customers.
- iv. Where the price rise is incompatible with the brand image
- v. Where a build objective is being followed

7.5.6 When to follow Competitor-initiated Price Cuts

Competitor-initiated price cuts should be followed:

- i. When there are falling costs
- ii. When there is excess supply.
- iii. When you have price-sensitive customers.
- iv. Where the price cut is compatible with the brand image.
- v. Where a build or hold objective is being followed. (Build objective is one which focuses on maintaining lower prices than those of competitors)
- vi. When there is a need to offset a competitive threat.

7.5.7 When Not to Follow Competitor –initiated Price cuts

Competitor-initiated price cuts should not be followed:

- i. When there are rising costs.
- ii. When there is excess demand.
- iii. When you have price-insensitive customers
- iv. Where the price fall is incompatible with the brand image.
- v. Where the harvest objective is being followed.

7.6 Basic Pricing Approaches

There are three basic approaches that you may want to consider in determining the price for your products. These are cost-oriented-pricing, demand-oriented pricing, and competition oriented pricing.

a) Cost-Oriented Pricing

In cost oriented pricing, marketers first calculate the costs of acquiring, or making a product and other expenses of doing business. Then they add their projected profit margin to these figures to arrive at a price. Markup Pricing and cost-Plus Pricing are two of the most common methods of cost oriented pricing.

Markup-Pricing: markup-Pricing is used primarily by wholesalers and retailers who are involved in acquiring goods for resale. A markup is the difference between the price of an item and its cost. It is generally expressed as a percentage. If a business is to be successful, the markup on its products must be high enough to cover the expenses of running the business and must include the intended profit.

Cost-Plus Pricing: In cost plus pricing, all costs and expenses are calculated and then the desired profit is added to arrive at a price. Cost plus-pricing is used primarily by manufacturers and service companies.

b) Value or Demand-Oriented Pricing

Marketers who use demand-oriented pricing attempt to determine what present consumers are willing to pay for given goods and services. The key to using this method of pricing is the consumer's perceived value of the item. The price set must be in line with this perception. If it is not, or if the perceived value itself is misread, the item will be priced too high or too low for the target market, either of which could cause the product to fail.

Another aspect of demand oriented pricing involves demand differentials. When there are few substitutes for an item and there is demand inelasticity, demand oriented pricing is effective. Consumers are generally willing to pay higher prices because they believe an item is different from its competitors. Companies try to achieve this status by developing brand loyalty.

In other cases, the prices do not reflect major differences in the good or service. They only reflect the demand for the good or service.

c) Competition-Oriented Pricing

Marketers who study their competitors to determine the prices of their products are using competition-oriented pricing. These marketers may elect to take one of the three actions after learning their competitors' prices. Thus they may opt to price their products as follows: a) price above the competition, b) price below the competition, or c) price in line with the competition.

What is different about this method of pricing is that there is no relationship between cost and price or between demand and price. Marketers simply set prices on the basis of what their competitors charge.

Two basic types of competitor-oriented pricing strategies are competitive-bid pricing and going-rate pricing.

Competitive Bid Pricing: Determining the price for a product on the basis of bids submitted by competitors to a company or government agency is called competitive bid pricing. Most government agencies are required by law to request bids on certain specifications so they can select the company that offers the lowest price on the desired product.

Going-Rate Pricing: Almost all firms engage in this type of pricing. It involves studying the competitors' prices to make sure that one's own prices are in line. Going rate pricing is especially important in businesses where the competing products are similar. The firm with the leading market share may be the leader in setting prices. Other companies may chose to price their products above that of the market leader, below or in line with the market leader.

d) Combining pricing strategies

Even though the three basic pricing strategies discussed above were introduced as separate options, in reality most marketers use all three to determine prices. The cost-oriented pricing strategy is helpful to marketers in determining the price floor for a Product (the lowest price for which it can be offered for sale and still earn the company a profit). Demand oriented pricing may be used to determine a price range for the product, defined on one side by the price floor and on the other by a ceiling price (the highest amount consumers will be willing to pay). Finally, competition oriented pricing may be used to examine the competition to make sure that the final price matches the standing the firm wishes to have in relation to its competitors.

7.7 Pricing Strategies

7.7.1 New Product Pricing Strategies

One of the two pricing methods discussed below may be used when a new product is introduced.

- **Market Skimming Pricing**

This is a pricing policy that sets a very high price for a new product to capitalize on the high demand for it during its introductory period. At this time, the high price is geared toward trendsetters, who are generally willing to pay higher prices in order to be the first to own or avail themselves of a new product.

- **Market Penetration Pricing**

This is the kind of pricing in which the initial price of a new product is set very low. The purpose of penetration pricing is to encourage as many people as possible to buy the product and thus penetrate the market.

7.7.2 Product Mix Pricing Strategies

a) Product Line Pricing

This is a special pricing technique that requires a store to offer all merchandise in a given category at certain prices. For example, a store might price all of its blouses at K25, K35, and K50.

When deciding on price lines, a marketer must be careful to make the price differences great enough to represent low, middle, and high prices for the category.

An advantage of product line pricing is that the target market is fully aware of the price range of products in a given store, and this helps the store maintain its image. It also helps customers compare items, both within a single line and between the various lines.

b) Optional Product Pricing

Optional product pricing is the pricing of optional or accessory products along with the main product. Many companies use optional-product pricing –offering to sell optional or accessory products along with their main product. For example, a car buyer may choose to order power windows and a CD changer. Refrigerators, come with optional ice makers.

Pricing these options is a sticky problem. Automobile companies have to decide which items to include in the base price and which to offer as options.

c) Captive Product Pricing

Captive pricing involves setting a price for products that must be used along with a main product such as a film for a camera.

Companies that make products that must be used along with the main product are using captive-product pricing. Examples of captive products are printer cartridges. Producers of printers, which is the main product, often price them low and set high prices on printer cartridges and other supplies.

d) By-Product Pricing

By-product pricing focuses on setting a price for by-products in order to make the main product's price more competitive. Thus, usually, in producing processed meats, petroleum products, chemicals and other products, there are often by-products. If getting rid of the by-products is costly, this will affect the main product. Using by-product pricing, the manufacturer will seek a market for these by-products and should accept any price that covers more than the cost of storing and delivering them.

e) Product Bundle Pricing

Product bundle pricing is the kind of pricing where a seller will combine several of his products and offer the bundle at a reduced price. For example, a Pleasure resort may sell specially priced vacation packages that include, accommodation, meals, and entertainment at a reduced price. A fast-food restaurant bundles an eggroll, a soft drink, and mineral water and sell them as one and at a reduced price.

7.7.3 Price Adjustment Strategies

a) Psychological Pricing

Psychological Pricing refers to techniques that create an illusion for customers or that make shopping easier for them. In either case, psychological pricing techniques appeal to particular market segments because of their shared perceptions and buying habits. The following are the common psychological pricing techniques:

- **Odd-even pricing**

This is a technique that involves setting prices that all end in either odd or even numbers. The psychological principle is that odd numbers such as K79, K7: 95, K59: 99, etc., present a bargain image. Even numbers such as K10, K20, K100, present a quality image. You will find that many marketers follow the odd-even technique in an effort to project a certain image.

- **Prestige pricing**

Under this technique, the practice is to set higher-than-average prices. The reason behind this kind of pricing practice is to show status and prestige to the consumer. Also many customers tend to think that higher prices mean higher quality. Thus they are willing to pay more for certain goods and services.

However, it is important to note that even customers who are known to prefer higher priced products have limits on what they will spend for prestige goods and services. To avoid exceeding these limits, marketers must set ceiling prices very carefully.

- b). Promotional Pricing**

The technique of promotional pricing is generally used in conjunction with sales promotion when prices are lower than average. Two basic types of promotional pricing is loss leader pricing, and special event pricing. Loss leader pricing is used to attract customers by offering, very popular items of merchandise, for sale at cost price or slightly above the cost price. Customers who are familiar with the prices of these items will be attracted by the bargain and will come to the store to shop. Marketers hope that while customers are in the store they will also buy other items at the customary markup and will return on subsequent occasions.

In special-event pricing, items are reduced in price for a short period of time. At the end of a season, businesses also run clearance sales to get rid of old merchandise in order to make room for the new.

- c). Discount Pricing and Allowances**

Discount pricing involves the seller's offering reductions from the usual price. Such reductions are generally granted for the buyer's performance of certain functions. These discounts include cash, quantity, trade, seasonal discounts, and promotional discounts and allowances.

- **Cash Discounts**

Cash discounts are offered to buyers to encourage them to pay their bills. For example 2 per cent discount is granted if the bill is paid in 10 days. If the buyer does not take advantage of the discount, the full amount must be paid within 30 days for instance.

- **Quantity Discounts**

Quantity discounts are offered to buyers for placing large orders. Quantity discounts encourage buyers to buy to purchase more than they originally intended.

There are two types of quantity discounts. These are cumulative and non-cumulative. Non-cumulative quantity discounts are offered on one order, while cumulative quantity discounts are offered on all orders over a specified period of time. Cumulative discounts may be granted for purchases made over six months, for example, in which case all purchases for that period are used to determine the quantity discount offered.

- **Trade Discounts**

This refers to the way manufacturers quote prices to wholesalers and retailers. Usually manufacturers would establish suggested retail prices for their products. They would grant wholesalers and retailers discounts from their quoted prices. Thus for instance, a manufacturer might grant a wholesaler 20 per cent discount from the list price, and a retailer 15 per cent discount.

- **Seasonal Discounts**

Seasonal discounts are offered to buyers who are willing to buy in advance of the customary buying season. These are discounts that are given to buyers who buy things that are off season, for example buying umbrellas when it is not in the rain season. Such buyers are offered the products at lower prices or rates during the off season.

Manufacturers offer such discounts to obtain orders for seasonal merchandise early so that production facilities and labour can be utilized throughout the year.

- **Promotional Discounts and Allowances**

Promotional discounts are offered to wholesalers and retailers who are willing to advertise or promote a manufacturer's products. The discount may take the form of a percentage reduction in price or free merchandise. The latter is called an allowance. Some kinds of promotional discounts are offered directly to the consumer.

d). Geographical Pricing

A company must also decide how to price its products for customers located in different parts of the country or world. Should the company risk losing the business of more distinct customers by charging them higher shipping costs? Or should the company charge all customers the same price regardless of the location? We will look at five geographical pricing strategies given below.

- **FOB –origin pricing**

A geographical pricing strategy in which goods are placed free on board a carrier; the customer pays the freight from the factory to the destination. (FOB stands for Free On Board).

- **Uniform-delivered pricing**

A geographical pricing strategy in which the company charges the same price plus freight to all customers, regardless of their location.

- **Zone pricing**

A geographical pricing strategy in which the company sets up two or more zones. All customers within a zone pay the same total price, the more distant the zone, the higher the price.

- **Basing-point pricing.**

A geographical pricing strategy in which the seller designates some city as a basing point and charges all the customers the freight and cost from that city to the customer.

- **Freight-absorption pricing.**

This is a geographical strategy in which the seller absorbs all or part of the freight charges.

e). Segmented Pricing

Under this pricing technique, companies will often adjust their prices to allow for differences in customers, products, and location. In segmented pricing, the company sells a product or service at two or more prices, even though the differences in prices is not based on differences in costs. For instance, under customer segment pricing, different customers pay different prices for the same product or service. A museum, for example, may charge a lower admission fee for students and senior citizens, but higher for other groups.

f). International Pricing

Companies that market their products internationally must decide what price to charge in different countries in which they operate. In some cases a company can set a uniform worldwide price. However, most companies adjust their prices to reflect local market conditions and cost considerations. The price the company must charge in a specific country depends on many factors. These include economic conditions, competitive situations, laws and regulations, and development of wholesaling and retailing system. Consumer perceptions and preferences also may vary from country to country, thus calling for different prices.

7.8 Summary

In this unit we have looked at pricing strategy. Our focus was mainly on price objectives, price setting, adapting, initiating, and responding to price changes. We also discussed pricing approaches and pricing strategies. We have also highlighted the role of pricing in the marketing mix. As a student you should now be able to tell why pricing is so important to the marketer and the producer.

7.9 Activities

1. Describe the roles that pricing plays in marketing.
2. Compare the way a customer and a supplier look at the price of goods and services.
3. Explain when you would follow skimming or penetration pricing strategies.

UNIT 8

DISTRIBUTION CHANNELS

8.1 Introduction

Welcome to unit 8 of this module. In this unit, we shall look at distribution channels. As you settle down to study this unit, you will discover that the major focus of distribution is to find the best outlets for customers to receive products or services that you offer, and keeping the outlets supplied so that those who want to buy are able to do so. You will equally discover that with a good distribution channel system in place, your products will arrive safely at the right place at the right time, thus helping to ensure maximum customer satisfaction.

8.2 Learning Outcomes

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

- identify the types of distribution channels.
- describe the functions of a channel.
- explain how to motivate and evaluate channel members.
- evaluate and modify channels and channel arrangements.

Marketers need to ask themselves, ‘How and where will my target market buy my products?’ This is the Place decision, one of the four Ps. To make a Place Decision, marketers must decide on their channel of distribution. Distribution is the key link between a business and its customers.

8.3 Time Frame

Three hours (3 hours)

8.4 Types of Distribution Channels

A channel of distribution is the path a product takes from the producer or manufacturer to the final user.

A channel of distribution always begins with the producer or manufacturer and ends with the final user of that product. The following are the types of channels available:

8.4.1 Consumer Channels

One type of channels is the consumer set of channels. There are mainly four major alternative consumer channels. Each one is described briefly below:

a) Producer direct to consumer

This involves direct selling of products by the producer to the consumer. This eliminates a layer of intermediaries from a distribution channel. This elimination of intermediaries is known as dis intermediation.

Why a firm may want to use direct distribution

Many firms prefer to distribute direct to the final customer or consumer for the following reasons:

One reason is that they want **complete control** over the marketing job. They may think that they can serve target customers at a lower cost or do the work more effectively than middle men. Further, working with independent middlemen with different objectives can be troublesome.

Direct Contact with customers: if a firm is in direct contact with its customers, it is more aware of changes in customer attitudes. It is in a better position to adjust its marketing mix quickly. If a product needs aggressive selling effort or special technical service, the marketing manager can ensure that the Salesforce receives the necessary training and motivation. In contrast, middlemen often carry products of several competing producers. So they may not be willing to give any one item special emphasis its producer wants.

No suitable middlemen. A firm may have to go direct if suitable middlemen are not available.

Proximity: If the services are produced in the presence of customers, there may be little need for middlemen.

b) Producer to retailer to consumer

This is a situation where the producer distributes or sales to the retailer only. The growth in the retailer size has meant that it becomes economic for producers to supply retailers direct rather than through wholesalers. Consumers have a convenience of viewing and testing the product at a retail outlet.

c) Producer to wholesaler to retailer to consumer

This channel means that the producer has to distribute his goods to the wholesaler, who in turn sales to the retailer. The retailer finally avails the goods to the consumers. Longer channels like this tend to occur where retail oligopoly do not dominate the distribution system.

d) Producer to agent to wholesaler to retailer to consumer

This long channel is sometimes used by companies entering the foreign markets. They may delegate the task of selling the product to an agent. Then the agent contact wholesalers or retailers and receives commission on sales.

8.4.2 Business To Business Channels

The other type is the Business to Business channel. Outlined below are the common business-to-business channels.

a) Producer to Business customer

Supplying business customers direct is common for expensive industrial products. There needs to be close liaison between supply and customer to solve technical problems, and the size of the order makes direct selling and distribution economic.

b) Producer to agent to business customer

A producer may choose to employ the services of an agent who may sell a range of goods from several suppliers. This spreads selling costs and may be attractive to

companies without the reserves to set up their own sales operations. The disadvantage is that there is little control over the agent who is unlikely to devote the same amount of time selling the products compared with the dedicated sales team.

c) Producer to distributor to business customer

For less expensive, more frequently bought business-to-business products, distributors are used. These may have both internal and field force staff. Internal staff deal with customer-generated enquiries and order placing, order follow-up, and checking inventory levels. Field staff are responsible for finding new customers, gather market information, distribute catalogues, etc. The advantage to customers of using distributors is that they can buy small quantities locally.

d) Producer to agent to distributor to business customer

Where business customers prefer to call upon distributors, the agent's job will require selling into these intermediaries. The reason why a producer may employ an agent is to reduce costs.

8.4.3 Service Channels

Distribution channels for services are usually short. They are either direct or they may use an agent. They are as follows:

a). Service Provider to consumer or business customer

The close relationship between service providers and customers often mean that service supply is direct. Examples include healthcare, office cleaning, accountancy, marketing research, and law.

b). Service provider to agent to consumer or business provider

A channel intermediary for a service company usually takes the form of an agent. Agents are used when the service provider is geographically distant from customers, and where it is not economical for the provider to establish its own local sales team.

8.5 Functions of a Distribution Channel

i). The primary function of a distribution channel is to bridge the gap between production and consumption. This means reconciling the needs of the producers and the consumers (for example, producers often want to produce more, but the consumer wants only a limited quantity. This has to be reconciled).

ii). Improving efficiency by reducing the number of transactions.

iii). Improving accessibility. For instance, many of the cars produced in Japan are exported to Europe. Car dealers in Europe provide customers' access to these cars in form of displays, and test drive facilities, and the opportunity to purchase locally than deal direct with the manufacturer thousands of miles away.

- iv).** providing specialist customer services that the manufacturer may feel ill-equipped to provide. For example, distributors may have long standing experience in such areas as selling, servicing and installation to customers.
- v).** The distribution channel is also responsible for promoting the product. Awareness regarding products and other offers should be created among the consumers.
- vi).** Creating contacts or prospective buyers and maintaining liaison with existing ones.
- vii).** Understanding the customer's needs and adjusting the offer accordingly.
- viii).** Negotiate price and other offers related to the product as per customer demand.
- ix).** Storage and distribution of goods
- x).** Catering to the financial requirements for the smooth working of the distribution chain.
- xi).** Risk taking for example by stock holding
- xii).** Gathering and distributing marketing research and intelligence information about the marketing environment.

8.5.1 Selecting Channels

The selection of a channel to be used for product distribution is influenced by several factors as outlined below:

a). Market Factors

An important market factor is buyer behavior. Buyer expectations may dictate that products be sold in a certain way. Failure to match these expectations can have catastrophic consequences.

Buyers needs regarding product information, installation and technical assistance also have to be considered. A judgment has to be made about whether the producer or channel intermediary can best meet these needs in terms of expertise, commitment and cost.

The willingness of channel intermediaries to market a product is also a market based factor that influences channel decisions. Direct distribution may be the only option if distributors refuse to handle the product.

The location and geographical concentration of customers affects channel selection. The more local and clustered the customer base, the more likely direct distribution is feasible. Direct distribution also more prevalent when buyers are few in number and buy large quantities. A large number of small customers may mean that using channel intermediaries is the only economic way of reaching them.

b). Producer Factors

A constraint on the channel decision is when the producer lacks adequate resources to perform the functions of the channel. Producers may lack the financial and managerial resources to take on channel operations. In such a case, the producer would want to rely on intermediaries.

The product mix offered by the producer may also affect channel strategy. A wide mix of products may make direct distribution cost effective. Narrow or single product companies, on the other hand, may find the cost of direct distribution prohibitive unless the product is extremely expensive.

The final product influence is the desired degree of control of channel operations. The use of independent channel intermediaries reduces producer control. Furthermore, there is no guarantee that new products will be stocked. Direct distribution gives producers control over such issues.

c). Product Factors

Large complex products are often supplied direct to customers. The need for close personal contact between producer and customer, and the high price charged mean that direct distribution and selling is both necessary and feasible.

Perishable products such as frozen food, meat and bread require relatively short channels to supply the customer with fresh stock.

Finally, bulky or difficult to handle products may require direct distribution because distributors may refuse to carry them if storage or display problems arise.

d). Competitive Factors

If the completion controls traditional channels of distribution for example, through franchise or exclusive dealing arrangements an innovative approach to distribution may be required. Two alternatives are to recruit a Salesforce to sell direct or to set up a producer owned distribution network. Producers should accept that the channels of distribution used by competitors are the only ways to reach target customers. Direct marketing provides opportunities to supply products in new ways.

8.6 Motivating and Evaluating Channel Members**8.6.1 Motivating Channel Members**

Channel management is necessary. The fundamental part of channel management is that of motivating the channel members. The three basic facets involved in motivation management in the channel are: (1) learning about the needs and problems of the channel members, (2) developing programs to support their needs, and (3) providing leadership.

Good channel support programs require careful planning and fall into three areas: (1) cooperative agreements, (2) partnership and strategic alliances, and (3) distribution programming.

Leadership must still be exercised on a continuing basis if motivation programs are to operate effectively and viably.

1) Identifying the needs and problems of Channel members: Before the channel manager can successfully motivate channel members, an attempt must be made to learn what the members want for the channel relationship. The manager must be aware of the needs and problems of channel members. The sources for learning about the needs of the channel members are :

- Information received through the formal and informal communication process.
- Information received through studies conducted by outside parties. The firm should ask an outside party to design and execute some studies on channel member needs and problems. Usually the results of such studies have a higher assurance of objectivity.
- Carrying out Market audits by gathering data on how channel members perceive the firm's marketing programs, where the relationships are weak, and what is expected of the manufacturer or producer to make the relationship viable and optimal.
- Put in place a Distributer Advisory Council to provide advice in the channel member-manufacturer or producer relationship.

2) Offering support to Channel Members: Support for channel members refers to the producer or manufacturer's efforts in helping channel members to meet their needs and solve their problems. The attainment of a highly motivated cooperating "team" of channel members in an Inter-organizational setting requires carefully planned programs. Such programs can generally be grouped into one of the following three categories: (1) cooperative, (2) partnership or strategic alliance, and (3) distribution programming.

(a) Cooperative Arrangements: Cooperative arrangements between the manufacturer and channel members at the wholesale and retail levels have traditionally been used as the most common means of motivating channel members in conventional, loosely aligned channels. The underlying rationale of all such cooperative programs, from the

manufacturer's point of view, is to provide incentives for getting extra effort from channel members in the promotion of the products. Thus, channel members will be given incentives for promoting the products.

(b) Partnerships and Strategic Alliances: Partnerships or strategic alliances stress a continuing and mutually supportive relationship between the manufacturer and its channel members in an effort to provide a more highly motivated team, network, or alliance of channel partners. There are three basic phases in the development of a “partnership” arrangement between channel members.

- An explicit statement of policies should be made by the manufacturer in such areas as product availability, technical support, pricing and any other relevant areas.
- An assessment should be done of all existing distributors as to their capabilities for fulfilling their roles.
- The manufacturer should continually appraise the appropriateness of the policies that guide his or her relationship with channel members.

The above, three, basic guidelines can be used for establishing partnerships or strategic alliances in marketing channels.

(c) Distribution programming: This refers to a comprehensive set of policies for the promotion of a product through the channel. The essence of this approach is the development of a planned, professionally managed channel.

The first step in developing a comprehensive distribution program is an analysis by the manufacturer of marketing objectives and the kinds and levels of support needed from channel members to achieve these objectives. Further, the manufacturer must ascertain the needs and problem areas of channel members.

Nevertheless, virtually all of the policy options available can be categorized into three major groups:

- Those offering price concessions to channel members.

- Those offering financial assistance.
- Those offering some kind of protection for channel members

(d) Providing Leadership to Motivate Channel Members: Control must be exercised through effective leadership on a continuing basis to attain a well-motivated team of channel members. The producer or manufacturer should provide proper leadership that is appropriate for maintaining a motivated team of channel members.

The firm should threaten to discontinue dealing with intermediaries whose performance is unsatisfactory.

8.6.2 Evaluating Channel Members

The producer must regularly check channel member performance against standards such as sales quotas, average inventory levels, customer delivery time, treatment of damaged and lost goods, cooperation in company promotion and training programs, and services to the customer.

The company should recognize and reward intermediaries who are performing well and adding good value for consumers. Those who are performing poorly should be assisted or, as a last resort, replaced.

A company may periodically requalify its intermediaries and prune the weaker ones.

Finally the manufacturer should be sensitive to their dealers. Those who treat their dealers poorly risk losing both their dealer support and attracting legal problems.

Another way to look at evaluation is to approach it from (a) the economic feasibility of the channel, and from (b) the control criteria as presented below:

a) Economic Feasibility of the Channel

Each channel produces different levels of sales and costs. The business that channel members bring must offset the cost of paying and supporting the channel member. These costs are measured in two ways : directly and opportunity costs. Evaluation must be done from an economic standpoint to find out if the channel is profitable and that it covers both the direct costs and the opportunity costs.

Another direct cost of working with the intermediaries is the support they will need from the company. Intermediaries require brochures and other collateral material, training, familiarization trips and regular communication. A company should evaluate its channels in relation to the support it gives them. If the evaluation reveals that the support that the company gives is costly, such a company should limit the size of their distribution system to one that they are able to support.

A company must regularly evaluate the performance of its intermediaries. This is so because as the business changes, the value of an intermediary may change.

Sometimes problems may be due to improper support from the supplier. Companies need to evaluate the support they are giving their channel members and the necessary adjustments. Underperforming intermediaries need to be counselled. They may need more training or motivation. If they do not shape up, it is better to terminate them.

b) Control Criteria

An important consideration in the evaluation and choice of a channel is control. Using sales representatives offers less control than building your own sales force. Sales representatives may, for instance refuse, to sell in situations which requires more effort, but may prefer to sell where less effort is required.

Control is also an important consideration in franchising and in choosing multiple channel members. One problem with franchising is that the company sacrifices some control to gain wider distribution. The company may have trouble getting the franchisees to add new products or participate in promotion.

To avoid all these problems, a company or producer should constantly evaluate the channels to ensure that it has not lost control, and more importantly it should have its own sales force where possible.

8.7. Modifying Channel Arrangements

Channel arrangements must be reviewed periodically and modified when distribution is not working as planned, consumer buying patterns change, the market expands, new completion arises, innovative distribution channels emerge, or the product moves into the later stages in the product life cycle.

Channel adjustments generally involves one of the three possible moves:

- a) Add or drop individual intermediaries.
- b) Add or drop particular marketing channels.
- c) Develop a totally new way of distributing and selling goods within a particular market

The most difficult adjustment are those whose implementations necessitates revising the overall channel strategy. Such decisions would require changes in at least three of the four marketing mix decision areas; that is, product, promotion and of course, distribution. Price will probably be changed, as well. The consequences associated with each channel adjustment would also be significant.

Three specific types of channels modification are those associated with product life cycles, customer-driven refinement and the need for multiple-channel system.

8.7.1 Product Lifecycle Changes

Many companies either fail to recognize or do not act on the fact that the distribution and selling requirements for the product change over time its lifecycle. No single channel design will be appropriate during the entire product lifecycle.

Product that are 'new to the world' require a specialized channel design that can provide technical assistance as bugs are worked out and missionary efforts as new users are developed within the marketplace .

To justify all these educational efforts, distributors may demand an exclusive arrangement. As a product matures, becoming more standardized and better known, less specialized knowledge and efforts are needed to sell it. Manufacturers can then expand the number of intermediaries distributing the item, as buyers invariably switch to lower-cost channels.

Introductory stage: Service utility, (for example, Boutiques)

Growth Stage: Selection Utility (for instance, Better department Stores)

Maturity Stage: Lot size utility, (for example, merchandisers).

Decline Stage: Convenience utility, (for example, office price outlets)

8.7.2 Customer-Driven Refinement of Existing Channels

The capability of any channel that is not modified decreases as time passes. Gaps inevitably arise between an existing channel and an ideal system. Eventually. Customers will switch to those distributing systems that deliver the sought-after benefits and services. To be

successful, marketing organizations must be aware of these customer-driven changes and be willing to switch as well.

Yet, channels of distribution are difficult to change. Proposed changes often meet resistance and implement changes sometimes encounter outright subversion.

8.7.3 A Customer-Driven Approach to Channels System Modification

Step 1: Determine what target customers would like to have in the way of a channel service if no constraints existed.

Step 2: Conceptualize alternative channel structures (design) that would provide the types of channel services referred to in step 1.

Step 3: Measure and classify the feasibility and cost of these alternative and cost of these alternative channel designs.

Step 4: Collect the manufacturing firm's 'executives' objectives for the firm's distribution system. At this point, it is likely that certain principles which must be observed will be brought to attention.

Step 5: Compare the available channels design options given management's criteria on the one hand and the customer's ideal system on the other.

Step 6: Have selected outside expert to review management's key assumptions. This step allows management to understand the cost of their assumptions and constraints as well as the gains and risks of changing them.

Step 7: Close the gaps between the ideal system, the management-bound system, and the current system so that the channel will be more customer-driven. This task is on management which has to agree on what changes it is willing to make.

Step 8: Develop a plan describing how the agreed upon changes will be developed.

8.7.3.1 Multichannel Marketing Systems

Multichannel marketing occurs when a single firm uses two or more marketing channels to reach one or more segments. This practice is also known as dual distribution.

Firms often add a channel to reach customer segments that their current channel cannot reach.

Companies may also establish different channels to sell to different sized customers. Direct sells may be best for handling larger customers.

8.8 Summary

In this unit we highlighted the value of the distribution channels in the marketing system. We covered the major types of distribution channels, their functions, and how to motivate channel members. We also discussed how to evaluate and modify channels. We would like to finish by inviting you, the student, to take your time and go through the unit again. This will enable you to understand the concept of distribution better.

8.9 Activities

1. Discuss the major types of distribution channels.
2. List the possible channels for marketing consumer and industrial products.
3. Discuss ways of motivating channel members.
4. Discuss different ways of modifying channel arrangements.

UNIT 9

PROMOTIONAL STRATEGIES AND PROCESSES

9.1 Introduction

Welcome to unit 9 of this module. Last week we looked at the distribution channels where we highlighted their role in the marketing system.

Today our focus will be on promotion. As a learner, you will be introduced to the various aspects of promotion. You will also find that Promotion is important because no matter how good your products or business is, you cannot be successful unless people know about it. We shall talk about the range of methods used by the business entity to communicate with customers, and any other interested group.

9.2 Learning Objectives

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

- identify methods of promotion.
- explain promotion mix.
- describe the major types of advertising media.

9.3 Time Frame

Three hours (3 hours)

9.4 Methods of Promotion

9.4.1 What is Promotion?

Promotion is any form of communication a business or organization uses to inform, persuade, or remind people about its products and improve its public image. Typically a business uses promotion to convince potential customers to buy from it instead of from a competitor.

9.4.2 What Are The Methods of Promotion?

There are several basic types of promotion as indicated below:

a) Advertising

Advertising is a non-personal presentation and promotion of ideas, goods, and services by an identified sponsor.

There are two main types of advertising. These are promotional and institutional. **Promotional advertising** is the advertising that is designed to increase sales. It helps business by:

- Creating an interest in products,
- Introducing new products,
- Presenting product information,

- Supporting personal selling efforts,
- Introducing new business'
- Creating new markets.

Institutional advertising creates a favourable impression and goodwill for a business

or an organization. It does this by presenting information about a company's role in the community, important public issues and topics of general interest, such as public health and education.

Advertising is distinguished from other forms of promotion by three features. The following are the three features:

- The time or space devoted to it is paid for.
- It uses the set format to carry the message rather than personal one-on-one selling.
- It identifies the sponsor of the message.

Businesses spend so much on advertising because it offers the following **six advantages**:

- A large number of people usually see the advert's message.
- Advertising costs per potential customer are usually low.
- Businesses can choose the most appropriate media to reach their target market.
- A business can control the content of an advertisement and adapt it to the medium and method of presentation.
- Advertisements integrated into television shows, magazines, or newspapers are subject to repeat viewing. This fixes the advertiser's message in people's minds.
- Advertisements can presell products. In other words, they can influence people to make up their minds about a purchase before they shop.

Disadvantages of Advertising

- Advertising cannot focus on individual needs because the message is the same for all.
- Some forms of advertising such as television can be expensive for many businesses.
- Advertising may be wasteful and inefficient in certain instances, For instance a newspaper advert may be seen by only a few people who read newspapers, television adverts by only a few viewers of specific shows.
- Because of the cost and the need to attract and hold the attention of potential customers, advertisements must be brief. Other a result most adverts are too brief to inform in depth. Thus in comparison, the other forms of promotion, especially personal sales presentation are far more complete.

b) Publicity and public Relations

Publicity involves creating demand for a business or product by placing news about it in publications, radio, television, or stage. A business can use publicity to promote particular products.

The principal function of publicity however is building an image. Image is the way a business organization is defined in people's minds. It is an impression based on a combination of factors including physical surroundings, personal experiences, and things written or said in the media.

The right kind of publicity can create a positive image for a company and maintain or improve that image within the community.

The basic difference between advertising and publicity is that publicity is not paid for by the business. It is free. For this reason, publicity is an excellent way to spread information about a company and its products.

The advantages of publicity are:

- It helps create a positive image for a company.
- The audience for news is big, and the sources that produce it are held in high esteem by the public.

The **disadvantage** of publicity is that not all publicity is positive for a business. This is because bad stories are likely to get publicized too. Negative stories can hurt the company's image.

Public Relations: To avoid such problems or to repair the damage when it occurs, larger companies have put in place public relations departments. People in these departments write news releases and plan events designed to present a favourable image of the company.

Not only large companies but also well-run businesses do not leave things to chance. They work hard to create a favourable image. They engage in public relations.

Public relations refer to any activity designed to create goodwill toward a business. This goodwill benefits a business by:

- Increasing sales.
- Reinforcing a firm's good reputation.
- Increasing the receptivity of consumers to the firm's advertising.
- Reducing the impact of problems when they do occur.
- Helping to obtain better treatment from government regarding licenses and taxes.
- Conditioning customers to expect quality products from the firm.

The types of activities that qualify as public relations and the audiences to which they are targeted are many and varied. Businesses are concerned with their employees, customers and the general public.

Employees: To customers, employees are the company. Successful businesses have loyal and well-motivated employees. The public relations staff work with management to design programs that foster such attitudes. These programs include:

- Job training.
- Newsletters for and about the company and its employees.
- Open communication between management and employees.
- Promote from within.
- Awards for employees for improvement in performance and efficiency.

Customer Relations: Good communication between employees and customers is vital in promoting a favourable business image. Many retail firms also offer special services and amenities in order to maintain good customer relations.

Other public relations efforts include customer advisory boards. These are panels of consumers who make suggestions on new products and services. Customer advisory boards are used by manufacturers and retailers alike to test new products or services.

Other firms' employee consumer affairs specializes in handling consumer complaints and to serve as consumer advocates within the firm.

Many businesses also sponsor special events to foster positive customer relations.

Community Relations

Community relations refers to the activities that a business uses to acquire or maintain the respect of the community. Business fosters good community relations by participating in and sponsoring activities that benefit the civic, cultural and social life of a community. Businesses need to be active members of their communities. This helps to create a goodwill for their business participants. Customers and the general public do pay attention to the sponsors of community-wide activities.

c) Sales promotion

This is the use of marketing devices such as displays, premiums, and contests, to stimulate purchases. It includes such special events as fashion shows and vendor demonstrations. It does not include personal or face-to-face selling, advertising, or publicity. The objectives of sales promotion is to increase customer traffic (and thus sales), to inform customers about new products and policies, and to create a positive store image.

- **Displays:** window, floor, and counter displays are all forms of visual merchandising. By exposing potential customers firsthand to a company's products, displays stimulate sales and serve as in-store advertisements.
- **Product samples:** one form of sales promotion is the product sample. A product sample is a free trial size of a product that is sent through the mail, distributed door-to-door, or through retail stores and trade shows. Detergents, toothpastes, shampoos, etc., are frequently promoted this way.

Samples are especially important in promoting new products. Drug manufacturers frequently give samples to doctors to try with their patients. Teachers sometimes receive sample textbooks to encourage them to buy classroom set.

- **Contests and Rebates:** Many products are promoted through contests and rebates. These are used by businesses to create excitement and interest and thereby generate sales.
- **Contests** are games and activities that require the participant to demonstrate a skill. This can include writing a short story or an essay about a product, naming a product, or creating a new advertising slogan. Contest winners are awarded such prizes as all-expense paid trips and money. Contests help promote store traffic and maintain product loyalty. As a result, buying often increases.
- **Rebates** are discounts offered by manufacturers for purchasing an item during a given time period. Firms may use rebates to encourage customers to buy their products.
- **Premiums:** The most popular and frequently used sales promotion devices at consumer level are premiums. Premiums are prizes or rewards offered to a customer as an added inducement to make a purchase. They are designed to increase sales by building product loyalty, attracting new customers, and increasing store traffic.

There are three main types of premiums. These are:

- **Coupons:** These are certificates given to customers, entitling them to cash discounts or merchandise. Manufacturers use coupons to introduce new products, to enhance sales of existing products, and to encourage retailers to stock and display both. Retailers and service businesses use coupons to introduce grand opening, to invite new customers to visit or call, and to encourage repeat business by current customers.
- **Factory packs:** These are free gifts placed in product packages. This form of premium is especially popular with cereal manufacturers, who use it to increase their products' appeal to children.

- **Trading stamps:** These are printed stamps, each of which represents a certain amount of money. The stamps are given to customers based on the total amount of their purchases. The customer save the stamps and later redeem them for merchandise such as towels, dinnerware, encyclopedia, etc.

d) Personal selling

Advertising, publicity, and sales promotion are forms of non-personal selling. Non personal selling involves communicating with customers in ways other than through direct contact. The remaining way for a business to communicate with its customers is through personal selling.

Personal selling involves making an oral sales presentation to one or more potential buyers. It is the principal responsibility of sales personnel.

There are two types of sales personnel. These are order-taking personnel, and order-getting personnel.

Order-taking personnel, such as cashiers, counter clerks, and sales associates, perform routine tasks. At the retail level, they set up displays, stock shelves, answer customer inquiries, and operate cash registers.

Order-getting personnel. Such as professional sales people, are more involved in informing customers and helping them to buy. Generally, order-getting sales personnel sell items. They usually receive more intensive training than their order-taking counterparts.

Personal selling is designed to complete a sale once a customer is attracted to a business by advertising, publicity, or sales promotion.

If the sales presentation is done well, personal selling improves customer satisfaction. This is because the salesperson can use information gained from the personal contact to address the customer's unique concerns and problems.

The **advantage** of personal selling is that it is the most flexible and individualized of the promotion devices available to business.

The **disadvantages** of personal selling are as follows:

- A salesperson can help only one person at a time. This means that to reach many customers, a larger sales staff is needed. This will mean more expenses to meet the requirements of a larger staff.
- A business that relies on personal selling must make sure that their employees completely understand the selling process to ensure continued sales and goodwill. This may mean additional training. As a result, the cost of personal selling is likely to be higher.

e) **Internet Promotion:** This is the promotion of products to consumers through electronic media.

The following are the major advantages of internet:

- Global reach at relatively low cost.
- The number of site visits can be measured.
- A dialogue between companies and their customers can be established.
- Direct sales is possible.
- Catalogues and prices can be changed quickly and cheaply

The disadvantages of sales promotion are:

- It is impersonal.
- It requires the customer to visit the website.
- It does not give an opportunity to negotiate for price reductions with the sales person.

f). **Direct Marketing:** This is the distribution of products, information and promotional Benefits to target consumers through interactive communication in a way that allows response to be measured. Its advantages are:

- Consumers are most likely to respond to an appeal.
- Communication can be personalized.
- Short term effectiveness can be easily measured.
- A continuous relationship can be built through periodic contact.
- Activities are less visible to competitors.

The disadvantages of Direct Marketing are:

- Response rates are often low.
- Poorly targeted direct marketing may annoy consumers.

9.5 Promotion Mix

After a business establishes a promotional budget, it must determine its promotional mix. Promotional mix is the combination of different types of promotion a business uses to persuade customers to buy its products.

A company's total promotion mix, also called its marketing communication mix, consists of the specific blend of advertising, public relations, personal selling, sales promotion and direct marketing tools that a company uses to communicate customer value and build customer relationships persuasively.

Each category involves specific promotional tools used to communicate with customers. For example, advertising includes broadcast, print, outdoor, internet, and other forms. Sales promotion includes discounts, coupons, displays, and demonstrations. Personal selling includes sales presentations, trade shows, and incentive programs. Public relations includes press releases, sponsorships, specific events, and web pages. Direct Marketing includes catalogues, telephone marketing, kiosks, the internet and more.

At the same time marketing communication goes beyond these specific promotion tools. The sales person's manner and dress, the place's décor, the company's stationary-all communicate something to the buyers.

Many businesses use more than one type of promotion. Each of the promotion is designed to complement the other. All types of promotion must be coordinated.

9.6 Advertising Media

Advertising messages are presented to the public through media. **Media** are the agencies, means or instruments used to convey messages. There are three general categories of advertising media: Print media, broadcast media, and specialty media.

9.6.1 Print Media

Print media includes everything from newspapers, and magazines to direct mail pieces, signs, and billboards. Print media advertisement are done in written form. They are among the oldest types of advertising and are still among the most effective.

1. Newspaper Advertising

Newspapers are the main form of print media for many businesses. Newspaper advertising is popular because:

- Newspapers have a large readership.
- Newspaper circulation is known, so businesses using them can target their advertising to people living in certain geographical areas.
- The cost of newspaper advertising is relatively low.

The limitations of newspaper advertising are:

- The life of an advertisement is limited because in most households newspapers are thrown away daily
- The quality of reproduction is poor.
- Sometimes circulation is wasted as newspapers may be sent to people who are not the target market.

2. Magazine Advertising

Magazines are classified into local, regional, and national weeklies. Magazine advertising closely follows newspaper advertising in popularity because of the four major advantages it offers.

- You can select your audience because the circulation and characteristics of regular readers are known.
- Magazines are often read more slowly and thoroughly than newspaper, so the information in an advert is more likely to be grasped and retained.
- The print quality in magazines is higher than that in newspapers.
- Magazines have a long life because they are generally kept for an extended period of time during which they may be reread.

Magazine advertising, on the other hand, has some drawbacks:

- Compared to newspapers magazines have less appeal within the geographical area.
- Magazine advertising is more expensive in comparison to newspaper advertising.
- Magazine adverts are not as timely as those in newspapers because the deadline for inserting the advert is often many months before publication.

3. Direct Mail Advertising

Direct mail advertising is sent by businesses directly to prospective customers. Types of direct mail advertisement include newsletters catalogs, coupons, price lists, circulars, invitation to special sales or events, postage-paid reply cards and letters etc. The advantages direct mail advertising are:

- The advertiser can be highly selective about who will receive the mailing
- The advertiser can be flexible about the timing of the mailing.
- The advertiser has a wide choice of advertisement types (letters, catalogs, etc.)
- The advertiser can keep the competitors from seeing the advertisement.

Direct mail advertising has three major limitations:

- High mailing costs.
- Customer lists can become outdated.
- Many people think of direct mail advertising as, “junk mail” to be discarded without opening (for at least without careful reading).

4. Outdoor advertising

Businesses sometimes use outdoor signs or billboards for advertising. Outdoor advertising is popular with some advertisers. There are three types of outdoor advertising, and these are; posters, painted bulletins, and spectaculars. Posters are printed sheets put up like wallpaper on outdoor billboards. They are changed three to four times each year. Painted bulletins are painted billboards that are changed about every six months to a year. Spectaculars are outdoor advertising signs constructed for advertisers and contracted for three to five year period. Most spectaculars use lights or moving parts and are situated in heavy pedestrian traffic areas such as, in densely populated cities. The advantages of outdoor advertising are:

- It appeals to many people.
- It is relatively inexpensive.
- It permits easy repetition of a message.
- It is geographically selected so, it can be tailored to reach people in a given area.

The disadvantages of outdoor advertising are:

- The message is too short.
- The makeup of the audience is unknown.

5. Directory Advertising

Directory advertising is placed in alphabetical listings of households and business called directories. The best-known of these listings are telephones directories. They are commonly divided into the white pages and a classified section known as the yellow pages.

In the white pages, businesses receive a free alphabetical listing along with other commercial and non-commercial telephones customers. In the yellow pages, businesses pay for an alphabetical listing and, if desired, a large advertisement. These appear under general headings, such as florists, physicians, recreational vehicles, or travel agencies.

Advertising in the yellow pages has several advantage

- Yellow pages advertising is inexpensive.
- Telephone directories are found in just about every home, so the potential audience for directory advertising is huge.
- Telephone directories are usually kept for at least a year and are seldom thrown away until another is provided.

The biggest disadvantage of yellow pages advertising is that directories are usually printed yearly. So, advertisers cannot change their message easily. Just like any other medium, advertisers must make sure that the entire market is covered directory to avoid advertising waste.

To use directory advertising, a business will have to combine it with other forms of advertising to attract customers.

6. Transit Advertising

Transit advertising uses public transportation facilities to bring advertising messages to people. it includes; printed posters found inside buses and computer trains, exterior posters on the outside of taxis and buses, station posters located near or in subways, and in railroad, bus, and airline terminals.

The advantages of transit Advertising are:

- It is economical.
- It reaches a wide audience.
- It has a defined market (usually an urban area).

The disadvantages of Transit Advertising are:

- It is often unavailable in smaller towns and cities.
- It is subject to defacement.
- It is restricted to certain travel destinations.

9.6.2 Broadcast Media.

Radio and television together compose the broadcast media. People listen to radio and watch television to get information and for entertainment purposes.

1. Radio Advertising

Radio advertising reaches a higher percentage of people in different age groups. The ability to reach a wide audience makes radio an extremely effective advertising medium. There are three key advantages to radio advertising:

- A radio is more flexible than print advertising because messages can be changed easily. For example, an advertiser can make changes in a script for an advertising message a few minutes before the message is recorded.
- A radio is a mobile medium that can be taken anywhere and one can listen to it while driving, shopping, jogging, hiking, attending sporting events, etc.
- With the radio, the advertiser can select an audience such as, farmers, young people, various ethnic groups, etc. by advertising on stations targeting that particular market.

The following are disadvantages of Radio Advertising.

- Radio advertising has a short life span. When the message is broadcast, it is gone –unless the business pays to have it rebroadcast later.
- Due to lack of visual involvement, listeners might become distracted during radio advertisement and miss the message.

2. Television Advertising

For many businesses, television is the ultimate advertising medium because it can communicate a message with sound, action, and colour.

Television has several advantages for advertisers.

- People are more inclined to believe what they see happen rather than what they merely read about.
- Because it comes directly into the viewer's home, television is like door-to-door selling. It somehow seems more personal and is therefore more effective.
- Television can reach a mass audience –millions of people nationwide.
- A televised advertising message can be adapted to take advantage of holidays, seasonal changes and special-events programming.

There are three major disadvantages of using television as an advertising medium:

- Television has the highest production costs of any type of media and a high cost for the time used.
- The audience size is not assured.
- Many viewers consider television commercial nuisance. Such viewers may switch channels or leave the room during commercial breaks.

9.6.3. Specialty Media

Specialty media are relatively inexpensive novelty items with an advertiser's name printed on them. In addition to businesses, churches, schools, and charitable organizations often use specialty media to promote their services and philosophy. The obligation to receiving and keeping them.

To be successful as the advertiser tools, specialty items must be practical, subject to frequent use, and likely to be placed in locations where they will be seen often. Common items, such as calendars, pens, key chains, pencils, memo pads, potholders, bottle openers, and luggage tags, fit this description and are popular specialty items. When designed well, specialty items carry the name and dress of the business sponsoring them and an advertising message urging the reader to action. Sometimes, however, the size of the item prevents the use of a message, and only the name and dress appear.

Specialty advertising has two serious limitations. First, the distribution of the item is usually somewhat limited. Second, the items are might be given to people who would never consider buying the product or patronizing the sponsoring business.

9.6.4 Other Advertising Media.

Businesses are constantly creating exciting, innovative means of transmitting their messages to potential customers. Other media not easily classified are sports arena billboards, commercials run in movie theaters and in home videos, faxed messages to businesses, and prerecorded advertisements run on television monitors above checkout counters in retail stores, etc.

9.7 Summary

In this unit we looked at promotional strategies. We focused on the methods of promotion, promotion mix, and advertising media and how they can be fitted into the marketing system. We hope that this unit has given you an insight into the importance of the various promotional media to the marketer.

9.8 Activities

1. List three possible objectives of promotion.
2. Explain the different ways of advertising.
3. State the advantages and disadvantages of the following media types:
 - a). Newspaper, b). Radio, c). Magazine, d). Outdoor.

UNIT 10

INTERNATIONAL MARKETING

10.1 Introduction

Welcome to unit 10. In this unit, we are going to discuss international marketing. Our major focus will specifically be on identifying the reasons why companies seek foreign markets, and the strategies for entering foreign markets. We shall also look at the factors that influences the choice of the foreign markets as well as how to develop an international marketing strategy.

10.2 Learning Outcomes

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

- state why companies seek foreign markets.
- explain foreign market entry strategies.
- develop an international marketing strategy.
- explain the cultural dynamics in international marketing

International Marketing is the performance of business activities that direct the flow of a company's goods and services to consumers and users in more than one nation for a profit.

10.3 Time Frame

Three hours (3 hours)

10.4 Why Companies Seek Foreign Markets

There are seven reasons that triggers international expansion.

Saturated Domestic Markets

When the market is saturated it is usually difficult to raise profits. The pressure to raise sales and profits, coupled with few opportunities to expand in current domestic markets, provide one condition for international expansion. This has been a major driving force for some companies to move out of their saturated markets.

a) Small Domestic Markets

In some industries, survival means broadening scope beyond small national markets to the international arena. Where the home market is small, seeking international markets is a fundamental condition for survival.

b) Low Growth Domestic Markets

Often recession at home provides the spur to seek new marketing opportunities in more buoyant foreign economies.

c) Customer Drivers

Customer driven factors may also affect the decision to go international. One such a factor is the need to internationalize operations in response to customers expanding abroad. The other reason is that in some industries, customers may expect their suppliers to have an international presence.

d) Competitive Forces

When companies in an industry go abroad, others feel obliged to follow suit to maintain their relative size and growth rate. This is particularly true in oligopolistic industries. A second competitive factor may be the desire to attack, in their own home market, a foreign competitor that has entered their domestic market.

e) Cost Factors

High national labour costs, shortage of skilled workers, and rising energy charges can raise domestic costs to uneconomic levels. These factors may stimulate moves towards foreign direct investments in low-cost countries. Expanding into foreign markets can also reduce costs by gaining economies of scale through an enlarged customer base.

f) Portfolio Balance

Marketing in a variety of regions provides the opportunity to achieve portfolio balance as each region may be experiencing different growth rates. By marketing in a selection of countries, the problem of recession in some countries can be balanced by the opportunities for growth in others.

10.5 Factors that Influence Which Foreign Market To Enter

Having made the commitment to internationalize, marketing managers require the analytical skills necessary to pick those countries and regions that are most attractive for overseas operations. Two set of factors will govern this decision. These are macro environmental issues and micro environmental issues.

10.5.1 Macro-Environmental Factors

These consist of economic, socio-cultural, and political legal influences on market choice. Macro-environmental analysis provides indications of how attractive each country is to an international marketer.

a) Economic Influences

A country's per capita income, stage of economic development, infrastructure, and exchange rate stability affect its attractiveness for international business expansion. Small markets, for instance, may not justify setting up certain companies which would require a big market.

Low per capita income, for instance, will affect the type of products that may sell in that country. The market may be very unattractive for car manufacturing but feasible for bicycle producers.

Exchange rate stability may affect market choice. A country that has an unstable exchange rate may be considered too risky to enter.

A country's infrastructure (roads, railways, airports), communication systems (telephone, television, the press, radio), and energy supplies (electricity, gas, nuclear energy). A poor infrastructure may limit the ability to manufacture, advertise, and distribute goods, and provide adequate service back-up.

b). Socio-Cultural Influences

Differences in socio-cultural factors between countries are often termed psychic distance. These are barriers created by cultural disparities between the home and the host country, and the problem of communication resulting from differences in social perspectives attitudes and language. This can have an important effect on selection. International marketers sometimes choose countries that are psychically similar to begin their overseas operations. This has a rational in that barriers of language, customs, and values are lower. It also means that less time and effort is required to develop successful business relationship. Language, in particular, has caused many well-documented problems for marketing communications in international markets.

c). Political-Legal Influences

Factors that potential international marketers will consider are: the general attitudes of foreign governments to imports and foreign direct investment, political stability, government policies and trade barriers. Negative attitude towards foreign firms may also discourage imports and investment because of threat of protectionism and expropriation of assets. Positive government attitudes can be reflected in the willingness to grant subsidies to foreign firms to invest in a country, and a willingness to cut through bureaucratic procedures to assist foreign firms.

Countries with a history of political instability may be avoided because of the inevitable uncertainty regarding their future.

Government policies can also influence market entry. Some policies can either make it difficult or easy for a foreign firm to enter a foreign country's market.

The level of tariff barriers is another factor. If tariffs are imposed on foreign goods entering the country then it becomes an obstacle to doing business. Removal of trade barriers, will make a country or region more attractive to international trade.

10.5.2 Micro-Economic Environment

Micro-environmental analysis focuses on the attractiveness of a particular market being considered.

a) Market attractiveness

i). **Market Size and growth rate:** Large, growing markets provide attractive conditions for market entry.

ii). **Competition:** Markets that are already served by strong, well-entrenched competitors may dampen the enthusiasm for foreign market entry. Highly volatile markets, with many competitors entering and leaving the market, and where market concentration is high, are particularly unattractive.

iii). Costs of serving the market: Two major costs of serving foreign markets are distribution and control costs. As geographical distance increases. So these two costs rise. As a result, many countries prefer to deal with neighbouring countries as their export markets. Furthermore. Some markets may prove unattractive because of high marketing expenditure necessary to compete in them.

iv). Profit Potential: Some markets may be unattractive because industry structure leaves them with poor profit potential. For example, the existence of some powerful buying groups may reduce profit potential through their ability to negotiate for low prices.

v). Market access: Some foreign markets may prove difficult to penetrate because of informal ties between existing suppliers and distributors. Thus, without the capability of setting up a new distribution chain, this would mean that market access would effectively be barred. In some countries and markets, national suppliers are given preferential treatment, thus making it difficult for those firms that are not national suppliers.

b) Company capability

Company capability to serve a foreign market also needs to be assessed. This will depend on the following factors:

i). Skills: The company should have necessary skills to market abroad, and to understand each market.

ii). Resources: The company should have the necessary financial, and human resources to compete effectively.

iii). Competitive advantage: The company should have the ability to create a competitive advantage. Each foreign market needs to be studied in the light of the company's current and future ability to create a competitive advantage.

iv). Product Adaptation: For some foreign markets, local preferences and regulations may require the product to be modified. Does the company have the motivation and capability to redesign the product?

10.6 Foreign Market Entry Strategies

Once the firm has decided to enter a foreign market, it must choose a mode of entry. It should select an institutional arrangement for organizing and conducting international marketing activities. The following are the major options:

10.6.1 Exporting

Exporting involves the use of independent organizations within the exporter's domestic market. These may include, (1) domestic-based export agents who sale on behalf of the exporter, (2) cooperative organizations, which act on behalf of a number of producers, (3) Piggy-backing, where the exporter uses the foreign distribution facilities of another producer, (4) domestic-based export

merchants who take title to the products and sell them abroad, (5) foreign based agents and exporters, who will act as agents or distributors, (6) the internet, by creating a website that will make foreign customers abroad aware of the firm's products.

Exporting has the following advantages. First, it is the easiest and most common approach. Second, investment and risk are lower than setting up one's own sales and marketing facility. Financial losses can be minimized.

10.6 .2 Licensing

Licensing refers to the contract in which a foreign company enters into agreement with a licensee in the foreign market for a fee or royalty. The licensee buys the right to use the company's trademarks, plant, trade secrets, manufacturing process, technology, knowhow or other item of value.

The company thus, gains entry into the market at little risk. Licensing allows the exporter to enter the market that otherwise may be closed.

10.6.3 Franchising

Franchising is a form of licensing where a standard package of products, services and systems is provided by the franchiser to the franchisee. In return, the franchisee provides market knowledge, capital and personal involvement in management. Franchising will give a franchisee the right to use the trademark and name of the franchiser, as well as to sell its products.

There following are some of the types of franchising agreements:

i). The master franchise: This is the most inclusive one, as it the franchisee the right to specific area with the authority to sell or establish sub-franchises.

ii).Joint Ventures: There are two types of joint ventures, namely the contractual venture, and the equity joint venture.

Under the **contractual venture**, two or more companies form a partnership to share the cost of investment, the risks and profits.

An **equity joint venture** involves the creation of a new company in which foreign and local investors share ownership and control.

Franchising is a less risky way of entering markets with legal or cultural barriers.

iii). Contract Manufacturing: Another option is contract manufacturing. The company contracts with manufacturers in the foreign market to produce its product or provide its service. The drawbacks of contract manufacturing are decreased control over the manufacturing process and loss of potential profits on manufacturing. The benefits are the chance to start faster, with less risk.

10.5.4 Direct Investment

This method of entry involves investment in foreign based assembly or manufacturing facilities. It carries the greatest commitment of capital and managerial effort. Wholly owned direct investment can be through the acquisition of foreign producer or by building new facilities.

Acquisition offers a quicker way into the market and usually means gaining access to a qualified

labour-force, national management, local knowledge, and contacts with the local market and government.

10. 7 Developing an International Marketing Strategy

a) Standardization or Adaption

A fundamental decision that managers have to make regarding their international marketing strategy is the degree to which they standardize or adapt their marketing mix around the world.

Pure standardization marketing mix means that a company keeps the same marketing mix in all countries to which it markets. It is an international marketing strategy that advocates for using the same product, advertising, distribution channels, and other elements of the marketing mix in all the company's international markets.

The advantage of standardization is that it leads to reduced costs from economies of scale, and it also results in greater brand power.

On the other hand, the marketing concept holds that marketing programs will be more effective if tailored to unique needs of each targeted customer group. In addition, consumers in different countries have different cultural backgrounds, needs, spending power, product preferences, and shopping patterns. Because these differences are hard to change, most marketers have chosen to follow the adapted marketing mix. Through this approach, international marketers adapt their products, prices, channels, and promotions to fit consumer desires in each country. The major drawback of the adapted marketing approach is that it is costly to adjust the marketing mix elements to each target market.

b). International Marketing Mix Decisions

i) Product

International Marketers have three choices when it comes to product strategy. The first one is the **Straight Product Extension**. Straight product extension means marketing a product in a foreign market without any change. Before you do that first you should find out whether foreign consumers use that product and in what form they prefer. Straight extensions may be successful in some cases but may fail in other cases.

The second one is **product adaptation strategy**. This strategy requires the international marketer to adapt the product to meet local conditions or wants in foreign markets.

The third one is **product invention**. Here, the firm needs to create something new for a specific country market. The product should be able to meet a specific need in a given country.

ii) Promotion

A company can either adopt the same communication strategy that they use in the home market or change it for each local foreign market.

Other companies follow a strategy of communication adaptation, fully adapting their messages to local markets.

Media also needs to be adapted internationally, because media availability varies from country to country.

iii) Price

Companies face many problems in setting their international prices. In setting cross-national prices, marketers need to consider the following:

- Understanding the competition and customers.
- Using pricing tactics to undermine competitor actions (e.g. giving discounts to customers).
- Calculating extra costs (extra costs of doing business in a foreign market must be taken into account if a profit is to be made).
- Adapt the pricing to the local foreign market of each country.

iv). Place (Distribution Channels)

A key international market decision is whether to use importers, distributors, or the company's own personnel to distribute a product in a foreign market. Initial costs are often lower with using importers and distributors, so it is often used as an early method of market entry. As sales increases, a company may now handle its own distribution arrangements by selling directly to retailers.

10.8 Cultural Dynamics in International Marketing

Culture is the sum of total knowledge, beliefs, art, morals, laws, customs, and any other capabilities and habits acquired by humans as members of one society. Culture is learned, shared, shapes behavior and our perception of the world. It is reinforced by components such as language, behavior, and nation.

10.8.1 Culture and its Elements

Culture includes every part of life. Its elements can be categorized as follows:

- a) **Material culture:** technology and economics affects the level of product demand, the types of products demanded and their functional features and means of producing them. As an international and intercultural marketer you should take note of the material culture of your foreign market. What impact is it going to have on your ability to market your products successfully?
- b) **Social institutions:** social organizations and political structures relate to the way people relate to one another, and how they organize their activities. Culture is also enshrined in these social institutions. Are these institutions going to be receptive to your marketing effort or not?
- c) **Education:** literacy rate, role and levels influence marketing strategy, techniques used, medium used, etc.
- d) **Belief systems:** religion, superstition, power structure, etc. influences people's habits, outlook on life, the products they buy, the newspapers they read, etc. Will the belief system of your chosen foreign market accommodate your marketing effort and product innovations or not?

- e) **Aesthetics:** standards of beauty in each culture, graphics and plastic arts, folklore, music, drama, and dance, affects how symbols are interpreted. Will these help to interpret your marketing efforts and your products more favourably or not?
- f) **Language:** Usage of foreign language. Idiomatic expression and interpretation of meaning. Spoken versus written language. As a marketer, are you able to express yourself in a foreign language or not. How will language impact your marketing effort?

10.8.2 Perspectives on Culture And Marketing

Culture is pertinent to the study of marketing, which is satisfaction of customers' needs and wants. Culture is pervasive to all marketing activities. The marketer's efforts are judged in cultural context. Markets and market behavior are part of the country's culture. The marketer becomes an agent of change when the product is innovative

To market successfully, the market must have cultural knowledge. He must have the ability to understand and appreciate fully the nuances of different cultural traits and patterns, for example, the meaning of time, meaning of life, and attitude to other people or certain objects. This requires a degree of insight and feeling based on past experience.

The marketer will find it useful to live with the people of a different culture for some time. It is also important for him to consult and cooperate with bilingual nationals with marketing backgrounds. This will help the international marketer to gain empathy with the locals.

Cultural sensitivity and tolerance: the marketer should be attuned to the nuances of culture so that the new culture can be viewed objectively, evaluated and appreciated. He should recognize the fact that cultures are not good or bad, right or wrong, but that they are just different. The marketer should be tolerant, sensitive, and flexible as he or she instinctively evaluate foreign culture from a personal perspective.

Resistance to change: The marketer should know that ethnocentric attitudes can create very serious resistance to change. If the new product, innovation, or idea is likely to create disruptive changes on culture, it is also most likely to be seriously resisted. But if the product is very successful and least disruptive, it is likely to be accepted. The marketer should also note that with time, new ideas are accepted and cultural changes take place.

When product diffusion (acceptance) occurs, a process of social change may also occur.

Planned cultural change: In planned cultural change, the process is accelerated by the change agent. In unplanned one, you wait for the change to occur naturally. In a planned cultural change, the marketer should determine which cultural factors conflict with innovation. Then make an effort to change those factors.

10.9 Summary

In this unit, we discussed international marketing. We looked at the reasons why companies may decide to go into foreign markets. We also looked at the strategies that a company may employ in order to enter foreign markets. We further examined the reasons that may influence the choice of the market to be entered. We also looked at how to develop an international marketing strategy. Our discussion ended by examining the cultural dynamics in international marketing. As a student

of marketing, we hope you have found this unit educative and helpful, and that you were able to grasp the main ideas behind this unit.

10.10 Activities

Given below are three activities. You must attempt all.

1. Explain why companies decide to go into foreign markets.
2. Describe two strategies that a company may use to enter a foreign market.
3. Discuss how you can develop an international marketing strategy.

UNIT 11

QUALITY AND CUSTOMER SERVICE

11.1 Introduction

You are welcome to unit 11. In this unit we are going to learn about quality and customer service. The unit will cover the nature of services, how to measure service quality, and will give an outline of the causes of quality shortfalls. We shall also look at the ways of correcting quality shortfalls.

11.2 Learning Objectives

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

- explain the nature of services.
- define quality.
- measure service quality.
- state the causes of quality shortfalls.

11.3 Time Frame

Two hours (2 hours)

11. 4 The Nature of Service

a) Intangibility: pure services cannot be seen, tasted or touched before they are bought. Rather, a service is a deed, performance or effort, not an object, device or thing.

b) Inseparability: Unlike physical goods, services have inseparability. This means that they have simultaneous production and consumption. For example, a haircut, psychoanalysis, a holiday, and a musical concert are produced and consumed at the same time. This contrasts with a physical good, which is produced, stored, and distributed through intermediaries before it is consumed.

c) Variability: Service quality may be subject to considerable variability, which makes standardization difficult. Two marketing courses at the same university may vary considerably in terms of quality depending on the lecturers. Two restaurants within the same chain may have variable service owing to the capability of their respective managers and staff.

d) Perishability: The fourth characteristic of service is their perishability in the sense that consumption cannot be stored for the future. A hotel room or an airline seat that is not occupied today represents lost income that cannot be gained tomorrow. Because of this element, it is therefore, important to match supply and demand for services.

11.5 What Is Quality?

Quality has a direct impact on product or service performance, thus it is closely linked to customer value and satisfaction. In the narrowest sense, quality can be defined as freedom from defects. But most customer based companies go beyond this narrow definition. Instead they define quality in terms of creating customer value and satisfaction. The American Society for Quality defines quality as the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.

Quality improvements must continuously deliver and enhance benefits desired by customers. Poor quality puts a firm at a competitive disadvantage. Perceived quality advantage leads to higher profits.

11.5.1 Other Perspectives to Quality

There are five perspectives to quality. These are:

- i). **Transcendent view:** People will know quality when they see it.
- ii). **Product based approach:** quality is a precise and measurable variable. Differences in quality can be likened to differences in some product variable. This view is totally objective and does not take into account tastes and preferences.
- iii). **User based definition:** Quality is in the eyes of the beholder, different customers have different quality needs.
- iv). **Manufacturer based approach:** Quality is when a product can conform to internally developed specifications driven by productivity and cost containment goals.
- v). **Value based definition:** Quality is a tradeoff between performance and price, so quality is defined as affordable excellence. It is thus, viewed in terms of value and price.

In defining quality, relying on one definition may lead to blind spots.

11.6 Measuring Service Quality

Five criteria are used by consumers to evaluate service quality

- Tangibles (appearance of physical elements)
- Reliability (dependable, actual Performance)
- Responsiveness (prompt and helpful).
- Assurance (Competence, credibility).
- Empathy (easy access, good communication)

Service quality can also be measured using a scale called SERVQUAL, which is based on five criteria: reliability, responsiveness, courtesy, competence a, and tangibles.

11.7 Causes of Quality Shortfalls

Two key service quality concepts are expectations and perceptions. Customers may be disappointed with quality if their service perceptions fail to meet their expectations.

Managers must balance customer expectations and perceptions and close the gaps between the two.

There are four shortfalls that may lead to a gap between expectations and perceptions.

- i). Not knowing what customers expect.

- ii).Specifying service quality standards that do not reflect what management believe to be customer expectation.
- iii).Service performance that does not match specifications.
- iv).Not living up to the levels of service performance that are promoted by marketing communications

Improving quality means identifying the specific causes of each gap and developing strategies to deal with them.

11.7.1 Correcting Service Quality Shortfalls

To correct a service quality shortfalls a company may find it helpful to build a service quality information system

a) Build a service quality Information System

Good service provider organizations usually listen to both their customers and their customer contact employees.

An organization should establish an ongoing listening systems using multiple methods among different customer groups. The following are some of the possible techniques:

- Customer complaints analysis.
- Post transaction surveys.
- Account holders' on going surveys.
- Focus groups.
- Employee surveys.
- Total Market surveys.
- Capture of service operating data.

b). Use Quality Monitoring Tools

Use quality monitoring tools to monitor service quality and determine root cause of specific problems that may upset customers. The following are some of such tools.

- **Control Charts:** These display performance over a period of time.
- **Fishbone Chart :** It helps brain storm all possible reasons for a specific problem and then categorize the resulting factors into:
 - i). Equipment related causes.
 - ii). People related causes.
 - iii). Material related causes.
 - iv). Information related causes.
 - v). Procedure related causes
 - vi) Other causes.

a) Invest in Employees

Staff are critical in service operations because they are often in contact with the customers. This is particularly true with the front-line service employees. The starting point is the selection of suitable people. Once they are employed, give them the authority, responsibility, and incentives they need to recognize, care about, and attend to customer needs. They need to be trained and later evaluated so that they can understand how their performance standards relate to customer satisfaction.

b) Improve Service Productivity

Service productivity can be improved without reducing service quality. This can be done by using technology (e.g. automatic cash dispensers), customer involvement in production (e.g. self-service petrol stations), and balancing demand and supply.

11.8 Summary

In this unit, we have looked at quality and customer services. Our focus was on trying to understand the nature of service quality and on how to measure quality. The unit further looked at the range of the causes of quality shortfalls. The unit ended by discussing ways and steps that a marketer can take to correct quality shortfalls.

11.9. Activities.

1. Discuss the five perspectives to quality in the provision of services.
2. Summarize the causes of quality shortfalls in service performance.
3. Explain the steps you can take correct the service quality shortfalls in service industries.

UNIT 12

INTEGRATED MARKETING COMMUNICATION

12.1 Introduction

Welcome to unit 12 of this module. In this unit, we shall learn about integrated marketing communication. Our focus will be mainly on identifying the characteristics of integrated marketing communication, as well as to discuss what exactly should be integrated.

12.2 Learning Objectives

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

- define integrated marketing communication.
- describe the characteristics of integrated marketing communication.
- discuss the elements of integration.

12.3 Time Frame

Two hours (2 hours)

12.4 What Is Integrated Marketing Communication?

Integrated marketing communication is the concept by which companies coordinate their marketing communication tools to deliver a clear, consistent, credible and competitive message about the organization and its products.

The company integrates many of its communications channels to deliver a clear, consistent and compelling message about the organization and its brands.

12.5 Characteristics of Integrated Marketing Communications

Integrated marketing communications calls for recognizing all contact points where the customer may encounter the company and its brands. The company wants to deliver a consistent and positive message with each contact.

Integrated marketing communications ties together all the company's messages and images. The company's television and print advertisements have the same message, look, and feel as its e-mail and personal selling communication. And its public relations materials project the same image as its website.

12.6 Elements Of Integration

a) Communication Tools

The messages conveyed by each of the promotional tools should be harmonized in order that audiences perceive a consistent set of meanings within the messages they receive. This means that the key triggers (such as colour, design, form and tag line) used in advertising should be replicated across the range of promotional tools.

b). Messages

The theme and set of core messages used in any campaign should first be determined and then deployed as an integrated whole across the communication mix.

c). Marketing Mix

The elements of the marketing, however, configured, need to be integrated because they also communicate.

d). Branding

Brands are themselves a form of integration. This means that internally organizations need to be sufficiently coordinated so that the brand is perceived externally as consistent and uniform.

e). Employees

Consumer-facing employees and all the other employees should adopt a customer focus. This will require workers to be trained. There should also be some in-house documentation. There should also be a change of culture and that means a longer-term period of readjustment, and the adoption of new techniques, procedures and ways of thinking and behaving.

f). Technology

Technology needs to be integrated into not just the overall information systems strategy but also the marketing strategies of organizations. This is so because the effective use of technology can be used to develop effective web sites, customer contact centres, databases, advertising campaigns, Salesforce automation, and many other things.

g). Strategy

Integrated Marketing communication requires a deeper understanding of how and where messages are created. If for instance a low-cost strategy is being pursued, it makes sense to complement it the strategy by using messages that either stress any price advantage that customers might benefit from. If using a differentiation focus strategy, price should not figure in any of the messages and greater emphasis should be on particular attributes that convey the added value and enable clear positioning.

There is no right way or formula to establish integrated marketing communication but there is a need to recognize that it should have a strategic orientation as well as strategic outputs.

12.7 Summary

In this unit we have looked at integrated marketing communication. We have discussed the various characteristics of integrated marketing communication. We ended the unit by identifying those elements of marketing that must be integrated.

12.8 Activities

1. Define the term 'integrated marketing communication.
2. Discuss the characteristics of integrated marketing communications.
3. List down the elements that should be integrated.

UNIT 13

MARKETING ETHICS

13.1 Introduction.

Welcome to unit 13 of this module. In this unit, we shall discuss business ethics as they relate to marketing. Marketing practices have been subject to criticisms from consumers, consumer groups, and environmentalists, who have been complaining that marketing managers have been guilty of harming the interests of consumers, and of society at large. These ethical concerns will be analyzed by examining issues specific to the marketing mix, after that, ethical issues arising from marketing research will also be explored.

13.2 Learning Outcomes

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

- define the term ‘ethics.’
- explain ethical issues in pricing, product, distribution, and sales promotion.
- explain ethical issues in marketing research.
- suggest ways of embracing ethics in marketing.

13.3 Time Frame

Three hours (3 hours)

13.4 What Are Ethics?

The term ethics has been defined in variety of ways by different authors. McNamara (2008, P. 7) defines “ethics as generally coming to know what is right or wrong and doing what is right. This is especially in regard to the effects of products, services and relationships with customers and all other stakeholders”. In marketing, ethics requires the marketer to do what is right. Marketing ethics goes beyond the legal requirements for a company. It thus, applies to the conduct of the organization as a whole. It is about how a company does business and how it behaves intrinsically.

13.5 Ethical Issues In Marketing

13.5.1 Ethical Issues Concerning Products

a) Product Safety

A major concern about products safety has been the issue of the safety of genetically modified products. Many people think that genetically modified products a danger to human health. The other safety concerns relate to, (1) tobacco as it can cause cancer, (2) the levels of fat, sugar, and salt in foods as they can cause obesity and heart problems, etc.

The solution to these problems would be to let all new products to undergo extensive safety testing before launch.

b) Planned Obsolescence

Many products are not designed to last a long time. From the producer's point of view this is sensible as it creates a repeat purchase situation. Consumers accept that nothing lasts forever, but the issue, concerns what is an acceptable length of time before replacement is necessary. Critics argue that planned obsolescence reduces the consumer's right to choose since some consumers may be quite content buying an old model.

The solution to this would be through the forces of competition. Thus, the forces of competition may act to deter the excesses of planned obsolesces.

c) Deceptive Packaging

This can occur when a product is packed in an oversized package to create an impression that the consumer is buying more than is the case. This is known as slack packaging and has the potential to deceive when the packaging is opaque. A second area where packaging may be deceptive is through misleading labelling. This may take the form of the failure of a package to state, for example, that the product contains genetically modified soya beans. This infringes on the right of the consumer to be informed.

13.5.2 Ethical Issues in Pricing

a) Price Fixing

One of the driving forces toward lower price is competition. Therefore, it can be in the interest of producers to agree among themselves not to compete on price. This an act of collusion and is banned in many countries. It is unethical because it restrains the consumer's freedom of choice and interferes with each firm's interest in offering high quality products at the best price.

b). Predatory Pricing

This refers to the situation where a firm cuts its prices with the aim of driving out the competition. The firm is content with the intent that high profits will be generated through higher prices once the competition is eliminated.

c) Deceptive Pricing

This occurs when consumers are misled by the price deals offered by companies. Two examples are misleading price comparisons and bait and switch. Misleading price comparisons occur when a store sets artificially high price for a short time so that much lower sale price can be claimed later. The purpose is to deceive the customer into believing they are being offered bargains. Bait and switch, on the other hand, is the practice of advertising a very low price on a product to attract customers to a retail outlet. Once they enter the store, the salesperson persuades the customer buy a higher priced product. The customer may be told that the lower priced product is no longer in stock or that it is of inferior quality.

d) Penetration Pricing and Obesity

A controversial issue is the question of charging low prices for fatty food targeting young people. Critics claim that, by so doing, fast-food companies encourage obesity.

e) Price Discrimination

This occurs when a supplier offers a better price for the same product to one buyer and not to another, resulting in unfair competitive advantage. Price discrimination can be justified (1) when the costs of supplying different customers varies, (2) where the price differences reflect differences in the level of competition, and (3) where different volumes are purchased.

f) Product Dumping

This involves the export of products at much lower prices than charged in a domestic market, sometimes below the cost of production. Products may be sold at much lower prices because they may be regarded in the home country as unsafe. These would be dumped in countries that do not have such stringent safety rules. This is unethical.

However, it is also important for you note that there are several other reasons as to why products may be dumped.

13.5.3 Ethical Issues in Distribution

a) Slotting allowances

The power shift from manufacturer to retailers in the packaged consumer goods Industry has meant that slotting allowances are always demanded to take products. A slotting allowance is a fee paid to a retailer in exchange for an agreement to place a product on the retailer's shelves. Critics argue that they represent abuse of power and work against small manufacturers who cannot afford to pay the fee.

b). Grey Markets

This occur when a product is sold through an unauthorized distribution channel. When this occurs in international marketing, the practice is called parallel importing. Usually, a distributor buys in one country where prices are low and sells in another country where prices are higher at below the going market price. This causes anger among the members of the authorized distribution channel, who see their prices undercut. Furthermore, the products may be sold in down-market outlets that discredit the image of the product which has been built up by high advertising expenditures.

c). Exclusive Dealing

This is a restrictive arrangement whereby a manufacturer prohibits distributors that market its products from selling the products of competing suppliers. The act may restrict competition and restrict entry of new competitors and products into the market. This is unethical.

d). Restrictions in supply

A concern for small suppliers is the power of large manufacturers and retailers. This

means that they are squeezed out of supply chain as large supermarket chains are forging exclusive deals with major manufacturers.

a) Fair Trading

One problem of free market forces is that when small commodity producers are faced with large powerful buyers, the result can be very low prices. This can bring severe economic hardships to the producers who may be situated in countries of the developing world.

13.5.4 Ethical Issues in Product and Sales Promotion

a) Ethical Issues in Advertising

The following are some of the ethical issues that are associated with advertising

i). Misleading Advertising: This can take the form of exaggerated claims and concealed facts. For example, it would be unethical to claim that a certain drug would cure all the diseases when in reality it can only cure one disease. Advertising can also deceive by omitting important facts from the message. Such concealed facts may give a misleading impression to the audience. For example, an advertisement that promotes a food product as 'healthy' because it contains added vitamins might be considered misleading if it failed to point out its high sugar and fat content.

One solution to this should be for countries to have their own codes of practice that protect the consumers from deceptive advertising.

ii). Advertising to Children: Advertising to children may be considered unethical. This is so because children are susceptible to persuasion. They therefore, need special protection from advertising. The solution to this would be that countries should have codes of ethics of practice to control advertisements aimed at children.

b) Ethical Issues in Direct Marketing

i).The timing and intrusive nature of telemarketing calls: Consumers complain of the annoyance caused by the unsolicited telephone calls pressuring them to buy products at inconvenient times (e.g. in the middle of eating dinner or bathing the baby).

ii).The content of direct mail envelopes: The content of the direct mail enclosures at times include devices that have been considered offensive or dangerous. For, example one campaign targeted at managers enclosed a bullet as an attention getting measure. Some of the respondents felt that someone somewhere wanted to kill them. Several other devices that the direct mail envelop may contain are evidence that some direct marketers have paid insufficient attention to the potential annoying and harmful effects of their actions.

iii). Invasion of privacy : Many consumers fear that every time they subscribe to magazine, club, society, apply for a credit card or buy anything by telephone , or direct mail, their names, addresses and other personal details will be entered on to a database that will guarantee a flood of mail from the supplier. Their personal details may be sold or given to other organizations without their knowledge.

iv). Poorly Targeted Direct Mail: Some direct mail is of little reference to the recipient. This is so because they have a tendency of advertising things which are irrelevant or are not needed by the recipient of the direct mail. This annoys the recipients.

c) Ethical Issues in sales promotion and public relations

i). Use of trade inducements: Retailers sometimes accept inducements from manufacturers to encourage their salespeople to push the manufacturer's products. This often takes the form of bonus payments to the salespeople. The result is that there is an incentive for salespeople to pay special attention to those products that are linked to such bonuses when talking to customers. Customers may therefore, be subjected to pressure to buy products that do not meet their needs.

ii). Third party endorsements: Another ethical question is related to the use of third-party endorsements to publicize a product, where a person gives a written, verbal and or visual recommendation of the product. A well-known person, well respected person is usually chosen but given that payment often accompanies the endorsement the question arises as to its credibility.

iii). Promoting anti-social behavior: The promotion events that can lead to anti-social behavior also raises ethical issues. For example, a 'promotion night' in pubs and clubs can lead to excessive drinking. Drunkenness, crime, and violence may follow.

d) Ethical Issues in personal selling

i). Deception: A dilemma that faces most salespeople is the choice of telling the customer the whole truth and risk losing the sales, or misleading the customer to clinch it. The deception may take the form of exaggeration, lying or withholding important information that significantly reduces the appeal of the product.

ii). The hard sell: Personal selling is also criticized for employing high pressure sales tactics to close a sale. Some car dealerships have been deemed unethical by using hard-sell tactics to pressure customers into making a quick decision on a complicated purchase that may involve expensive credit facilities. Thus, quite often, salespeople are guilty of high pressure selling that persuades people to buy goods they had not thought of buying.

iii). Bribery: This is the act of giving payments, gifts, or other inducements to secure a sale. Bribes are considered unethical because they violate the principle of fairness in commercial negotiations.

iv). Reciprocal buying: Another practice that may be considered unethical is reciprocal buying. This is where a customer only agrees to buy from a supplier if that supplier agrees to purchase something from the buying organization. This may be considered unfair to other competing suppliers who may not agree to such an arrangement or may not be in a position to buy from the customer.

13.5.5 Ethical Issues in Marketing Research

The intention of marketing research is to benefit both the sponsoring company and its consumers. The company learns about the needs and buyer behavior of consumers with the objective of better satisfying their needs. Despite these good intentions, there are four ethical concerns about marketing research. These are:

a) Intrusions on privacy.

While many consumers recognize the positive role marketing research plays in the provision of goods and services, some resent the intrusive nature of some marketing research surveys. Most consumer surveys ask for classificatory data such as age, occupation, and income. Some people feel that this an intrusion on privacy. Other people object to receiving unsolicited telephone calls, mail surveys, e-mail questionnaires, and dislike being stopped in a street to be asked to complete a face-to-face survey.

To avoid the above mentioned unethical behavior, make sure that under no circumstances should the information from a survey combined with the address, telephone number of the respondent be supplied to a sales person.

b) The misuse of marketing research findings.

Where the findings of market research are to be used in an advertising campaign or as part of a sales pitch, there can be a temptation to bias the results in favour of the desired outcome. Respondents could be chosen who are more likely to give a favourable response.

Another potential source of bias in the use of marketing research findings is where the client communicates to the researcher the preferred research result.

To overcome this problems, the marketing researcher must strive for objectivity. His or her research study must be objective.

c) Competitive information gathering

The modern market concept stresses the need to understand both customers and competitors in order to build a competitive advantage. However, the methods that may be used to gather competitor intelligence can raise ethical questions. Questionable practices including using student projects to gather information without the student revealing the sponsor of the research, pretending to be a potential supplier who is conducting a telephone survey to understand the market, posing as a potential customer at an exhibition, bribing a competitor's employee to pass proprietary information, and covert surveillance methods such as through the use of hidden cameras.

To avoid all these unethical behavior, the researcher should collect competitive information by reading trade journals, and newspapers, searching the internet, analyzing databases and acquiring financial statements.

d) The use of marketing research surveys as a guide for selling.

This practice is a real danger to the reputation of marketing research. Usually, the researcher will begin by asking people if they would like to buy his products. Next, he would slowly start moving towards asking questions that would help answer his marketing research, which is his real objective.

13.6 Embracing Marketing Ethics

Many marketers face many moral dilemmas. The best thing to do is often unclear. Because not all managers have fine moral sensitivity, companies need to develop corporate marketing ethics policies. These are broad guidelines that everyone in the organization must follow.

Marketers must embrace, communicate, and practice the fundamental ethical values that will improve customer confidence in the integrity of the marketing exchange system. Observing the following ethical norms and values will greatly help the firm to become an ethical oriented firm:

- a) Honesty:** Marketers and their organizations must be truthful and forthright in their dealings with customers and stakeholders.
- b) Responsibility:** Marketers and their organizations must accept the consequences of their marketing decisions and strategies.
- c) Fairness:** Marketers and their organizations should try to balance justly the needs of the buyer with the interests of the seller.
- d) Respect:** Marketers and their organizations must acknowledge the basic human dignity of all stakeholders.
- e) Openness:** Marketers and their organizations must try to create transparency in their marketing operations.

13.7. Summary

In this unit, we have looked at ethics as they relate to marketing. We have defined the term ethics, and we have also looked at the various aspects of ethical issues in the marketing mix, and in marketing research. We have also examined how best a marketer or an organization can try to embrace marketing ethics. We believe that you have found this unit to be educative and interesting.

You can now attempt a set of questions in the activities section that follows to test your understanding.

13.8. Activities

Attempt all the activities given below:

1. Discuss least five unethical practices in sales promotion that a marketer must avoid.
2. Discuss any three ethical issues in marketing research.
3. Explain what you can do to embrace marketing ethics.

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