INTRODUCTION TO MARKETING
Course Name: Introduction to Marketing
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Commonwealth of Learning
Edition 1.0

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ACKNOWLEDGEMENTS

The Commonwealth of Learning wishes to acknowledge the contributions of the course authors and the support of the University of Lesotho in the creation of this course.
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COURSE OVERVIEW

INTRODUCTION

This is an introductory marketing course that will examine how marketing is practiced in business today and how it is essential to ensure small business growth and success. Marketing should be considered a total system of business action and not simply as understanding an assortment of fragmented functions. This course will concentrate on how an entrepreneur can create and successfully implement a marketing plan that reflects the needs of the consumer.

COURSE GOALS

Upon completion of the Principles of Marketing course you will be able to:

1. Define what is marketing and the similarities and differences between marketing and sales.
2. Describe the type of marketing.
3. Conduct basic marketing research and analysis.
4. Conduct competitor research.
5. Explain how consumer behaviour impacts the development of a marketing plan.
6. Explain and apply the marketing mix in a marketing environment.
7. Develop a pricing proposal.
8. Produce a basic marketing plan.

COURSE STRUCTURE

The course is organized into seven units of instruction. Each unit of instruction includes a number of different topics and assignments that must be completed by the participant. Each unit is further broken down into related topics. Each unit and many topics include self-reflection questions to ponder, activities to complete and formal assignments to complete and send to your instructor.

The units contain a number of references that learners are encouraged to review. This may require that you have access to a computer with Internet connection to download the reference. Each unit should take between two and three weeks to complete.

RECOMMENDED TEXTBOOK

Although there is no required textbook for this course, it is recommended that you purchase the following textbook to support your review of the course content. Many of the chapters in the book parallel the unit and topic descriptions.

ASSIGNMENTS AND PROJECTS

A series of activities and assignments guide you through concepts in this course and ask you to demonstrate that you can apply the concepts to support the creation of your marketing plan. A summary of this work is included at the beginning of each unit. The major project for this course is described at the end of this study guide. The major project requires that you produce a detailed marketing plan for your proposed business. Your institution / tutor will guide you through this material and will review and assign additional projects, activities or assignments.

JOURNALING REQUIREMENTS

To capture the output from the reflective questions and activities you are asked to keep a personal journal. At the end of the course the personal journal will be submitted to your instructor for feedback and grading.

ASSESSMENT METHODS

Assessment takes the form of responding to activities, as well as written assignments and examinations as determined from time-time by the institution. In cases where coursework assignments, fieldwork projects, and examinations are used in combination, a percentage rating for each component will be communicated to you at the appropriate time.

TIME REQUIRED

This course is worth 16 credits, or another credit value assigned by your institution. Each credit is equivalent to 10 notional hours. You are, therefore advised to spend not less than 160 hours of study on the course. This notional time includes:

- going over activities embedded in the study material;
- off-line readings;
- completion of assignments and major projects;
- notations in your personal journal;
- peer group interaction (where necessary);
- face-to-face tutorials (where necessary);
- working on tutor-marked assignments; and
- preparation time for and sitting examinations (where that is a requirement.)

COURSE SCHEDULE

A course schedule with due dates and additional readings will be supplied to you by your institution.
STUDENT SUPPORT

Note: This section should be included in self-paced or paper-based courses that provide tutor/facilitator support and/or web and email support for the students.

ACADEMIC SUPPORT

<Institution to insert the following information if relevant>

- How to contract a tutor/facilitator (Phone number, email, office hours, etc.).
- Background information about the tutor/facilitator if he/she does not change regularly. Alternatively provide a separate letter with the package describing your tutor/facilitator’s background.
- Description of any resources that they may need to procure to complete the course (e.g. lab kits, etc.).
- How to access the library (either in person, by email or online).

HOW TO SUBMIT ASSIGNMENTS

<If the course requires that assignments be regularly graded, then insert a description of how and where to submit assignments. Also explain how the learners will receive feedback.>

TECHNICAL SUPPORT

<If the students must access content online or use email to submit assignments, then a technical support section is required. You need to include how to complete basic tasks and a phone number that they can call if they are having difficulty getting online>.
UNIT ONE – CUSTOMER VALUE

UNIT INTRODUCTION

In this unit we introduce the concepts of marketing. It starts with the question, “What is marketing?” Simply put, marketing is managing a profitable customer relationship. The aim of marketing is to create value for your customers and to capture value from your customers in return. During this unit we will also discuss the five steps of the marketing process – from understanding customer needs, to designing customer-driven marketing strategies and programs, to building customer relationships and capturing value for the firm. Finally is discussed the major trends and forces affecting marketing in this age of customer relationships.

UNIT OBJECTIVES

Upon completion of this unit you will be able to:

1. Describe the steps in the marketing process.
2. Examine the different types of products and services.
3. Explore how to market products and services.
4. Create a customer driven strategy.

UNIT READINGS

As you complete this unit you it is recommended you read the following online information about marketing:


ASSIGNMENTS AND ACTIVITIES

The recommended assignment for this unit is to create a customer driven strategy for a specific product or service. In addition there are a number of reflective activities throughout each topic discussion. The results of your deliberations re: the reflective activities should be recorded in your personal journal. Marking and credit value for each will be established by your instructor at the beginning of the course.
TOPIC 1.1 – WHAT IS MARKETING?

LESSON INTRODUCTION
Marketing and sales are often used synonymously, but they are not the same. Marketing, as you will explore in this lesson, is about raising customer awareness and making them want to buy the product or service. Sales are about the actual process of closing the deal once a buying decision has been made. This lesson will explore both concepts.

LESSON OBJECTIVES
Upon completion of this lesson you will be able to:

1. Define marketing and sales.
2. Describe a typical marketing model.
3. Examine the relationship of the customer and the marketing process.
4. Explain the environmental forces impacting the marketing process.

MARKETING DEFINITION
Marketing is all around you; it is a living breathing discipline.

Activity: Before we actually discuss what is marketing I would like you to give me your definition of marketing before we proceed. Enter your own definition into your personal journal.

Now that you have defined what you think marketing is discuss that definition with others and then compare your answer to the definition below:

Marketing is a process by which companies create value for customers and build strong customer relationships to capture value from customers in return.

In what major ways does the definition above differ from your definition? As an entrepreneur it is essential that you understand marketing as it will be an integral part of your success. You will be using the marketing process to attract customers (and investors) to your business. You will use marketing to create the ‘brand’ you will be known for! Most of you may have defined marketing as selling; as a process of getting people to buy what you want them to buy. While marketing certainly does influence people to buy you missed the major point of marketing. As seen in the definition above this belief would be way too narrow.

Activity: Having read the definitions above I want you to make a list of products that you believe are well marketed. Remember that marketing is not simply sales. Record your list in your personal journal.

Marketing is a process by which you as an entrepreneur will attract new customers and grow current customers; it must focus on developing relationships with customers and above all satisfying your customers. A satisfied customer will come back to you and may even bring a friend!
THE MARKETING PROCESS

As you review the definition above I wish you to note that at the centre of marketing is a focus on the customer. With this in mind examine the model below:

As you look at this model, you will note that we spend a great deal of time ensuring that we understand the marketplace we wish to operate in as well as the customer we wish to serve and it is at the end of the process that we reap what we sow, that is profits and customer equity.

In the first stage we need to distinguish what is a need vs. a want, this sets the stage for customers creating demand for a particular product.

A need is primary a state of felt deprivation. In essence they are the basic needs that make up the human experience. These include physical, social and individual needs we all feel.

What is the difference between a want and a need? A want is the manifestation of a need that is influenced by your culture and individual personality. For example, if you are an American, you may feel hungry. The hunger and need for food is the basic need, however, what is it you want to eat? Based on your American culture you may wish and hamburger and fries from McDonalds or chicken from KFC (Kentucky Fried Chicken). The personal want for these types of foods is based in your cultural identity. However if you are from somewhere else in the world you will have a different cultural identity and may now desire something else to satisfy the basic need. This desire is the expression of the want.

Activity: Before proceeding define what you believe a need is and what a want would be in your own industry. Record your ideas in your personal journal.

Let us now add economic power to this equation. Demand is now a want backed up by buying power. You have a need and want a particular product to satisfy that need. In order to satisfy the need you must have the money available to “demand” the product. You must have the money to exchange for the product or good that you want. The most successful companies go to great lengths to understand and know what the customer needs and wants. Once you produce what the customer wants it becomes difficult for them to refuse it.

SALES - DEFINED

Definition: Sales consists of the formal process of closing a sale with a customer in which products and services are exchanged for something of value (usually money).

The difference between marketing and sales is the customer. Marketing uses a variety of methods and media to reach to the customer. The aim of marketing is educate the
customer about a specific product or service. The aim is to make them aware of the products and services your company provides.

Once the awareness is achieved and the customer is considering whether to purchase the product or service the sales process begins. This can include activities like demonstrations, provision of sample products, provision of additional data or background information, etc. The ultimate output of the sales process is a signed contract or exchange of money for products and services.

**THE MARKET PLACE AND THE CUSTOMER**

As a business person you will satisfy the needs and wants of your customers in a marketplace (a place where buyers and sellers come together to exchange items of value). In the market place you will make a market offer of goods, services and products, experiences, and information in some mix all designed to satisfy a need or a want. You should beware of marketing myopia and remember to focus on the underlying need.

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### Important Definitions

*Market offerings are some combination of products, services, information, or experiences offered to a market to satisfy a need or want.*

*Marketing myopia focuses on existing wants and losing sight of underlying consumer needs.*

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In the marketplace customers will form expectations based on the information available and what the need and want. It is essential that you balance what expectations you set with that of the consumer. Consumers will form expectations based on the value and satisfaction that various marketing offers available (and promise to deliver) and will buy accordingly. A satisfied customer will buy again and tell others about the good experience while a dis-satisfied customer will switch to the alternative and tell others about the poor experience. Therefore customer value and satisfaction are the keys to building a lasting brand and managing your customer relationships. It all comes down to a matter of trust – the building block of all great relationships.

The basis of this marketplace is the concept of exchange, in its simplest concept, the marketplace is a place where we exchange things of value, the customer solves a problem with the purchase of your product or service and in exchange they give you something of equal value in this case currency.

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### Important Definition

*Exchange is the act of obtaining a desired object from someone by offering something in return.*

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So marketing consists of the actions needed in building and maintaining desirable exchange relationships with your target group.
**Activity:** We have had a lot of discussion about a market but have not defined it at this point. In your personal journal describe your understanding of a market then proceed to the definition.

A market is the *actual* and *potential* set of buyers of a product or service; therefore marketing means the management of markets to bring about a profitable set of customer relationships.

The diagram above shows the major elements that make up today’s modern marketplace. The environment consists of:

- Suppliers of materials to create the products or services. E.g. Candy bar makers need chocolate, sugar, etc.
- The Company that produces the product or provides the service to the potential consumers.
- The Competitors who provide the same or similar services that a consumer may choose to purchase.
- The Marketing Intermediaries are the organizations or companies that are involved in getting the product or service to consumers. E.g. trucking firms, Internet Service Providers, Sales and Purchasing Agents, etc.

**TOPIC SUMMARY**

The concepts described in this topic will establish the foundation for a wider discussion on the environmental forces and models impacting the marketing process. Effective planning and implementation of a marketing process is key to the success of any business and is especially important to an Entrepreneur.
TOPIC 1.2 – PRODUCT MARKETING

INTRODUCTION
Consumers buy products that meet a specific need. Consumer needs will vary and they will have a wide variety of choices. Products need to appeal to the consumers. They must stand out on their own. They must support the buying decisions of the consumer. In this topic we will examine how to market products to a consumer.

OBJECTIVES
Upon completion of this topic you will be able to:

1. Define a product.
2. Examine the different types of products.
3. Explore the difference between products and services.
4. Describe the decisions to be made to market a product.

WHAT IS A PRODUCT?
A product is simply:

“Anything that can be offered to a consumer for attention, acquisition, use, or consumption that might satisfy a want or need.”

This definition would also include services, events, persons, places, organisations, ideas or any mix of these. Services are a category of products but they are intangible and do not result in the ownership of anything. They include activities, derived benefits, or satisfactions offered by you (or your competitors) for sale.

Your company may offer a range of products from pure tangible goods such as soda and cake to pure services such as tax preparation and other financial services. The differentiating criterion here is the experiences that are associated with use of a particular brand or company. Every product is made up of three levels; the first level is the core product. This core represents the core customer value or need, which addresses the question “what is the buyer really buying?” Generally this is the question is answered by the use of the product. The actual product is the physical item that is used and interacted with by the customer. Finally the augmented product level is created by offering additional consumer services and benefits. As you develop products you must identify the core customer value that consumers seek from the
product. Then design the actual product and find ways to augment it in order to create this customer value and the most satisfying customer experience.

Products and Services can be classified into two main categories of consumer and industrial products.

**Consumer Products** are products and services bought by final consumers for personal consumption. They are classified by how consumers purchase them.

1. **Convenience products** are consumer products and services that customers usually buy frequently, immediately, and with a minimum of comparison and buying effort, for example your daily newspaper, toothpaste.
2. **Shopping products** are less frequently purchased consumer products and services that customers compare carefully on suitability, quality, price, and style for example cars and furniture.
3. **Specialty products** are consumer products and services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort for example high end electronics and designer perfume.
4. **Unsought products** are consumer products that the consumer either does not know about or knows about but does not normally think of buying for example life insurance or funeral services.

**Industrial Products** are those purchased for further processing or for use in conducting a business. There are three groupings of industrial products:

1. **Materials and parts** include raw materials and manufactured materials and parts.
2. **Capital items** are industrial products that aid in the buyer’s production or operations, including installations and accessory equipment.
3. **Supplies and services** include operating supplies and maintenance and repair services.

*There are good and services that* do not fall into the above broad categories. They are grouped with Organizations, Persons, Places, and Ideas.

1. **Organization marketing** consists of activities undertaken to create, maintain, or change the attitudes and behavior of target consumers toward an organization.
2. **Person marketing consists** of activities undertaken to create, maintain, or change attitudes or behavior toward particular people.
3. **Place marketing** involves activities undertaken to create, maintain, or change attitudes or behavior toward particular places.
4. **Social marketing** is the use of commercial marketing concepts and tools in programs designed to influence individuals’ behavior to improve their well-being and that of society.
PRODUCT & SERVICE DECISIONS

As you begin to create product and service lines you need to make decisions that will have a positive impact on your potential customers. These decisions are made at a number of levels as illustrated in the diagram below.

Initially, you will have to make decisions on product and service attributes! This activity involves making determining how your product will benefit your potential customer. Benefits should be communicated by effective use of your product’s attributes. These attributes include product quality, features and style and design.

The term product quality is concerned with creating customer value and satisfaction by creating a product that meets or exceeds customer expectations. In the case of physical product it must be well built, it must last, it must be free of errors. In an intangible product or service it must solve the problems or satisfy the needs of the potential customers. Quality is a major contributor to customer satisfaction.

Product quality has two principal attributes; level of quality and consistency. The quality level refers to the performance of the product to perform the functions that you have advertised. Is your product free of defects? Does it consistently deliver a target level of performance with use?

Product features are competitive tools that you will use to differentiate your product from the competition. Decisions on what features you choose to offer should be based on what features your customers consider ‘valuable’ or ‘important’ verses the cost of providing those attributes to your customers. You must be able to meet the needs of the majority of your customers. When considering features you must also consider product style and design which add to customer value. Style describes the appearance of the product, the aesthetics of the product; while design affects your product’s usefulness, how was it designed to perform as well as its looks. Is it easy to use? Can I hold it without dropping it? Does the colour suit my personal style?

We must also consider product(s) – Branding. A Brand is a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service. Your brand is important in a number of ways.

- It helps consumers to identify your product and how it will benefit them
- It communicates your product quality and consistency
- It gives you an opportunity to build a concept and story about a product
- It along with trademark protection provides legal protection for unique product features
- And assists you to segment your markets.
Once you have decided on your brands look and feel you need to decide how to Package the product. Packaging involves designing and producing a container or wrapper for your product. On the package itself you have the label. Labelling performs a number of important functions including:

1. Identification of the product.
2. Description of the product.
3. Promotion of the brand.
4. Any legal or copyright statements.

The label is the final opportunity you have to influence the customer. It must contain all of the required information such as nutritional or warning information as required by law. This requirement will differ from region to region and country to country. Information that will generally be affected by legal requirements would be:

- **unit pricing** (stating the price per unit of standard measure),
- **open dating** (stating the expected shelf life of the product), and
- **nutritional labeling** (stating the nutritional values in the product).

As part of your product decisions you need to consider what *product support services* you will make available to consumers as part of the overall package. How are you going to support your customer during and after the sales process? For example if buying a satellite dish will you provide free installation of the equipment? As you product becomes accepted and sales increase you may need to periodically survey customers for their opinion on the value of the services your company provided and to solicit ideas for new services. You will then use the information to adjust current services and add new ones. This will increase customer satisfaction and improve profits.

**PRODUCT LINE DECISIONS**

At this stage you have developed ideas for individual products or services. Now you need to develop strategies to ensure that as you grow you are making decisions related to the whole product line that you will be offering as your business grows.

A *product line* is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

As we you make decisions about your various product lines you have a few tools available to you. The first concept we find when discussing product line decisions is the product line length. **Product line length** is the number of items in the product line.

In developing product line strategies, you will face a number of tough decisions. The major product line decision involves product line length. The line is too short if you can increase profits by adding items; the line is too long if you can increase profits by dropping items. Your access to resources and your objectives influence product line length.
Product lines tend to lengthen over time. Your sales force and distributors may pressure you for a more complete line to satisfy customer demands. Or, you may wish to add items to the product line to create growth in sales and profits. However you should note that as you add items, several costs rise: design and engineering costs, inventory costs, manufacturing changeover costs, transportation costs, and promotional costs to introduce new items.

Eventually in review of your product line, unnecessary or unprofitable items will be pruned from the line in a major effort to increase overall profitability. This pattern of uncontrolled product line growth followed by heavy pruning is typical and may repeat itself many times.

As you (or your designate) attempt to manage the various product lines you may systematically increase the length of your various product lines in two ways: by stretching its line and by filling its line. Product line stretching stretches its line downward, upward, or both ways. Product line stretching occurs when a company lengthens its product line beyond its current range. If product is located at the upper end of the market can stretch their lines downward. If it is located at the lower end of the market can stretch their product lines upward. If you have instead positioned your product in the middle range of the market can stretch their lines in both directions.

If you have your product positioned in the upper end of the market you can stretch the product line downward creating cheaper versions of the product to capture market share of additional segments (*example Mercedes A class*). If you have positioned your product in the low end of the market you can stretch upward to capture market share.

A primary strategy behind stretching your various product lines is to ‘plug’ market holes that would attract competitors by adding higher end or lower end versions of your product. In some cases you do not need to *stretch* your product lines. You may simply need to fill them. Product line filling involves adding more items within the present range of the line. For example you may not need to add more expensive or less expensive ice cream, just add new flavours. That is to say you may start with chocolate and vanilla but you may now add a coconut flavour to meet demand.

Your *product mix* consists of ALL the product lines and items that you have in your portfolio available for sale. Your mix has four dimensions.

- **Width**
- **Depth**
- **Length**
- **Consistency**

The *product mix width* refers to the number of different product lines the company carries. Its *length* refers to the total number of items the company carries within its product lines. When referring to the *product mix depth* you are considering the number of versions offered of each product in the line. Finally, *product mix consistency* refers to how closely related to the various product lines are in end use, production
requirements, distribution channels, or some other way. Therefore in conclusion the
decisions you have available to you for growing your business include:

1. It can add new product lines, widening its product mix.
2. It can lengthen its existing product lines.
3. It can add more versions of each product, deepening its product mix.
4. It can pursue more product line consistency.

**TOPIC SUMMARY**
During this topic we explored the different types and categories or products. We
examined the issue of product quality and consistency. Finally we considered what a
product line is and how to effectively brand your product line. In the next topic
presentation we will look at how to market services, the intangible products we
discussed earlier.


**TOPIC 1.3—SERVICES MARKETING**

**INTRODUCTION**

Services are intangible products that are marketed to potential customers to solve their problems or address their needs. Services could include activities like house painting, plumbing repair, workshop design and delivery, medical treatments and others. Services must be marketed in a different way. What an entrepreneur is selling are his or her own knowledge and skill. During this topic we will explore the issues related to marketing a service.

**OBJECTIVES**

Upon completion of this topic you will be able to:

1. Describe service characteristics.
2. Explain the steps in the service-market chain.
3. Describe steps that should be considered when marketing a service.

**WHAT ARE SERVICES?**

Services make up 64 percent of world product delivery. A service is characterised in the following manner; it must be intangibility, inseparability, variability, and perishability.

![Diagram showing service characteristics: Intangibility, Inseparability, Variability, Perishability]

1. Service intangibility means that services cannot be seen, tasted, felt, heard, or smelled before they are bought.
2. Service inseparability means that services cannot be separated from their providers, whether the providers are people or machines. Because the customer is also present as the service is produced, provider-customer interaction is a special feature of services marketing.
3. Service variability means that the quality of services depends on who provides them as well as when, where, and how they are provided.
4. Service perishability means that services cannot be stored for later sale or use.

In a service business, the customer and front-line service employee interact to create the service. The service-profit chain consists of five links:
• Internal service quality: superior employee selection and training, a quality work environment, and strong support for those dealing with customers, which results in...
• Satisfied and productive service employees: more satisfied, loyal, and hardworking employees, which results in...
• Greater service value: more effective and efficient customer value creation and service delivery, which results in...
• Satisfied and loyal customers: satisfied customers who remain loyal, repeat purchase, and refer other customers, which results in...
• Healthy service profits and growth: superior service firm performance.

Service marketing requires internal marketing and interactive marketing, Internal marketing means that the service firm must orient and motivate its customer-contact employees and supporting service people to work as a team to provide customer satisfaction. Interactive marketing means that service quality depends heavily on the quality of the buyer-seller interaction during the service encounter.

If you are a service company you will face three major marketing tasks: service differentiation, service quality, and service productivity. As a service company you can differentiate your service delivery by having more able and reliable customer-contact people, by developing a superior physical environment in which the service product is delivered, or by designing a superior delivery process. You may also differentiate by differentiating your images through symbols and branding.

In respect to managing your service quality it is more difficult to define and judge quality in services than it is for product quality. Service quality will always vary, depending on the interactions between employees and customers. Good service recovery can turn angry customers into loyal ones. Some ways in which you can manage the level of productivity in a service industry would include:

1. Train current employees or hire new ones who will work harder or more skilfully.
2. Increase the quantity of service by giving up quality.
3. Increase and improve the use of technology in service delivery.

**TOPIC SUMMARY**

When marketing your services you must think about why a potential customer would want to hire your company to address his or her needs or wants.
TOPIC 1.4 – A CUSTOMER DRIVE MARKET STRATEGY

INTRODUCTION
Once you understand that at the centre of all your activities is the customer it is much easier to design a customer driven organisation and strategy. Marketing management is art and science of choosing appropriate target markets and creating profitable relationships with them. You must answer two questions here:

1. What customers will you serve (what’s our target market)?
2. How can you serve these customers best (what’s your value proposition)?

OBJECTIVES
Upon completion of this topic you should be able to:

1. Explain market segmentation.
2. Identify value propositions.
3. Describe the process of market orientation.
4. Explain the different types of customer relationships.
5. Explore how to capture customer value.

MARKET SEGMENTATION
Remember you cannot be everything to everyone so you need to be specific and you will need to create value on the basis of what your customers believe is important to them. At this point is it necessary that you consider some definitions that will be repeated often in this module.

<table>
<thead>
<tr>
<th>Market segmentation</th>
<th>refers to dividing the markets into segments of customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target marketing</td>
<td>refers to which segments to go after</td>
</tr>
<tr>
<td>De-marketing</td>
<td>is marketing to reduce demand temporarily or permanently; the aim is not to destroy demand but to reduce or shift it</td>
</tr>
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</table>

So as you move forward with this module and with the creation of your business plan these terms will be important. The first thing you must do for your enterprise (from a marketing perspective) is to decide on who you wish to serve. You will do this by dividing the market into homogenous parts (groups of people with similar needs and wants) and then choosing which group or target audience (market) you will go after. We shall go into more detail in another unit. What you MUST understand here is that you cannot serve everyone any attempt to do so will result in you not serving anyone very well. Occasionally as an entrepreneur and marketer you need to divert demand (customers) temporarily or permanently to another option, this activity is called ‘de-marketing’. Therefore your role will be to manage both customers and demand for your products and services.
VALUE PROPOSITIONS AND MARKET ORIENTATIONS

A value proposition is the set of benefits or values you promise (on behalf of your company) to the marketplace to satisfy a specific set of needs and wants. This ‘promise’ sets the basis of your brand as it differentiates your brand from your competitor’s brand.

Before you proceed an understanding of the different market orientations you can take is important as it affects the development of your value proposition and in turn your brand. This philosophy will guide your strategy and how you choose to interact with the marketplace.

- **The Production Concept** is based on the belief that your customers will favour products that are easily available and very affordable; in this case you will focus on improving your production and distribution facilities thus improving access to the product and lowering the cost to the consumer.

- **The Product Concept** believes that consumers will prefer a product that offers the most quality, performance and innovation. As a result your focus as an entrepreneur will be on continuous product improvement through innovation and research and development.

- **The Selling Concept** you believe that consumers will not buy a product unless the business has a large scale selling and promotional effort. This is generally used with unsought good (for example life insurance) that consumers would not ordinarily considering purchasing.

- **The Marketing Concept** states that achieving the organisational goals is dependent on knowing the needs and wants of your target group; then delivering the desired satisfactions better than your competitors can. Your focus here is customer focus and value being the path to sales and profits. Your job here is to find the right products for your customers. Based on this concept, customer-driven company’s research current customers deeply to learn about their desires, gather new product and service ideas, and test proposed product improvements. **Customer-driving marketing** is understanding customer needs even better than customers themselves do and creating products and services that meet existing and latent needs.

- **The Societal Marketing Concept** questions the pure marketing concept and its overlooking of possible conflicts between consumer short-run wants and consumer long-run welfare. This concept believes that your marketing strategy not only deliver value to consumers but do so in a way that maintains or improves both the consumer and the society’s well-being.
THE MARKETING PLAN AND BUILDING RELATIONSHIPS

Your marketing plan will be a component of your overall business plan and its activities. Your marketing strategy will determine which customers you will serve and how you will serve them, your integrated marketing plan will like your business plan provide the ‘road map’ for how you will deliver the intended value to your target market.

Your marketing plan will outline your marketing mix referred to as the four (4) P’s of product, Price, Place (distributions) and Promotion. These are the tools which you manipulate to deliver on the promised value to the customer. It is the combination and mix of these 4 Ps that will be blended into an integrated marketing programme that is communicates and delivers the intended value to your customers.

In today’s market consumers are sophisticated and are aware that they have choices and options. As a new entrepreneur or one seeking to grow your business customer relationships play an important role. For any business enterprise especially in the marketing of it, customer relationship management is the most important activity as it deals with the activity of acquiring, keeping and growing your customers.

Definition: Customer relationship management is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

Consider trying to fill a bucket with a large hole in it, as fast as you fill it you lose water. This is what happens with a business with a poor customer focus. As fast as you acquire a new customer you are losing customers, the result: no real growth, more expensive operating cost as you are spending money acquiring new customers who DO NOT stay with you. The key to building lasting relationships is the creation of superior customer value and satisfaction.

Definition: Customer Value is the customer’s evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers.

Customer-perceived value
- The difference between total customer value and total customer cost

Customer satisfaction
- The extent to which a product’s perceived performance matches a buyer’s expectations

However you should note that customers often do not judge costs and value accurately or objectively. The instead act on the perceived value. The level of satisfaction the customer perceives from our product or service will depend on their perception of your performance based on the expectations they had. As a short side note please pay attention to the fact that the customer’s expectations are also influenced by price of the product or service. If your firm’s product falls short of the level of expectation the customer will be dissatisfied, if it matches they will be satisfied and if it exceeds the customer will be highly satisfied or delighted. Delivery of high satisfaction relative to
your competition should be your focus and not maximising satisfaction as this can be simply done by lowering price but this will likely eat into profits; after all the role of marketing is to generate customer value profitably.

**LEVELS OF CUSTOMER RELATIONSHIPS**

Like your circle of friends ranging from close friends to passing acquaintances there are different levels to customer relationships from basic relationships to full partnerships. Depending on how close a relationship you seek to create with your customers you may create special programmes designed to increase the frequency with which you interact with customers from frequency marketing programs that reward customers who buy frequently or in large amounts to sponsor club marketing programs that offer members special benefits and create member communities.

You of course are unable to do this type of marketing with everyone as it will be an expense for the company but if you consider a generic *80/20 rule* which states that 80% of your profits will be generated by 20% of your customer base *(essentially most of your profits will come from a select few of your customers)* you will know which segment of your market to have a selective relationship with. Through a customer profitability analysis you will identify your profitable customers from your ‘losing’ customers and target the top consumers for pampering.

With the communication ability of the world’s population today, consumers are more informed than ever about brands and products offered and as such you need to build even closer relationships to your customer base. Your marketing practice needs to be attractive, creating an offering and message that is inclusive of your customers by using tools such as two way blogs, twitter, websites, online communities, and social networks.

In further developing the value passed on to the consumer you should create partnerships both within and outside of your company. Every employee must be customer focused an involvement in marketing it is not solely the bastion of the marketing specialist or department. All individuals are involved in creating customer value and should make up part of a cross functional team assigned to the customers, in this way everyone plays an active role. Outside of the firm your suppliers, distributors, retailers all play a major role in creating and delivering value. Your supply chain stretches from your raw material suppliers to the retailers that deliver the final product to the final buyer. The management of this supply chain strengthen your connections (within the supply chain) and can improve on the quality and delivery of the product to the final consumer.

**CAPTURING CUSTOMER VALUE**

The goal of customer relationship management is not simply to create customer satisfaction but to create customer delight. This means you will need to aim high in building on your various relationships. Creating delight amongst your customers establishes an emotional attachment and relationship with the product or service and this encourages the preference for use and purchase of your product or service that is
not simply rational. This is the basis for your brand and leads to customers who are not with you for a single sale but as lifetime customers which have lifetime value.

Your aim is to increase you customer share which means you want to increase your share of what customers are willing to spend on the category in which your product falls.

**Definition** – Customer share is the portion of the customer’s purchasing that a company gets in its product categories

So the key is to build customer equity which will ensure the company creates lifetime customers which in turn captures their lifetime.

**Definition** – Customer equity is the total combined customer lifetime values of all of the company’s current and potential customers.

So the more loyalty you can encourage among your clients the higher the customer equity. This equity is a better measure of your company’s performance than simply looking at current sales or market share. Based on the discussion above it is imperative as an entrepreneur you build the right relationships with the right sets of customers. Different sets of customers will require different relationship management strategies. Customers that show low potential profitability should not be invested in. For potentially profitable customers who show little potential for loyalty can be attracted by special promotional activities creating satisfying and profitable relationships but this is done in short term cycles. Customers who show promise of being both profitable and loyal show a good fit between their needs and the company’s market offering will be the best group for long term relationship investments designed to delight, retain and grow them. The final category is a group who show high loyalty but are not profitable. There is a limited fit with the company and limited efforts can be made to grow them.

To wrap up this topic look at the diagram below that outlines how all of this is held together and you as an entrepreneur can create value for you clients and build profitable customer relationships.
**TOPIC SUMMARY**

Gaining customer value or some call it gaining the competitive advantage is essential for any business to grow and thrive. You can value by gaining customer trust and loyalty. This is done through the process of building sound customer relationships. This process is essential at the beginning of the process when defining need. It is essential in creating and implementing marketing strategies that illustrate to the customer that our company can bring them value and finally it embraces the sales and customer follow up process to cement a long-term relationship.
UNIT ONE – SUMMARY

ASSIGNMENTS AND ACTIVITIES
Before proceeding you should create a paper that describes a customer driven strategy for a specific product or service. The paper should reflect the following:

1. Who is your potential customer and what do they need?
2. How do you know they need it?
3. What value can you bring to your potential customer?
4. What type of strategies must you embrace to maximize the value and enhance customer satisfaction?

The completed paper should be submitted to your instructor for feedback and grading.

SUMMARY
This unit introduced you to the concepts of marketing. It demonstrated the difference between products and services and the described the different types of products that exist in a typical market place. The unit also helped you begin to understand the importance of the customer in the marketing process. We must find products and services that our customers need and are willing to buy. We must ensure our products and services are of high quality and consistent. We must create a brand that is recognized by the customer. We must establish methods to raise customer confidence in what they bought and to provide customer service to ensure they are return customers. In the next unit we explore specific strategies to achieve the above.
UNIT TWO – MARKETING – THE PLANNING PROCESS

UNIT INTRODUCTION

In the first chapter, we explored the marketing process by which companies create value for consumer in order to capture value in return. In this chapter, we look at designing customer-driven marketing strategies and constructing marketing programs. First we look at an organization’s overall strategic planning, which guides marketing strategy and planning. Next, we discuss how marketing partners closely with others inside and outside the firm to create value for customers. We then examine marketing strategies and planning – how marketers choose target markets, position their market offering, develop a marketing mix, and manage their marketing programs. Lastly, we will look at the step of measuring and managing return on marketing investment.

UNIT OBJECTIVES

1. Explain companywide strategic planning and its four steps.
2. Discuss how to design business portfolios and develop growth strategies.
3. Explain marketing’s role under strategic planning and how marketing works with its partners to create and deliver customer value.
4. Describe the elements of a customer-driven marketing strategy and mix, and the forces that influence it.
5. List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing return on marketing.

UNIT READINGS

As you complete this unit it recommended you read the following online articles:


ASSIGNMENTS AND ACTIVITIES

At the end of the unit you will be required to develop marketing strategies for a specific product line or service offerings.
TOPIC 2.1 – STRATEGIC PLANNING AND MARKETING

INTRODUCTION
Every business enterprise must start with a plan. Without a plan the business will just drift along and in most cases fail. The first step is the creation of a strategic plan then a supporting business plan. Within each plan there is a need to consider the company’s approach to marketing. Although this section will not discuss strategic planning in detail (that is the subject of another course) it will explore the relationship of marketing and strategic planning.

OBJECTIVES
Upon completion of this topic you will be able to:

1. Describe the relationship of marketing and strategic planning.
2. Explore portfolio analysis and strategic partnerships.
3. Analyse the marketing value chain.

THE PLANNING PROCESS
The systematic planning process for any business that wishes to transform itself be it public or private, must go through three major phases before the transformation can begin. The three phases and the major activities involved in each phase is described in the diagram below.

Business Analysis
The aim of a business analysis is to determine if there are market opportunities that could be pursued by either a new or existing business and if so are their existing competitors who have already begun to pursue this new or growing market. For example in your earlier readings about the future of distance education a number of projections about the growth of DE were provided. Before organizations begin to pursue these potential growth opportunities they should systematically analyze their potential and determine if this will generate additional revenues if the business is
probably managed and sufficient resources are provided to support implementation or growth.

The business analysis process (which will be explored in detail in Unit Two) tries to answer some of the following questions:

1. What is the potential opportunity?
2. Who belongs to the potential target market and do they have the buying power to purchase the new products and services being considered?
3. How big is the target market and will it continue to grow?
4. Who is already servicing this market or providing the proposed products and services?
5. Is the potential competition meeting the needs of the target market?
6. What would my existing (or proposed) organization need to do to enter this market?
7. Is the potential opportunity worth the risk of pursuing it systematically?

These questions and more need to be explored as part of the market and competitive analysis. At the end of the process the potential business opportunity must be considered and a proposed business approach provided to the decision makers of the new or existing organization.

**Strategic Planning**

If the decision makers decide to pursue this business opportunity after completing a detailed business analysis, then they need to engage in a strategic planning process (which will be described in detail in Unit Three) that allows them to think about the future of the DE business opportunity and how to grow it into a successful business.

The strategic plan should lay the foundation for any new or existing organization. It should provide a vision and mission for the company. It should identify the multi-year strategic goals and objectives that must be achieved to move towards the vision and mission. The strategic direction and the potential business should be assessed for risk. A SWOT analysis or environmental analysis should be completed and risk reduction methods identified and described in the strategic plan.

**Business Planning**

Once the strategic direction for the new or re-engineered DE business has been mapped out then the organization must produce a detailed business plan that reflects how the strategic goals and objectives will be implemented. The business plan must provide the detail needed to launch the business and grow it over the next three to five years.

A business plan paints a picture of the company. A business plan must tell the readers and decision makers:

- What specific products or services the business will provide.
- The specific numbers of products or services that will be produced or sold each year.
- The number and type of personnel that are required to implement and grow the business.
- The type of technology and infrastructure required to support product development or service delivery.
- The work processes that need to be implemented within the new organization.
- The management team that is required to guide the new DE unit/business.
- The marketing and sales plan.
- The multi-year financial plan.
- The performance management plan.
- If required, the change management plan.

**MARKETING AND THE STRATEGIC PLAN**

As described above the start point for a marketing plan is the company’s strategic plan and business plan. The strategic plan lays the foundation for the business. It provides multi-year strategies, including marketing strategies that will guide the growth of the business. Strategic planning has a direct impact on your marketing decisions.

The business plan describes how you will implement the marketing strategies described in your market plan. It will reflect the resources, methods, media and budget required to successfully launch and conduct a successful marketing campaign.

As noted earlier, the strategic plan reflects the mission and vision for your business. As you create your strategic plan you must consider the following. Is the mission I have created for my business a ‘market oriented’ mission? You need to ensure that your mission is not too narrowly defined and it is expressed in business terms that satisfy basic customer needs. It should be realistic, specific, and achievable. It must fit your market environment based on your competencies and motivates those who are part of your enterprise.

Once you have defined your mission, you create strategic goals and objectives that move the company towards its mission. You must create observable and measurable multi-year strategic goals that include both business and related marketing strategies. The strategic marketing goals will eventually be further broken down into marketing objectives and methods that are reflected in your marketing plan.

In designing your marketing strategies it is necessary to establish your business portfolio. The portfolio must reflect the products and services offered by your company. Portfolios must reflect the company’s strength and weaknesses in an opportunity available in the environment. To ensure the strength of your portfolio, you should complete an analysis of your business. Portfolio analysis is an important tool where you evaluate the products (or services) that make up your company.

A portfolio analysis will also help you determine the structure of your company. A company may be broken into strategic Business Units (SBUs) that can have a separate mission and objectives (that support the overall company goals). The creation of
separate business units will be more likely as you grow your business rather than a start-up.

PORTFOLIO ANALYSIS AND STRATEGIC PARTNERSHIPS

As we proceed you are now evaluating the attractiveness of the various products and services that make up your business, you must decide on how much support (resources, budget, level of effort, etc) each will receive (especially considering your limited resources when in the start-up mode). Basis analysis methods will evaluate the business products and services based on two important dimensions. First the attractiveness of the market for your products and services and second the ‘position’ strength in the market in comparison to the competition.

The most common and best known portfolio evaluation tool is the Boston Consultancy Group (BCG) Matrix. All products and services can be sorted into the following categories as illustrated in the diagram:

- **Stars**: High-growth market, high-share product;
- **Cash cows**: Low-growth market, high-share product;
- **Question marks**: Low-share product, high-growth market;
- **Dogs**: Low-share product, low-growth market.

- **On the horizontal axis: relative market share** - this serves as a measure of your product or service strength in the market.
- **On the vertical axis: market growth rate** - this provides a measure of market attractiveness.

By dividing the matrix into four areas, four types of your products or services can be distinguished:

- **Stars** - Stars are high growth products or services competing in markets where they are relatively strong compared with the competition. Often they need heavy investment to sustain their growth. Eventually their growth will slow
and, assuming they maintain their relative market share, will become cash cows.

- **Cash Cows** - Cash cows are low-growth businesses or products with a relatively high market share. These are mature, successful products or services with relatively little need for investment. They need to be managed for continued profit - so that they continue to generate the strong cash flows that the company needs for its Stars.

- **Question marks** - Question marks are products or services with low market share but which operate in higher growth markets. This suggests that they have potential, but may require substantial investment in order to grow market share at the expense of more powerful competitors. Management has to think hard about "question marks" - which ones should they invest in? Which ones should they allow to fail or shrink?

- **Dogs** - Unsurprisingly, the term "dogs" refers to products or services that have low relative share in unattractive, low-growth markets. Dogs may generate enough cash to break-even, but they are rarely, if ever, worth investing in.

Once a company has classified their products or services, it must decide what to do with them. There are four possible strategies for each product line or service offering:

1. **Build Share**: Here the company can invest to increase the market share (for example turning a "question mark" into a star).
2. **Hold**: Here the company invests just enough to keep the products and services in its present position.
3. **Harvest**: Here the company reduces the amount of investment in order to maximise the short-term cash flows and profits from the products and services. This may have the effect of turning Stars into Cash Cows.
4. **Divest**: At this point the company can divest themselves of the products or services by phasing it out or selling it - in order to use the resources elsewhere (e.g. investing in the more promising "question marks").

However like any other tool there is a down side to the use of this matrix approach. Some of these include:

- Difficulty in defining your products and services.
- Difficulty in measuring market share and growth.
- Time consuming to complete this type of ongoing market analysis.
- Potentially expensive to conduct an ongoing analysis.
- The analysis focuses on current businesses, not future planning.

You must still however make decisions based on potential growth (and potentially downsizing). You must design your business portfolios that helps you define new products or services the company should consider in the future. Marketing has the main responsibility for achieving profitable growth for the company and the entrepreneur must identify, evaluate, and select market opportunities and lay down strategies for capturing them. At tool that is used to do this is the product/market expansion grid.
used to identifying company growth opportunities through market penetration, market development, product development, or diversification strategies.

**Market Expansion Grid**

![Market Expansion Grid Diagram]

- **Market penetration** is a growth strategy that involves making more sales to current customers without changing its products.
- **Market development** is a growth strategy that involves identifying and developing new markets for its current products.
- **Product development** is a growth strategy where you offer modified or new products to current markets.
- **Diversification** is a growth strategy where you start up or buy businesses outside of your current products and markets.

You will also need to have exit strategies in the event you need to downsize or exit a market.

**The Value Chain**

Each product or service you introduce into your company needs to be considered as a link in the company’s value chain.

| Value chain | is the process of value-creating activities used to design, produce, market, deliver, and support the firm’s products. |

Your value chain is only as strong as its weakest link. This means that every person or department that touches your product or supports your product is part of the value chain and one poor performer can affect the value to the customer. So all aspects of your business has to meet the minimum standard by which you will be judged. Your success will be based on how well your team is capable of working together to add customer value and coordinate their efforts.

The value chain can be extended outside of your company and become part of a value delivery network. This network is made up of suppliers, distributors and ultimately the customers who partner to improve the performance of value delivery. It is becoming increasingly common that competition occurs across entire networks created by competitors.
**TOPIC SUMMARY**

During this topic we explored the importance of analyzing your products and services and determining where to invest your time, money and resources in marketing them. At times a product or service must be dropped in favour of those that offer a larger market and return on investment.

In addition we explored the idea of a value chain. Knowing where your strengths and weaknesses are in your product design, development and delivery is important for retaining customer loyalty, growing your customer base and ensuring a consistent and quality product is produced.
**TOPIC 2.2 – MARKETING STRATEGIES AND MARKETING MIX**

**INTRODUCTION**
Once you have an understanding of your market and analysed the types of products and services you will support in your new company, you must begin to think about how to systematically market your product line to your potential customers. In this topic we will explore the marketing strategies and the activities that a marketing plan should include.

**OBJECTIVES**
Upon completion of this topic you will be able to:

1. Examine the concepts underlying market planning.
2. Describe the stages in producing a marketing plan.
3. Explain the activities in market plan implementation.

**THE GAME PLAN**
Marketing strategy is the ‘game plan’ by which you will create profitable relationships. A customer driven marketing strategy acknowledges that the company cannot serve all customers in a given market profitable at least not in the same way and as such divided the market into homogenous groups.

**Market segmentation** is the division of a market into distinct groups of buyers who have distinct needs, characteristics, or behavior, and who might require separate products or marketing mixes.

**Market segment** is a group of consumers who respond in a similar way to a given set of marketing efforts.

The process of dividing the market into distinct homogeneous, distinct groups of buyers with different needs, characteristics, or behaviour who might require separate products or marketing programs is called market segmentation and the groups (or market segments) are made up of individuals who respond in a similar manner to a specific ‘mix’ of marketing activities. Once you have segmented your market you will need to analyse the segments and determine which markets most the most sense to serve based on your abilities and its ability to generate the greatest customer value.

**Market Targeting** is the process of evaluating each market segment’s attractiveness and selecting one or more segments to enter.

Within the target market you now need to communicate you ‘promise’ by this I mean you must clearly set your position and differentiating your product in the segment.

**Market Differentiation and Positioning** is the place the product occupies relative to competitors in consumers’ minds.

By position you should note that I am not referring to a physical position but the ‘position’ your product hold in the individual’s mind in comparison to your competitor’s
products. It is essential that you develop a differentiation so that you can answer a proverbial question of “why should I buy your product instead of your competitor’s?”

So as we speak to market positioning we are seeking to arrange a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target customers. It is this positioning that establishes the differentiation referred to above. It is important for you to differentiate your product or service in terms that are important to your target market (offering value). It is through product differentiation of the market offering that will give consumers more value and allow you to gain competitive advantages.

The marketing mix is a set of tactical tools which you control and manipulate to deliver on promises you make through your product offerings. It is the blending of these mix elements that produce the response you are seeking in the target market groups. The mix consists of the following elements:

- **Product** means the goods-and-services combination the company offers to the target market.
- **Price** is the amount of money customers pay to obtain the product.
- **Place** includes company activities that make the product available to target consumers.
- **Promotion** means activities that communicate the merits of the product and persuade target customers to buy it.

An effective marketing programme will coordinate these elements into a synced programme designed to achieve your marketing objectives by delivering required value to consumers. To go along with the 4 Ps there are corresponding concepts on the buyer side of the 4 Cs.

- Customer solution – all products must solve a customer’s problem
- Customer cost – the price is a cost to the customer
- Convenience – your distribution network promotes the convenience and access to the product solution
- Communication – your promotional mix communicates brand, price etc. to the consumer.

**Managing the Whole Effort**

Managing any process (and it is true in marketing) requires four basic functions or steps of analysis, planning, implementation, and control.

**Market Analysis**

*Market Analysis* is the completion of a situation analysis or what is referred to as a PEST or the expanded PESTLE analysis looks at your company’s internal and external environment and assess the company’s ‘situation’ in the environment. Coming out of this you will be able to complete a SWOT analysis, which is an assessment of your Strengths, Weaknesses, Opportunities, and Threat. Your strengths and weaknesses are always internal to your company and your opportunities and threats are always external.
to you. In fact it is your strengths that give rise to your opportunities as you can take advantage of attractive aspects of your environment or market where you weaknesses make you susceptible to threats that may occur in the external environment. As with any other planning you will be seeking to maximise your opportunities while

### SWOT ANALYSIS

SWOT explores four areas of a new or existing business venture. The process requires the participants to examine the following:

- **Strengths** – What is already in place and what talent, infrastructure or support does the business already possess. Do you already have an established business and clientele upon which to build?
- **Weaknesses** – Based on an assessment of your proposed business what must be added to the business to help it provide the products and services to your proposed target audience.
- **Opportunities** – are often founded in your earlier assessment of the market and the specific audience that you are targeting.
- **Threats** – exist in the form of the competition, the government and other external issues that may impact your business as you grow your market.

A SWOT analysis (sometimes referred to as an environment analysis) assumes that an organization has clearly identified the business opportunity it wishes to pursue and that it has defined the potential services and products it will provide.

SWOT assumes that there are two types of risk that could impact the success of the new enterprise: internal and external.

- Internal risk exists within the organization and can be controlled or influenced by the organization’s management team and/or workforce.
- External risk exists outside the organization and is controlled by others, and therefore is the hardest risk to control or plan for.

### Supplementary Readings

To learn more about SWOT review the following online article:


simultaneously minimizing and or avoiding environmental threats (risk exposure).

### Market Planning

Market Planning involves determining the specific you will use to achieve strategic objectives. You should create a detailed marketing plan for each SBU, product, or brand you have. Your marketing plan will develop the marketing strategies you will use consisting of the details of the target markets, the position (positioning statement) you
intent to take along with appropriate marketing mix elements and expenditures that will allow you to achieve the position you communicate to the market.

Market Implementation

In the Market Plan Implementation stage you convert the plan into specific action designed to realize the strategic level marketing objectives. At this point you will need to have day to day, month to month activities and actions that will effectively and efficiently put you marketing plan in action. You need to answer the questions of who, where, when and how needed to accomplish your goals. For a successful venture you will need to coordinate the people (internal and external to your company) in working together to implement your marketing strategies and plans. This success is dependent on your ability to blend people, structure, decisions, reward systems and company culture in a cohesive manner that supports your strategies. As a final consideration, you should ensure that the marketing strategy you implement is a fit you’re your company’s culture - that is its values and shared beliefs of the people in your organisation.

Marketing Controls

As with any process you must set controls or assessment procedures (in your case Marketing controls) to monitor effectiveness and progress and make any needed changes to actions to ensure success. In controlling the process you will use operating controls that allow for you to check the ongoing performance against annual plan projections for progress and take corrective action where necessary. In this way you monitor your company’s progress in achieving specific sales goals, profits, and other goals that were established in the annual plan. Another aspect marketing controls will be the use of strategic controls where you ensure that the strategies in use by the company are well aligned with its market opportunities. A major tool here would be the use of the marketing audit, this is a comprehensive, systematic and independent and periodic examination of your environment objectives, strategies and activities to ensure alignment and determines possible challenges and opportunities you may face.

The reality of marketing is that all of this costs money. Like any efficiently managed business you should ensure that you are getting value for the marketing dollar that is being spent. To this end measuring and examining the return on investment (ROI) or in this case the return on marketing investment (Marketing ROI) you receive is essential. You may access the return on marketing by using standard marketing performance measures such as brand awareness, sales, or market share figures. You may supplement this data by using customer centred measures such as market impact tools like reports on customer acquisition, customer retention, and customer lifetime value.
**TOPIC SUMMARY**

To summarise I wish to just graphically illustrate the marketing planning process components.

Addressing each of these areas will ensure that you have a complete and appropriate marketing plan. In the following units we will address the specific components that make up the plan and by the end of the module you should have completed an implementable marketing plan.
UNIT TWO – SUMMARY

ASSIGNMENTS
Before proceeding to the next unit think about the business you hope to develop.

1. Provide a brief overview of your business idea.
2. Consider the four Ps of your marketing approach. Describe your product, price, place and promotion.
3. Consider your potential value chain. List the people (or other organizations) and processes that are part of your value chain. Identify the strengths and weaknesses in your value chain.

Submit a two to three page paper assessing your value chain and the four Ps to your instructor for review and feedback.

SUMMARY
Planning and implementing market strategies is a complex process, but if properly conducted it will help ensure the company’s products and services are successfully launched in the market place and gain customer loyalty quickly.
UNIT THREE – THE MARKETING ENVIRONMENT

UNIT INTRODUCTION

Marketing is a living breathing component of business and does not operate in vacuum. In today’s modern market the entrepreneur needs to operate in a dynamic environment consisting of intermediaries, suppliers, customers and competitors all navigating in different ways by major environmental factors affecting opportunities and threats as well as the ways in which you can serve your clients. To develop effective strategies you must understand the environment which you compete.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Explain companywide strategic planning and its four steps.
2. Discuss how to design business portfolios and develop growth strategies.
3. Explain marketing’s role under strategic planning and how marketing works with its partners to create and deliver customer value.
4. Describe the elements of a customer-driven marketing strategy and mix, and the forces that influence it.
5. List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing return on marketing.

UNIT READINGS

As you complete this unit it recommended you read the following online article:


ASSIGNMENTS AND ACTIVITIES

The recommended assignment for this unit is to analyze your market environment. Instructions are provided at the end of the unit. In addition there are a number of reflective activities throughout each topic discussion. The results of your deliberations re: the reflective activities should be recorded in your personal journal. Marking and credit value for each will be established by your instructor at the beginning of the course.
TOPIC 3.1 – THE ENVIRONMENT

INTRODUCTION
The environment that any business operates in will vary by the type of business and the industry or sector that your business is servicing. Understanding your business environment and understanding the actors that you must work with or rely on is essential to business success. This topic will prepare you to assess your own business environment.

OBJECTIVES
Upon completion of this lesson you will be able to:

1. Define market environment.
2. Describe the different types of marketing environments.
3. Explore the impact of suppliers, intermediaries and competitors on your market.
4. Analyze your market environment.

DEFINING THE ENVIRONMENT
It is a poor manager that brings a knife to a gun fight! Marketing can be seen as a gun fight but in a way it is a war, a war for resources and a fight for customers and market share. As an entrepreneur you need more than anything else to know your market, to know the people you wish to sell to. You need to know the lay of the land. To understand what influences decisions and choices. To this end we will examine the major forces that influence you operating environment.

Before we explore the environment it will be helpful for you to have a couple of definitions to set the stage.

A company’s marketing environment consists of the actors and forces outside marketing that affect marketing management’s ability to build and maintain successful relationships with target customers.

The micro environment consists of the actors close to the company that affect its ability to service its customers.

The macro environment consists of larger societal forces that affect the microenvironment.

So as you can see everyone outside of marketing that can affect your ability to serve your target customer is part of your marketing environment. Individuals close to the company are part of the micro environment while societal forces that affect your micro environment are your macro environment.
As start the discussion on the environment let us first examine the microenvironment. Who is part of your micro environment? There are a few broad categories and because these ‘actors’ play a major role in your ability to build profitable relationships and value with targeted customers you need to ensure that you identify them all.

This environment consists of: the company - who is made up of all interrelated groups in the internal environment who work with cohesion to produce and deliver superior value to the customer. For marketing the company will consist of top managers, Research and development (R&D), Finance, Purchasing, Accounting, and Operations all of whom affect the marketer’s ability to create and sustain value and profitable relationships.

Suppliers - are the individuals and companies who provide the raw materials and resources needed by you to produce the good and services offered. It is essential that you watch your supply availability and all factors that affect your supply raw materials such as shortages, delays, labour issues as this can affect your cost of production in the short run and even erode satisfaction amongst your customers. As discussed in the previous unit suppliers should be treated as partners in a value supply chain creating value along the channel towards the final consumer.

Marketing Intermediaries are individuals who assist the company to promote, sell and distribute its products to the final consumer. As an entrepreneur you will encounter a number on intermediaries and should consider creating a series of valuable partnerships as you create the desired value. The major marketing intermediaries you will encounter will be:

- **Resellers** are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers.
- **Physical distribution firms** help the company to stock and move goods from their points of origin to their destinations.
- **Marketing services agencies** are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promote its products to the right markets.
- **Financial intermediaries** include banks, credit companies, insurance companies, and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods.

It is essential and both a marketer but even more importantly as an entrepreneur your build profitable and strong relationships with these groups as they will assist you in
delivering on the ‘promises’ you have made to the final consumer. They are an important cog in the system of delivering and building a strong brand.

As stated before you are not competing in a vacuum and you will have other companies and individuals competing for the same share of customer. Competitors thus form part of your microenvironment and it is necessary for you to gain strategic advantages over your competitors through positioning your market offering strongly against your competitors’ offering in the mind of your target consumer answering the question for the consumer of why they should choose to purchase your product over that of your competitor. Every strategy will need to be unique and appropriate as no one size fits all here.

The Publics are simply any group that have an actual or potential interest in or impact on your ability to achieve your goals and objectives. A possible list of publics would include:

- **Financial publics** - influence the company’s ability to obtain funds.
- **Media publics** - carry news, features, and editorial opinion.
- **Government publics** - Management must take government developments into account.
- **Citizen-action publics** - A company’s marketing decisions may be questioned by consumer organizations, environmental groups, etc.
- **Local publics** - include neighbourhood residents and community organizations.
- **General public** - The general public’s image of the company affects its buying.
- **Internal publics** - include workers, managers, volunteers, and the board of directors.

The final category for the micro environment is the customer. The customers referred to here are not individuals but the various types of customers you may serve. Each type would require its own marketing strategy as the motivation behind purchase can vary significantly this will be discussed later. These customer markets are described below:

1. **Consumer markets:** individuals and households that buy goods and services for personal consumption.
2. **Business markets:** buy goods and services for further processing or for use in their production process.
3. **Reseller markets:** buy goods and services to resell at a profit.
4. **Government markets:** made up of government agencies that buy goods and services to produce public services.
5. **International markets:** buyers in other countries, including consumers, producers, resellers, and governments.
Now we have completed the micro environment please complete the activity below.

**Activity** - Create a list of all of the actors in each of the categories that can be considered part of your micro environment. Describe the influence they exert on your ability to deliver on the promises you have made to the final consumer. Record your list in your personal journal.

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**THE MACRO ENVIRONMENT**

We next examine the macro environment. These are the major environmental factors that affect entire countries or regions but can also have different effects on a local area such as a city or town. We shall begin with a description of the aspects of the macro environment.

**Demographic Environment**

The first of the macro environmental concepts is the *Demographic Environment*. The easiest way to think of what demographics is as the descriptors of the population. It is the study of the human population specifically in terms of size, density, location, age, gender, race, occupation, income and other statistical data. Changes in population in your markets can have significant impacts on your business. The study of the population will also impact the attractiveness of market segments. Changing demographics such as age can impact your business for example individuals have different needs and wants depending on the life cycle stage. What you wanted or needed as teenager is not the same at a 40 year old. The population can be segmented into distinct groups as individuals born different times generally share major world events that may impact their perception of the world. For example the baby boomers born in the years after World War II account for Baby boomers account for nearly 30 percent of the population of the United States, spend some $2.3 trillion annually, and hold three-quarters of the USA financial assets. At the other side of this spectrum is the Millennials. Millennials (also called Generation Y or the echo boomers) were born between 1977 and 2000, these are the children of the baby boomers number 83 million in the US. This group includes several age cohorts:

- tweens (aged 8-12),
- teens (13-18); and
- young adults (the twenty-something).

These Millennials use technology as an integral part of their daily lives and are exceptionally comfortable with technology and its adoption. Other major considerations in the demographic study are the changing family structure, and
education of the modern family. Even geographic shifts can play a major role in decisions. What possible impacts do you see if your local market were to change in some way? What would happen? Would it be positive or negative? This type of generational marketing is important in segmenting people by lifestyle rather than simply age.

Economic Environment

The Economic Environment consists of factors that affect consumer purchasing power and spending patterns. There are two major components.

- **Subsistence economies** – consume most of their own agricultural and industrial output.
- **Industrial economies** – constitute rich markets for many different kinds of goods.

Changes in income (per capita) and the distribution of wealth are major considerations here. With major changes in the global economy many individuals are now more cautious shoppers. *Value marketing* is just the right combination of product quality and service at a fair price to appeal to the cautious shoppers looking for greater value. While the majority of a family’s income is spent on food, housing and transportation Engel’s Law states that as family income rises, the percentage spent on food declines. This is not to say that they will be spending less money on these necessities but rather the percentage of their income spent in manner goes down as income increase and more discretionary income is available. Changes in major economic variables will have a large impact on the marketplace. Consider what changes you may have made due to the global downturn!

Natural Environment

The Natural Environment involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities. Some considerations in the natural environment include

- Shortages of raw materials.
- Increased pollution.
- Increased government intervention.

You will need to develop contingency plans, strategies, and practices (as part of a risk management plan) that mitigate these possibilities and support environmental sustainability.
Technological Environment

The Technological Environment is perhaps the most dynamic force now shaping our society today. It has revolutionised medicine, communications and not in a small way business and entrepreneurship. Consider what technology will be appropriate for you in your business. Can it positively influence the way you satisfy your customers? Created new opportunities?

Political and Social Environment

The framework in which you operate will have a political and social component; this Political and Social Environment consists of laws, government agencies, and pressure groups that influence or limit various organizations and individuals in a given society. It is made up of legislation that regulates business and business activity. Governments continue to do this by developing public policy to guide commerce. Business legislation is enacted for a number of reasons inclusive of:

1. To protect companies from each other.
2. To protect consumers from unfair business practices.
3. To protect the interests of society against unrestrained business behavior.

Government agencies with responsibility and the discretion in enforcing laws, they can have an impact on your company and its marketing performance. In the wake of a number of businesses scandal in the last decade (plus) there has been an increased emphasis on ethics and socially responsible behaviours.

| Enlightened companies encourage their managers to “do the right thing.” |

In response to this many companies are linking themselves to worthwhile causes; this is known as Cause-Related Marketing.

Cultural Environment

The other major component to the framework you operate in is the Cultural Environment. The cultural environment is made up of institutions and other forces that affect a society’s basic values, perceptions, preferences, and behaviors. A person’s culture plays a significant role in their perception of their environment. Cultural beliefs either are persistent or secondary in nature.

Persistent Cultural Values are beliefs and values are passed on from parents to children and are reinforced by schools, churches, business, and government (the organisations of a society).

Secondary beliefs and values are more open to change and can shift over time, it includes people’s views of themselves, others, organization, society, nature, and the universe.

You want to be able to predict these cultural shifts in order to spot new opportunities or threats.
A person’s view of themselves may vary in their emphasis on serving themselves versus serving others. The Yankelovich Monitor identifies consumer segments whose purchases are motivated by self-views. Two examples:

- Do-It-Yourselfers—Recent Movers.
- Adventurers.

A person’s views of organizations speak to a person’s willingness to work for major organizations and expect them to carry out society’s work. Many people see work as a required chore to earn money to enjoy their nonworking hours.

People’s views of society vary in their attitudes toward their society. For example:

- Patriots defend it
- Reformers want to change it
- Malcontents want to leave it

People’s views of nature recognize that nature is finite and fragile, that it can be destroyed by human activities. This results with:

- Some feel ruled by it
- Some feel in harmony with it
- Some seek to master it

A person’s view relating to the universe has seen a renewed interest in spirituality. However religious conviction and practice have been dropping off gradually through the years.

**RESPONDING TO THE MARKETING ENVIRONMENT**

Many companies think the marketing environment is an uncontrollable element to which they have to adapt; while others take an environmental management perspective to affect the publics and forces in their environment. Entrepreneurs and marketers need to take a proactive rather than reactive approach to the marketing environment.
**TOPIC SUMMARY**

Understanding your business environment and the micro and macro influences that are part of the environment is essential to your business success. Micro actors should support the creation, distribution, sales, customer service and other activities essential to any business. The macro actors must be monitored and responded to appropriately. New legislation from government, changes in the culture mix of your customers, changes in technology and other societal changes can impact your business and impact the bottom line. As an entrepreneur you must monitor these environments and react appropriately.
TOPIC 3.2 – MARKETING RESEARCH

INTRODUCTION
In this unit, we are going to examine the role of marketing research as a tool for a sound decision-making by management. It will be highlighted that without the right information marketing management will hardly perform its activities to satisfy the consumer. Therefore marketing information is needed to satisfy this need of marketing management. We will deal with this unit by examining the following sub-topics: Why need for information for the managers to make decisions; what is Marketing Information Systems; what is research? Why is it necessary to carry out research? What is the difference between research and MIS? What are the steps in carrying out a research study?

OBJECTIVES
Upon completion of this unit you will be able to:

1. Explain why managers of business need information to make right decisions in business.
2. Distinguish between marketing information systems and research.
3. Describe the benefits research could bring about for the business.
4. Outline the steps involved in conducting a research study.

RECOMMENDED READINGS
It is recommended you review the following online article as you begin this topic.


MARKET RESEARCH
Research must to be done by the business managers in order to make sound decisions for the business.

“To manage a business well is to manage its future; and to manage the future is to manage information”. (William J Stanton 1978). The marketing executives must be future-oriented. That is, they must anticipate changes, forecast their direction and intensity, and then adjust their organization’s marketing programmes to these changes. To do these things, management needs information. Today a mass of information is generated by external sources and also from within a firm. To effectively manage this information, a company needs a marketing information system.

A marketing information system is the major tool used by management to aid in problem solving and decision making and Marketing Research is a major component in a marketing information system. MIS use permeates every phase of a company’s marketing program and we shall be referring to it throughout the planning, operation, and evaluation of our organisation’s marketing program.
What is Marketing Information System (MIS)?
Before we start, consider the following:

Activity: Write down what you believe should be part of a Marketing Information System. Note down your answer in your personal journal. Later, we will ask you to compare your answer with other views presented in this unit.

With the growth of computer technology, it has become feasible for management of firms to arrange for a constant flow of information from the outside world and from sources in the firm to flow in, be analyzed and be stored for easy access. Such information as the economic factors, competitors’ activities, production figures, sales figures by territory, by product, by customer, credit circumstances, and so on would be systematically gathered, processed and analyzed. Such system of collecting information for marketing department is called a Marketing Information System (MIS) while for all sections of business is usually called a Management Information System. Marketing Information System is in this way a subsystem to the Management Information System.

Marketing information systems according to Stanton is an interacting, continuing, future-oriented structure of people, equipment, and procedures designed to generate and process an information flow in order to aid managerial decision-making in a company’s marketing program.

The Marketing information system concept applied to information handling to determine:

1. What data you need,
2. Generate (gather) this information
3. Process the data
4. Provide for the storage and future retrieval of the data.
5. It is future-oriented, that is it anticipates and prevents problems, as well as solving them.
6. It is operated on a continuing way, not sporadic, intermittent way.

MIS is predominantly used by big businesses because it could be expensive sometimes for small businesses to establish an MIS department. For small companies that do not have an MIS but, who nevertheless need the information, they can periodically gather the required information to make decisions. This activity is referred to as marketing research, and generally this kind of research is not so expensive. For the smaller firm, marketing research does not have to be of a very sophisticated nature to be effective.

Now that you have read what other people say about the concept – Marketing Information Management, complete the next activity.

Activity - Look up your original answer to the MIS question posted in your personal journal and compare it with the views presented in the unit so far.

Write down the differences between these views and your answer.
Write an explanation of how you might improve your original answer and what you would add to them.

**Need for an Information Marketing System**

Today many environmental forces, plus changing conditions within companies, make it imperative that every firm manages its marketing information as effectively as possible.

Without a market information system, management is blind to the constantly changing effects of the market forces. William J Stanton (1978) Chap.3.

Considering just a few of these forces – external and internal – and - their relationship to information management.

1. There is a shortening of the time span allotted to an executive for decision making. Product life cycles are now shorter than they used to be, and companies are being forced to shorten the time taken for new product-development
2. Marketing activity is becoming more and more complex and broader in its scope. Companies are expanding their markets, etc.
3. Shortages of energy and other raw materials mean that we must make more efficient use of our resources and manpower.
4. Growing consumer discontent is often intensified because management lacks adequate information about some aspect of its marketing program. Maybe the firm does not realise its product is not up to consumer expectations, or middlemen are not performing adequately.
5. Knowledge of information explosion is just fantastic. We have more than an adequate supply of information.

It is unfortunate that a sizable number of firms seem unaware of the importance of managing information in a more sophisticated manner.

**BENEFITS AND USES OF MIS**

A company using marketing information systems effectively is unlikely to lose and distort information flowing from the primary sources.

A Marketing Information Systems is of most obvious value in a large, multidivisional company where information is likely to get lost or distorted as it becomes widely dispersed.

For small companies, a formal, computer-based system may not provide sufficient benefits to offset the costs of establishing and operating it, however these companies can effectively adopt an arrangement which embodies the concept of systematised information handling (MIS concept). These small companies will use less complex techniques in the various stages of its MIS.
**WHAT IS MARKETING RESEARCH?**

Marketing research may be defined as the objective and systematic collection recording, analysis, interpretation and reporting of information about: existing or potential markets, marketing strategies and tactics, and the interaction between markets, marketing methods and current, or potential products or services.

Marketing research and MIS are closely related concepts but do not necessarily mean the same thing. Contrasting characteristics of marketing research and a marketing information system include:

<table>
<thead>
<tr>
<th>Marketing Research</th>
<th>Marketing Information System</th>
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<tbody>
<tr>
<td>1. Emphasis is on handling external information.</td>
<td>1. Handles both internal and external data.</td>
</tr>
<tr>
<td>2. Concerned with solving problems.</td>
<td>2. Concerned with preventing as well as solving problems.</td>
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<tr>
<td>3. Operates in a fragmented, intermittent fashion – on a project-to-project basis.</td>
<td>3. Operates continuously is a system</td>
</tr>
<tr>
<td>4. Tends to focus on past information</td>
<td>4. Tends to be future-oriented.</td>
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<tr>
<td>6. One source of information input into a marketing information system.</td>
<td>6. Includes other subsystems besides marketing research.</td>
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**Why is it necessary for the marketing managers to undertake research before opening a business?** The following are some the reasons why managers of business are to undertake a research study in starting and running of their businesses.

Research is undertaken to:

- To identify new opportunities and threats to the business.
- To explore or define problems confronting the firm.
- To evaluate and refine the marketing mix.
- To study buyers’ behaviour.
- To determine the characteristics of a market.
- To determine the demand in the market for a product.
- To evaluate the environmental factors around the market.
- To determine the reaction to components of the market mix.

**MIS Description**

A Marketing Information System is a place where market data is gathered, stored, analyzed and formatted as reports for management to review. A typical MIS relies on internal records and marketing intelligence data. An MIS can use a variety of tools...
**Internal Records**
Information gathered from sources within the company to evaluate marketing performances and to detect marketing problems and opportunities. Most marketing managers use internal records and reports regularly, especially for making day-to-day planning, implementation and control decisions. Internal records information consists of information gathered from sources within the company to evaluate marketing performance and to detect marketing problems and opportunities.

**Example**
Office World offers shoppers a free membership card when they make their first purchase at their store. The card entitles shoppers to discounts on selected items, but also provides valuable information to the chain. Since Office World encourages customers to use their card with each purchase, it can track what customers buy, where and when. Using this information, it can track the effectiveness of promotions, trace customers who have defected to other stores and keep in touch with them if they relocate.

Information from internal records is usually quicker and cheaper to get than information from other sources, but it also presents some problems. Because internal information was for other purposes, it may be incomplete or in the wrong form for making marketing decisions. For example, accounting department sales and cost data used for preparing financial statements need adapting for use in evaluating product, sales force or channel performance.

**Marketing Intelligence**
Everyday information about developments in changing marketing environment that helps managers prepares marketing plans. The marketing intelligence system determines the intelligence needed, collects it by searching the environment and delivers it to marketing managers who need it. Marketing intelligence comes from many sources. Much intelligence is from the company's personnel - executives, engineers and scientists, purchasing agents and the sales force. But company people are often busy and fail to pass on important information. The company must 'sell' its people on their importance as intelligence gatherers, train them to spot new developments and urge them to report intelligence back to the company. The company must also persuade suppliers, resellers and customers to pass along important intelligence. Some information on competitor’s conies from what they say about themselves in annual reports, speeches, press releases and advertisements. The company can also learn about competitors from what others say about them in business publications and at trade shows. Or the company can watch what competitors do - buying and analyzing competitors' products, monitoring their sales and checking for new patents. Companies also buy intelligence information from outside suppliers.

Some companies set up an office to collect and circulate marketing intelligence. The staff scans relevant publications, summarize important news and send news bulletins to marketing managers. They develop a file of intelligence information and help managers evaluate new information. These services greatly improve the quality of information available to marketing managers. The methods used to gather competitive information range from the ridiculous to the illegal. Managers routinely shred documents because wastepaper baskets can be an information source.

An MIS can use a variety of tools and data models to capture and manipulate your marketing data. Some typical methods and models are listed below:

- Time series sales modes
- Brand switching models
- Linear programming
- Elasticity models (price, incomes, demand, supply, etc.)
- Regression and correlation models
- Analysis of Variance (ANOVA) models
- Sensitivity analysis
- Discounted cash flow method
- Spreadsheet ‘what if models

The above list and similar mathematical, statistical, econometric and financial models are the analytical subsystem of any MIS. A relatively modest investment in a desktop computer is enough to allow an enterprise to automate the analysis of its data. You must decide what type of data you need to capture and how you will use it to guide your marketing decisions.

**TOPIC SUMMARY**

Marketing information systems are intended to support management decision making. Management has five distinct functions and each requires support from an MIS. These are: planning, organising, coordinating, decisions and controlling.

Information systems and research efforts have to be designed to meet the way in which managers tend to work. Research suggests that a manager continually addresses a large variety of tasks and is able to spend relatively brief periods on each of these. Given the nature of the work, managers tend to rely upon information that is timely and verbal (because this can be assimilated quickly), even if this is likely to be less accurate than more formal and complex information systems.
UNIT SUMMARY

ASSIGNMENT
After completing the readings and activities described in this unit, you should research your proposed business environment. Produce a paper that describes the key elements of the environment and their impact on your potential customers. When completed submit the paper to your instructor for review and feedback.

SUMMARY
It is important to know the environment that you will be selling into. The environment impacts your potential customers and includes potential competitors. To understand the environment, your target audience and your potential competitors you need to conduct a market analysis of the environment using a systematic approach to market research and different research tools. Analysis of your potential customer is discussed in the next unit of instruction.
UNIT FOUR – CONSUMERS AND THEIR BUYING BEHAVIOUR

INTRODUCTION

In this unit, we are going to discuss and find out why consumers make decision to buy certain products and why they buy from one shop not from the other. Find out the motive behind their buying. What influences they get to decide to buy and from where these influences originate? Examination of the following topics will enable us to get an answer to this important question.

- Importance and difficulty of understanding consumer behaviour
- Defining consumer behaviour
- Determinants of consumer behaviour
- Consumer decision-making
- Changing behaviour patterns of consumers.

An understanding of the buying behaviour of various market segments, we believe, will help sellers to design the most effective marketing plan for their businesses.

UNIT OBJECTIVES

Upon the completion of this unit you will be able to:

1. Explain why it is important for the marketer to study the consumer behaviour.
2. To describe how difficult it is to find out what is going on in the consumer’s mind in order to take decisions to buy products or services.
3. To explain the factors that directs the behaviour of consumers.
4. To explain the consumer decision-making process and their changing behaviour patterns.

UNIT READINGS

As you complete this unit it recommended you read the following online articles:

- Learningmarket.net. (nd.). Consumer Buying Behaviour. (Web Site). Available at: [http://www.learnmarketing.net/consumer.htm](http://www.learnmarketing.net/consumer.htm)

ASSIGNMENTS AND ACTIVITIES

The recommended assignment for this unit is to analyze your potential customers. Instructions are provided at the end of the unit. In addition there are a number of reflective activities throughout each topic discussion. The results of your deliberations re: the reflective activities should be recorded in your personal journal. Marking and credit value for each will be established by your instructor at the beginning of the course.
TOPIC 4.1 – CONSUMER BEHAVIOUR

INTRODUCTION
Consumers are often an unpredictable group. They can be influenced by different factors, such as price, quality, the opinion of others. To sell the potential consumers you must understand what impacts them and their buying decisions. This topic will explore those factors that impact consumer behaviour.

OBJECTIVES
Upon completion of this topic you will be able to:

1. Describe consumer behaviour.
2. Explain how motivation impacts the consumer.
3. Describe Maslow’s Hierarchy of Needs.
4. Explain the factors impacting consumer behaviour.
5. Describe the psychological determinants of Buyers.
6. Employ a consumer good classification system.

UNDERSTANDING CONSUMER BEHAVIOUR
An understanding of the reasons why people buy a given product or shop at a certain store is critical. If sellers do not appeal to the right motive, they will probably lose the sale. An understanding of the buying behaviour of various market segments helps sellers to select the most effective product design, price, advertising appeals, channels of distribution, and the many other aspects of their marketing programme.

However, we know very little about what goes on in a buyer’s mind before, during and after a purchase. Sometimes the explanation for their behaviour is not even discernible to the buyers themselves. At one stage, the buyers recognize, and are willing to talk about their motives for buying certain products. At another level, they are aware of their motives or reasons for buying, but will not admit them to others. They will offer other reasons which they think will be more socially acceptable. The most difficult motives to uncover are those at the third level, where even the buyers themselves do not know the real factors motivating their buying actions.

It is to be noted that each purchase is hardly the result of one motive but a multiple of motives and that buyer’s behaviour also changes over a period of time because of changes in income, in life-cycle stage, and in other factors. Buyers also differ in personalities. Understanding consumer behaviour seems impossible yet we have to try to understand it because an understanding of it is critical to the success of the marketing program.

MOTIVATION
We want to understand why consumers act or why people act at all. The answer is, “because they are motivated”, that is, all behaviour starts with motivation. A motive or drive in other words is a stimulated need which a goal-oriented individual seeks to
satisfy. It is important to note that a need must be stimulated or aroused before it can serve as a motive.

**HUMAN NEEDS**

Consumer needs are the basis of all modern marketing. The key to company’s survival, profitability and grown in a highly competitive market environment is its ability to identify and satisfy unfulfilled needs better and sooner than competitors.

Successful marketers define their markets in terms of the needs they are trying to satisfy, rather than in terms of the products they sell. This is market-oriented rather than product-oriented approach to marketing.

Marketers who base their offerings on the recognition of consumer needs find a ready market for their products.

We have identified that the marketing concept is concerned with satisfying customers’ needs.

The meaning of the word “needs” in marketing is not limited to relating only necessities which are – food, clothing and shelter. It expands to include wants, desires, and whims – at both the conscious and the subconscious levels. The needs are not only the object or service being marketed, but also what that object or service will do – not necessarily in the functional sense, but in the psychological sense. Example, a young lover may have a need to impress a girlfriend by buying a flashy car.

**DEFINING CONSUMER BEHAVIOUR**

Consumer behaviour refers to the behaviour patterns of decision-making units (families or individuals) that are directly involved in obtaining and using need-satisfying products and services, including the decision-making processes preceding and determining these behaviour patterns.

From this definition it is clear that consumer behaviour consists of both overt acts and covert processes. Overt acts can be observed by people because they are done openly. For example, a consumer can be seen buying a product, enjoying it, looking at it etc. Covert processes cannot be observed. For example, the consumer cannot be seen considering his financial position, weighing the merits of different branded products, etc. Marketing needs to know why the consumers behave as they do. Knowledge of the factors that determine consumer behaviour provides a sound basis for consumer-oriented marketing strategies.

Addressing those factors such as the determinants of consumer behavior, decision-making process and the continual changes in behavioural patterns of consumers will shed some light as to why consumers behave the way they do.
DETERMINANTS OF CONSUMER BEHAVIOUR

There are three main factors (determinants) that direct the behaviour of consumers, namely individual factors, peculiar to a particular person, group factors, and economic factors.

Individual Factors

Needs, attitudes, perceptions learning abilities and personality traits are individual factors that determine what a consumer will or will not buy. Needs (motives) are the driving force behind all human behaviour patterns. The needs hierarchy of Maslow refers to the fact that a person’s behavioural patterns are directed at satisfaction of his basic needs, security, social and ego needs.

![Maslow’s Hierarchy of Needs](image)

**Figure – Maslow’s Hierarchy of Needs**

The 1st level in the hierarchy is Physiological, including food, drink and sex, when these needs are reasonably satisfied, then people are motivated to pursue Protection, Security and Stability. Beyond these needs, Belonging, affection and acceptance by other are required. The people have a need for self-respect prestige, status and self-esteem. Finally at the highest level, people are motivated to pursue self-fulfillment, to achieve, to do what they believe they are best suited to do.

This hierarchy is useful in many ways as a marketing tool and the following are some of its usefulness:

**Requirement for Maslow Hierarchy of Needs**

As reflected above Maslow hierarchy of needs postulates five basic levels of human needs and are ranked in order of importance from the low level to higher level needs.

It suggests that individuals seek to satisfy lower level needs before higher level needs emerge.
It also suggests that it is impossible to satisfy all the levels of the hierarchy at the same time so it is good to identify and focus on the level that you will be able to satisfy with your product.

**Maslow Hierarchy of Needs is useful to the marketer:**

1. The marketer is able to choose and serve a certain group of people at one particular level.
2. The seller can easily identify the most needy level and can assess if he/she can have strength to satisfy such level.
3. It makes it easy for the seller to see if there is enough market at that particular level of the hierarchy.
4. It is a useful tool for understanding consumer motivations and is readily adaptable to marketing strategy, primarily because consumer goods often serve to satisfy each of the need level.
5. It offers a useful comprehensive framework for marketers trying to develop appropriate advertising appeals on a need level that is likely to be shared by a large segment of the prospective audience.
6. It facilitates product positioning (perception of the product). We need this hierarchy in positioning our products and deciding how the product should be perceived by customers.
7. Hierarchy is often used as the basis for market segmentation, as specific advertising appeals are directed to individuals on one or more need level, e.g. soft drinks advertisements directed to teenagers often stress a social appeal.

When something is purchased, it is usually purchased to satisfy not one but a package of needs. In determining which of several alternatives will be purchased, the buyer evaluates the degree to which anyone alternative satisfies the most needs or satisfies the buyer’s perception of the most important needs.

The strength of the need level, the strength of the motivation caused by the need, what will satisfy the need and when, are determined by many factors. The individual’s physiological characteristics, personality, self-image, as well as perception and evaluation of the circumstances of environment are influencing alternatives.

Thus the marketer can influence prospective purchases through various promotional communication channels and through appealing to several different kinds of needs and wants.

Through marketing research, the marketer can learn which needs or wants are most dominant at any one time in any one set of environmental circumstances, thereby determining the promotional appeal which will get the most response.

A consumer buys bread to satisfy a basic need, which is hunger, insurance for security, a flower for his wife for social need for love, and a flashy car as a status symbol to provide him with some measure of ego satisfaction. Maslow believes that a person satisfies his needs in a specific hierarchical sequence and that the basic needs have to be satisfied
first. People’s needs are unlimited and are universal (applicable to all people). However, need-patterns differ from person to person. A person’s needs determine what he will decide to buy and what not to buy.

Attitudes

Attitudes also determine purchasing patterns. A consumer with a positive attitude towards a certain product can be persuaded to purchase it, whereas a consumer with a negative attitude will not buy it. The marketer can, however, try to reinforce existing positive attitude through marketing messages.

Consumer Perceptions

Consumer perceptions determine what a consumer pays attention to and what excites his interest. A consumer hears only those things that he wants to hear see only what captures his interest.

Learning Ability

The learning ability of a consumer determines whether he will be able to learn the marketer’s lessons which deal with the benefits of a particular product that will make it worth the consumer’s while to pay for it. Furthermore, the marketer should also ‘teach’ the consumer the product’s name in such a way that he will be able to remember it.

Personality Traits

Personality traits also influence purchasing patterns. People are described by means of these traits as cheerful, optimistic, aggressive and so on. It is difficult to relate these traits to product choice. Normally a person’s traits, in conjunction with other characteristics, determine what he buys and uses. The combination of a person’s individual needs, attitudes, perceptions, learning ability and personality traits determines his or her lifestyle. Different groups of consumers have different lifestyles.

GROUP FACTORS

Group factors refer to the influence of various groups on consumer purchasing patterns. The groups include the following:

Group/Outside influence:

Buyers are influenced in their determination of what is important for them to buy and what the important reasons for them to buy, from many different sources:

1. Culture groups
2. Institutions
3. Members of the family
4. Reference groups (formal or informal)
5. Advertising groups, etc.
Culture

It can be defined as the values, ideas, attitudes, symbols and artefacts passed on from one generation to another to mould and regulate the character and behaviour of members of a society. We are influenced by the traditional cultures of our parents, by the cultures of immigrants, by the culture evident in other societies we encounter, etc.

Our Institutions - such as churches businesses, schools, universities, lodges and associations (unions, trade associations, professional associations) – influence our culture and individual attitudes, opinions and lifestyles.

Peer groups - can influence potential buyers. If the typical member of their peer group is satisfying needs through the purchase of a certain objects or services, then they are motivated to acquire those things too.

Members of the Family

Sometimes the potential buyer is subject to the influence of other members of the family e.g. parents will counsel their children on clothing or cars. In Lesotho mothers have traditionally been regarded as the purchasing agents for the family.

Reference Groups (formal or informal)

Reference groups such as clubs, churches, lodges, neighbours, high school cliques, athletes etc. can easily influence potential members who would like to emulate the actions and thinking of members.

Advertisement

Prospective consumers can be influenced simply by being informed about objects or services that are available in the market place.

Psychological Determinants of Buyers

Psychology of Price

In this case people are frequently guided in their purchases by their emotions and by their perceptions of prices rather than by the actual price. For example, frequently, goods are sold at prices ending in odd numbers rather than even numbers, e.g. 79c rather than 80c, 99c instead of $1.00. However, high ticket items such as furniture sell better at even numbers such as $4000 rather than $3999. The buyer prefers these prices this way.

When the price for certain product has been stable for a long time, purchasers become used to that price and will resist any upward review of such a price. If prices keep on fluctuating, or rising consistently, another price rise doesn’t seem to show down purchases. Look at the varying price of a gallon of gas.
The price itself contributes to the image of the product or the perceived value. Thus, higher prices infer higher quality. If a reduction in price is interpreted that the reason is that the product is of lower quality, then the reduction will not bring about increased purchases.

**Consumer-Good Classifications**

One convenient way of classifying products and services is by determining the typical attitudes and buying habits of customers for those products and services. By using this method to classify your products and services, you can plan marketing strategies that are appropriate for the nature of the demand.

**CATEGORIES FOR CLASSIFYING CONSUMER GOODS**

**Convenience Goods**

These are relatively undifferentiated products, the brand of which customers are not too concerned about. Neither are they concerned about their price. These items are usually relatively low in cost, are not a significant item in the budget and are purchased fairly frequently. Examples, milk, bread, cigarettes, beer, chocolate bars, gasoline etc... When you buy milk, brand does not really matter and people are often willing to pay a few cents more rather than go somewhere else to buy it.

The word “convenience” implies that the goods must be conveniently available, that is, they must be made available in virtually every conceivable outlet in order to affect sales.

**Shopping Goods**

These are goods on which people spend some time evaluating relative qualities and features, and the price – in short, shoppers are looking for value. These are goods bought less frequently than convenience goods and they generally form a more significant part of the budget. These include goods such as clothing, furniture, automobiles, appliances, weekly groceries, particularly meats etc. Frequently the brand is not regarded as being important. Obscure brand names are disregarded.

**Speciality Goods and Services**

These are goods that buyers search out for. The brand and features and reputation that brand represents are important to the buyer. The shopper will drive halfway around town to get exactly what he or she wants. Price is usually of secondary importance.

For some buyers, automobiles fall into this category. These are the buyers who would say they want USUZU, not any other brand. Even if the USUZU dealer is not as conveniently located as some other dealers, the buyer forsake price concessions and the convenience of subsequent service to buy the brand she or he prefers.

Speciality goods usually have a higher unit price, are bought relatively infrequently, and can form a substantial part of a budget. They are frequently sold only through selected
dealers. Advertising by both, the manufacturer and the retailer forms a major part of the marketing mix.

**TOPIC SUMMARY**

Understanding consumers and what influences their buying decisions will help entrepreneurs build products and services that add value to their customers. Recognizing changes in consumer behaviour will ensure that you modify your products and services or your customer support to ensure the customer favourably views your company and continues to be a loyal consumer. The next topic will explore the changing consumer and what influences them in more detail.
TOPIC 4.2 - THE CHANGING CONSUMER

INTRODUCTION
Consumers, like the rest of the world, are constantly changing. Their needs and wants change. Often this change is the result of media exposure or peer to peer to discussions. Often they are not satisfied with the status quo. They want something different. They are willing to spend their money on different products or services, assuming they perceive that it will satisfy their needs or in some cases their curiosity. We as entrepreneurs should be aware of why and when consumers change. The idea is to be able to adapt our products and services to the changing attitudes and wants of our customers and future customers.

OBJECTIVES
Upon completion of this topic you will be able to:

1. Assess consumer behaviour.
2. Describe the consumer decision making process.
3. Explain what impacts the consumer buying decisions.

CONSUMER DECISION MAKING
Every time a consumer makes a decision there is potential risk to the seller. These risks are often functional in nature. If the product is deficient or if it does not work as the consumer expected it to, he feels that he has wasted his money. There are also social risks involved in decision-making. If the reference group does not approve of the purchase the consumer can feel ridiculed. To reduce the risks inherent in decision-making the consumer may hesitate for a long time before taking a decision, thereby extending the decision-making process. During this time and during all the phases of decision-making the marketer attempts to influence the consumer to decide in favour of his market offering.

The marketer must know how consumer decisions are reached, because consumer behaviour virtually always entails a choice between alternatives. The marketer obviously wants the consumer to give preference to his product. Consumer decisions are not made suddenly; the process of decision-making progresses systematically through different phases.

Phase 1: The consumer becomes aware of a problem or an unsatisfied need. The consumer realises that he can resolve this problem or satisfy this need by purchasing a certain product. Marketers try, by means of advertising, to make consumers aware of problems and unsatisfied needs.

Phase 2: The consumer looks for information on how best to solve his problem. He consults friends, looks around in shops or reads the information contained in advertisements and on labels. The marketer should of course see to it that the necessary information is available.
**Phase 3:** The consumer evaluates all the possible solutions in the light of certain criteria such as price, quality, performance standards, and aesthetic qualities and he gauges the contribution the product will make to his need-satisfaction and his lifestyle. Conflict is caused by conflicting or unsuitable criteria or criteria that cannot be easily compared. The advertisement therefore has to stress product utility and benefits. Providing samples that can be used to test the product, or a money back guarantee or a quality mark (such as that provided by the SABS) can help the consumer to resolve the conflict.

**Phase 4:** The consumer now has to decide on his course of action. If he intends to purchase the product, this does not mean that he will in fact do so. Therefore the advertisement should encourage him to act with, for example, an injunction such as BUY NOW!

**Phase 5:** If the consumer acts by buying the product, this entails a reckoning (money must be paid). The transaction should therefore be concluded as ‘painlessly’ as possible. Consumers forced to queue while waiting to pay or confronted with uninterested sales staff could quite easily reverse their decision to buy. When a consumer is ready to pay, the marketer should make a special effort to ensure his goodwill. Efficient sales staff, credit facilities, and point of purchase promotions can all help to encourage the buying action.

**Phase 6:** After the consumer has made his purchase, he begins to re-evaluate his action. He is not quite sure that he has made the right decision. If the product is deficient or does not provide need-satisfaction, the consumer may decide never to buy it again. He can also influence his friends to avoid the product. Advertisements are often directed at those who have already bought a product in order to reassure them that they have indeed made the correct decision.

Sometimes, for expensive or important products, decision-making can be a long and arduous process. A woman may take months to decide what type of washing machine to purchase. However, with impulsive buying the actual decision-making process through all its phases could be over in the wink of an eye. Habitual purchasing is the result of previous decisions. For consumers loyal to a particular brand it may become habit to purchase a product consistently without having to remake the decision every time.

The conclusion that can be drawn is that the theory of consumer behaviour, which has been discussed only very briefly, is explanatory to a certain extent. It also provides guidelines for influencing consumers, for example, through advertising. It is, however, virtually impossible, owing to many influencing factors, to predict the behaviour of consumers. The marketer nevertheless attempts to do so, because market forecasting depends largely on such prediction. In paragraph 8.12.3 this aspect will be discussed in greater detail.
CHANGING BEHAVIOUR PATTERNS OF CONSUMERS
Continual change and shifting patterns in consumer markets often lead to the development of marketing opportunities. The early identification of such changes and shifting patterns may be to the advantage of a marketer who is alert enough to utilise the opportunities thus created. The most important changes of the last decade are the following:

- **An increase in the number of career-house-wives.** Because the working housewife has less time than the fulltime housewife for household chores, she will be more likely to purchase time and labour saving appliances. Convenience products and quickly prepared food such as instant coffee and soups will also be in greater demand than before.

- **Changing purchasing patterns in the family.** Initially the housewife was regarded as the sole purchaser of all household products. These days there is an increasing tendency for husbands and children to be involved in shopping as well. This means that they too are active in family decision-making and choosing between different branded products who has not noticed an opportunity in this tendency will continue to direct his marketing message at the housewife and not at the family as a whole.

- **Changes in the family structure.** There are more on-person households these days than a few years ago. The high divorce rate has probably contributed to this phenomenon. Food and toiletries in smaller packages are favoured by such small households. The marketing communication messages should also change, because single householders may not identify with the usual housewife or family themes used in advertisements.

- **Changes in age structure.** In most Western counties the birth rate is declining, thereby creating a threat for marketers of baby products.

This threat must be countered, and converted into an opportunity. As an example, Johnson & Johnson are now aiming baby toiletries at the adult market.

In South Africa drastically declining birth rate are not yet a problem, but the whole population is becoming progressively older. Better medical services have probably contributed to this. Initially all marketing communication messages were directed at young people, but these days older people, even the aged, are often portrayed in advertisements. Marketers have begun to realise that older people are not necessarily poor, sickly and conservative and that the older market segment is increasingly providing promising opportunities can be utilised – so much so that joking references to the “gray market” are being encountered in marketing literature.

- **Increasing purchasing power of young people.** An increase in the standard of living due to higher income levels has led to an increase in the purchasing power of young people [pocket money plus own earnings]. It has been found that brand loyalty stats in childhood. When today’s youngsters become adults, they could still prefer the branded products they used in their youth.
• **Striving towards ego-satisfaction and an identity.** These days consumers are increasingly aware of their individuality. They insist on products that will satisfy their “unique” individual needs. BMW’s slogan, “I want it because I want it” is directed at attracting the attention and patronage of this group of people. The help health and fitness cult and the interest shown in designer items [fashion clothing] are further examples of this phenomenon.

• **Return to conservative value.** In contrast to emphasis on the self, there is also a growing tendency for some consumers to return to conservative or traditional values. Persons in this group are more interested in hard work and in conservation than in collecting possessions or the satisfaction of personal needs. Flowery cotton material, which was popular many, many years ago and cottage-style dresses and frilly apron are being offered again. These are all examples of marketers’ reactions to these changes in behaviour patterns.

In addition to these changes, there are others. Can you think of a few examples? It is now quite clear that the consumer market is extremely complex and that it would virtually impossible for the marketer to reach all kinds of consumers, and to satisfy everybody. The marketer should therefore study the market and, armed with this knowledge, single out only a certain section or segment of it. The market offering is then directed only at the chosen segment. In the next paragraph the marketer’s approach to the consumer market is discussed. Attention will be paid to the segmentation of the total market, the selection of a target market, and the way in which a product can be positioned in a competitive market situation.

**TOPIC SUMMARY**

We have learned that the consumer is a fickle and changing entity that seeks physical and emotional pleasure through his or her buying habits. These buying habits change with age, family influences, social and cultural values and the strive to satisfy ones ego.

The
UNIT SUMMARY

We as entrepreneurs can build and distribute what we believe to be the best products in world, superior to any others that have come before. But if our potential customers do not have the same perception then we will fail. Look at the beta vs. VHS struggle. Look at the current tablet wars. It would seem that only the iPad has gained almost universal consumer support. That is because Apple considered the consumer and then created a product and marketing strategies that reached out to them. The next unit will explore the marketing strategies that hopefully you can create to reach out to your potential customers.

ASSIGNMENT

Think about the consumer that you are trying to reach with your products and services. Conduct an analysis of your audience and produce a detailed description of your consumer. Ensure you address:

1. Their potential needs and wants.
2. Their likes and dislikes.
3. The characteristics that must considered during product development.
4. The impact of cultural and social norms on their buying habits.
5. The impact of family in their life.
6. Other issues that should be noted about your potential consumer.

Once you have completed your paper send it to your instructor for review and feedback.
UNIT FIVE – MARKETING STRATEGIES

UNIT INTRODUCTION

This unit looks at key customer-driven marketing strategy decisions—how to divide up markets into meaningful customer groups (segmentation), choose which customer groups to serve (targeting), create market offerings that best serve targeted customers (differentiation), and positioning the offerings in the minds of consumers (positioning).

UNIT OBJECTIVES

Upon completion of this unit you will be able to:

1. Define the four major steps in designing a customer-driven marketing strategy: market segmentation, market targeting, differentiation, and positioning.
2. List and discuss the major bases for segmenting consumer and business markets.
3. Explain how companies identify attractive market segments and choose a market targeting strategy.

UNIT READINGS

As you complete this unit it recommended you read the following online articles:


ASSIGNMENTS AND ACTIVITIES

The recommended assignment for this unit is to create marketing strategies for your proposed business. Instructions are provided at the end of the unit. In addition there are a number of reflective activities throughout each topic discussion. The results of your deliberations re: the reflective activities should be recorded in your personal journal. Marking and credit value for each will be established by your instructor at the beginning of the course.
TOPIC 5.1 – INTRODUCTION TO MARKETING STRATEGIES

LESSON INTRODUCTION
To sell products you need more than a retail or business office space. You need to think about how to reach out to your potential customers. If the consumer does not know that you exist you will not be successful. This topic is the first of many that will expose you to the creation of marketing strategies that will attract customers. In this topic you will be introduced to the concepts underlying the creation of a marketing plan.

LESSON OBJECTIVES
Upon completion of this lesson you will be able to:

1. Explain the concepts underlying marketing strategies.
2. Describe the components of creating customer driven marketing strategy.
3. Describe different target market strategies.
4. Develop a positioning strategy.

WHAT IS A MARKETING STRATEGY?
We have spoken before about the inability of companies and individuals being everything to everyone. Companies have moved away from mass marketing of products to targeting specific segment(s) singled out to serve in an ‘excellent’ or ‘superior’ manner by developing products and programmes for each segment(s).

Before we begin our discussions in this topic review the definitions below that will be used throughout this unit.

| **Market segmentation** involves dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviors that might require separate marketing strategies or mixes. |
| **Market targeting** (or targeting) consists of evaluating each market segment’s attractiveness and selecting one or more market segments to enter. |
| **Differentiation** involves actually differentiating the firm’s market offering to create superior customer value. |
| **Positioning** consists of arranging for a market offering to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. |

The diagram below outlines the components of creating customer driven marketing strategies.
As you can see above, you first select a market segment, then select your target group, then differentiate yourself through your market offering and finally position yourself in the market segment. We shall go into detail on how to accomplish each stage.

**Market Segmentation**

Market segmentation is the activity by which companies divide potential markets into smaller groups that are heterogeneous in nature and can be reached more efficiently and effectively with products and services that match their unique needs.

There are four major categories used in segmenting consumer markets. When employing these categories you must always keep in mind the consumer behaviours and characteristics described earlier.

A market can be divided by location or geography. This Geographic Segmentation requires that you divide the market into different geographic regions for example nations, regions, states, counties, cities or even neighbourhoods.

The second segmentation possibility is by using the demographic information for the population. Demographic segmentation calls for division by population statistics. Variable such as gender, age, family size, family life cycle, income, occupation, education level, religion, race, generation, and nationality are used in this segmentation technique. You should note that demographic segmentation is the most popular tool used in segmentation. Within demographic segmentation the use of age and life cycle stage data where the market is offered different products or services using different marketing programmes that a tailor made for that segment. Gender segmentation is used in many consumer categories such as clothing, cosmetics, toiletries and magazines. Income segmentation divides your market into groups based on the customer’s income levels. This technique is popularly used for eth marketing of cars, clothes, cosmetics, and financial services.
With *Psychographic Segmentation* the entrepreneur will divide his or her market based on social class, lifestyle (or lifestyle aspiration), or personality characteristics. In essence the marketer is using the customer’s personality and personality traits as the basis for segmentation.

The final major segmentation category is *Behavioural Segmentation* where you will segment your market based on their knowledge, attitudes, usage, or product responses. Major tools in this category include *occasion segmentation* where you group your customers according to occasions. Clients buy products when special occasions occur such as graduations, Valentine’s Day and Eid. *Benefit segmentation* used to group your customers by bought benefits derived from product use. *User Status* segments the market into nonusers, ex-users, potential users, first time users and regular users of a product. *Usage Rate* is another component of behavioural segmentation where the market is divided into light, medium, or heavy users of a product. Finally, *Loyalty Status* is used to divide the market based on the degree of loyalty the show for a product.

It should be noted that no single segmentation technique is used; in fact multiple segmentations are generally used to define smaller, better defined segments. The more knowledge you have about the market (and market segment) the better you are able to anticipate needs, design products and marketing programmes that can appeal to the desired target market creating value for them and creating the profitable relationships you are seeking.

While consumer and business markets have many variables in common, the business market also uses some additional variables such as use customer *operating characteristics, purchasing approaches, situational factors, and personal characteristics*. Buying behaviour and benefits can provide the best basis for segmenting business markets.

If you are at a point where you are ready to grow your business outside of your country’s borders the segmentation of international markets require a few additional considerations to be made. International market segmentation requires that the entrepreneur take into consideration geographic, economic, political and legal factors as well as cultural factors that are unique to the country targeted. While these factors are considered within your home country or region, when you are leaving your ‘comfort’ area it is important that they are reconsidered and assessed as major differences can be present.

- **Geographic factors**: Nations close to one another will have many common traits and behaviors.
- **Economic factors**: Countries may be grouped by population income levels or by their overall level of economic development.
- **Political and legal factors**: Type and stability of government, receptivity to foreign firms, monetary regulations, and the amount of bureaucracy.
- **Cultural factors**: Grouping markets according to common languages, religions, values and attitudes, customs, and behavioral patterns.
Finally, while you may be targeting consumers in different countries similarities in needs and buying behaviour may be present that will allow for inter-market segmentation for they are targeted and group together in spite of the fact that they are not resident in the same country or region.

As we wrap this discussion on segmentation, it is necessary to discuss the requirements needed for effective segmentation of a market. To be useful all market segmentation must have five basic characteristics.

1. **Measurable**: The size, purchasing power, and profiles of the segments can be measured.
2. **Accessible**: The market segments can be effectively reached and served.
3. **Substantial**: The market segments are large or profitable enough to serve.
4. **Differentiable**: The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs.
5. **Actionable**: Effective programs can be designed for attracting and serving the segments.

**Activity**: Think about your own potential business or the business of potential competitors. Describe the segments you will create and what components they will include. You should ensure that the segment can support your business operations.

Enter your ideas into your personal journal.

**MARKET TARGETING**

Congratulations!!! You have segmented your market but there is still more to do. Each of the markets segmented must now be evaluated and decisions made on which segment or segments you will target for service.

A **target market** consists of a set of buyers who share common needs or characteristics that the company decides to serve.

In evaluating your target market you need to look at three factors:

1. segment size and growth,
2. segment structural attractiveness, and
3. company objectives and resources.

In reviewing the segments remember that the largest, fastest growing segment may not be the best one for your company. You need to pay attention to structural factors that will affect the long-run viability of the segment.

1. A segment will be less attractive to you (especially if a start-up) if it already contains many strong and aggressive competitors.
2. The presences of many actual or potential substitute products that may limit prices that may be charged and in turn limit profits.
3. The relative power of the buyers in the market may also limit attractiveness because of their power to influence selling price in the market.
4. A segment may be less attractive if powerful suppliers exist who can control prices.

**TARGET MARKETING STRATEGIES**

As we go about the business of selecting our target market various strategies in doing so become increasingly useful.

These strategies are essentially approaches you can take in deciding on the target market, from a mass market approach to individual marketing. Let us take each in turn.

By opting to use an *undifferentiated marketing (or mass-marketing)* strategy, you are deciding to ignore segmentation differences and treat all customers in the market the same in with one offer. With this strategy the focus is on the common need and not what differences may exist.

For a *differentiated marketing (or segmented marketing)* strategy, you decide to target several market segments and designs separate offers for each. Here you have acknowledges the differences in the market and create product offerings for each market segment.

In a *concentrated marketing (or niche marketing)* approach, instead of going after a small share of a large market, you go after a large share of one or a few smaller segments or niches. These markets are generally so small or specialized large firms do not enter them. In entering this market segment you MUST be able to market more effectively by fine-tuning your products, prices, and programs to the needs of carefully defined segment. In addition you will need to be able to market more efficiently, targeting your products or services, channels, and communications programs toward only consumers that it can serve best and most profitably.
For micromarketing you are tailoring your programmes and products to meet the tastes of a specific individuals and or locations. This also included local marketing and individual marketing.

Local marketing involves tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores.

However, local marketing has drawbacks.

- It can drive up manufacturing and marketing costs by reducing economies of scale.
- It can create logistics problems.
- The brand’s overall image might be diluted if the product and message vary too much in different localities.

Individual marketing is the tailoring of products and marketing programs to the needs and preferences of individual customers. Individual marketing has also been labeled one-to-one marketing, mass customization, and markets-of-one marketing.

In choosing your target market you should take into consideration the following issues:

- Company resources.
- Product variability.
- Product’s life-cycle stage.
- Market variability.
- Competitors’ marketing strategies.

As you target your consumers you must be socially responsible and be aware of some areas of concern, your segmentation and targeting should benefit customers with specific needs, have concern for vulnerable segments and not target inappropriate product and services to vulnerable segment of society, for example targeting children for products of alcohol and cigarettes.

**DIFFERENTIATION AND POSITIONING**

As stated early, the position of a product or service has nothing to do with physical location but instead the place the product whole in the consumer’s mind when compared with its competitors. Therefore, product position is the way the product is defined by your consumer on important attributes. It is the place it occupies the consumer’s mind in comparison to competing products, it deals with perception, impression and feeling about your product. We do this to attempt to define clearly the value proposition, and position we want to occupy in eth consumer’s mind.

A useful tool is the use of positioning maps. A perceptual positioning map shows consumer perceptions of their brands verses competing product on dimensions they (the consumer) consider important.
Example of a Positioning Map (UK Chocolate Comparisons)

Example - Positioning Map for SUVs (Price vs. Performance)

Choosing a differentiation and positioning strategy is a four step process.

1. Identifying a set of differentiating competitive advantages upon which to build a position.
2. Choosing the right competitive advantage.
3. Selecting an overall positioning strategy.
4. Developing a positioning statement.

You must always answer the “why should I buy your product over your competitor’s?” question. In as far as you differentiate and show the important differences between yours and your competitor’s product while providing superior value you will be able to gain a competitive advantage. You can differentiate by providing superior value along the lines of product, services, channels, people, or image categories.

Choosing the Right Competitive Advantages

So which differences should you choose to promote and how many of them? According to Ross Reeves a company should develop a unique selling proposition for each brand and stick to it; however other marketers believe that brands should have more than one difference to position themselves on. In choosing the right differences to promote should have the following criteria:

1. **It is important:** The difference delivers a highly valued benefit to target buyers.
2. **It is distinctive:** Competitors do not offer the difference, or the company can offer it in a more distinctive way.
3. **It is superior:** The difference is superior to other ways that customers might obtain the same benefit.
4. **It is communicable:** The difference is communicable and visible to buyers.
5. **It is pre-emptive:** Competitors cannot easily copy the difference.
6. **It is affordable:** Buyers can afford to pay for the difference.
7. **It is profitable:** The company can introduce the difference profitably.

Selecting an overall positioning strategy

In selecting your overall positioning strategy for your product and brand you will establish the brands’ value proposition in an attempt to create a competitive advantage. The value proposition is the full mix of benefits upon which a brand is positioned.

**Competitive advantage** is an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices.

Possible value propositions are:

1. **More for More** positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs.
2. **More for the Same** positioning involves introducing a brand offering comparable quality but at a lower price.
3. *The Same for Less* positioning can be a powerful value proposition—everyone likes a good deal.

4. *Less for Much Less* positioning is offering products that offer less and therefore cost less. “Less-for-much-less” positioning involves meeting consumers’ lower performance or quality requirements at a much lower price.

5. *More for Less* positioning is the winning value proposition.

**Developing a Positioning Statement**

Company and brand positioning should be summed up in a positioning statement. The statement should follow this generic formula:

```
To (target segment and need) our (brand) is (concept) that (point of difference).
```

An example of this statement could be:

“*For first time entrepreneurs needing professional education the Virtual University’s Business Communication programme provides the flexibility needed for success.*”

The positioning statement is the promise that you are setting in the market place. Once you have created your positioning it is time to communicate and deliver on that promise. You must take decisive steps to communicate and deliver on that promise to target consumers. At this point you should recall the earlier discussion on the need to deliver on promises to ensure satisfaction. All the components of your marketing mix will need to be used to support the positioning strategy.

**Activity:** Develop a positioning statement for your proposed product or service. Record the statement in your personal journal.

**TOPIC SUMMARY**

The implementation of target marketing strategies will help an entrepreneur gain and maintain the competitive advantage. During the process of creating these strategies you must consider: market segmentation, market targeting, product differentiation and product positioning. To assist in product differentiation and positioning you must consider how you are going to brand your product. The next topic will explore the process of branding.
TOPIC 5.2 - BRANDING STRATEGIES

INTRODUCTION
Branding is key to ensuring the consumer remembers your product and continues to buy it. Branding includes name recognition, visual recognition and in some cases audio recognition. Coca Cola, the Nike check mark and the Apple symbol are all part of elaborate branding strategies. Everyone recognizes these brands just by their symbols or name.

Branding can also become of the language and culture. Google is not only a search engine, but is now an adjective for searching the Internet, no matter what search engine you use. This topic will explore the process of branding as part of the marketing approach.

OBJECTIVES
Upon completion of this topic you will be able to:

1. Select an appropriate branding strategy for your products and services.
2. How to position your brand in the market place.
3. How to co-brand multiple products and services offered by the same company.

COMPANY BRANDING
I know we have touched on branding earlier. This is the single most important component of your marketing and company strategy and as such we should explore branding issues in some detail. While we have defined brand previously we must now define it in more specific and complete terms.

**Brand** represents the consumer’s perceptions and feelings about a product and its performance. It is the company’s promise to deliver a specific set of features, benefits, services, and experiences consistently to the buyers.

Your brand is (outside of your human resource capital) possibly the single most important and enduring asset your company will own. In the diagram below you will see a summary of the decisions you will need to make relative to your brand. But before we explore them in some detail I would like to discuss the importance of brand as it relates to brand equity.

**Brand Equity** is the positive differential effect that knowing the brand name has on customer response to the product or service.

In evaluating your brand to determine its equity Young & Rubicam’s Asset Evaluator measures your brand’s strength according to four customer perception dimensions:
1. differentiation (what makes the brand stand out),
2. relevance (how consumers feel it meets their needs),
3. knowledge (how much consumers know about the brand), and
4. esteem (how highly consumers regard and respect the brand).

Brand valuation is the process of estimating the total financial value of a brand. Having a high brand equity provides can provide your company with many competitive advantages.

- High level of consumer brand awareness and loyalty.
- More leverage in bargaining with resellers.
- More easily launch line and brand extensions.
- Defense against fierce price competition.
- Forms the basis for building strong and profitable customer relationships.

The fundamental asset underlying brand equity is customer equity—the value of the customer relationships that the brand creates. To create strong customer equity and as a result a strong brand you must create a brand with STRONG emotional connections to the consumer.

BRAND POSITIONING

So in positioning your brand you have three levels to consider:

1. Position on the brand on product attributes.
2. Position on the brand with a desirable benefit.
3. Position on the brand on beliefs and values.

The next step is to consider is the selection of your brand name. In any good brand name you need to have certain qualities:

1. It should suggest something about the product's benefits and qualities.
2. It should be easy to pronounce, recognize, and remember.
3. The brand name should be distinctive.
4. It should be extendable.
5. The name should translate easily into foreign languages.
6. It should be capable of registration and legal protection.

As a manufacture of a brand you have a few options relating to brand sponsorship.

1. The product may be launched as a manufacturer’s brand (or national brand).
2. The manufacturer may sell to resellers who give it a private brand (also called a store brand or distributor brand).
3. The manufacturer can market licensed brands.
4. Two companies can join forces and co-brand a product.

National brands (or manufacturers’ brands) have long dominated the retail scene. In recent times, an increasing number of retailers and wholesalers have created their own store brands (or private brands). Private brands are gaining popularity and now
capture more than 20 percent of all North American consumer package goods sales. In the battle of the brands between national and private brands, retailers have many advantages.

• Retailers often price their store brands lower than comparable national brands.
• Store brands yield higher profit margins for the reseller.
• Store brands give resellers exclusive products that cannot be bought from competitors.

The third option is in licensing, name and character licensing has grown rapidly in recent years. Annual retail sales of licensed products in the United States and Canada have grown from only $4 billion in 1977 to $55 billion in 1987 and more than $187 billion today.

**Co-Branding**

Co-branding occurs when two established brand names of different companies are used on the same product. Advantages of this arrangement include:

• The combined brands create broader consumer appeal and greater brand equity.
• Co-branding also allows a company to expand its existing brand into a category it might otherwise have difficulty entering alone.

Co-branding also has limitations.

• Such relationships involve complex legal contracts and licenses.
• Co-branding partners must carefully coordinate their advertising, sales promotion, and other marketing efforts.
• Each partner must trust the other will take good care of its brand.

The final category of decisions to be made in respect to brand deal with *Brand Development* for product; your company has four generic choices on strategies in developing the brand.

**Line Extensions** occur when you extend an existing brand name to new forms, colors, sizes, ingredients, or flavors of an existing product category.

1. **Brand Extensions** extend a current brand name to new or modified products in a new category.
2. **Multi-branding** introduces additional brands in the same category.
3. **New Brands.** – Simply put, it is the creation of a new brand from scratch to suit the requirements of the new market.
Your megabrand strategy will consist of weeding out weaker brands and focus your marketing dollar spent on brands that can achieve a top spot in its market share position in their respective categories.

**TOPIC SUMMARY**
Branding is a key consideration when developing new products or marketing existing products and services. The brand will speak to your quality and consistency. It will help your products and services stand-out against competitors. So spend the time and money to develop a brand that will speak to your company and its ability to add value to your customers.
TOPIC 5.3 - NEW PRODUCT DEVELOPMENT

INTRODUCTION
Many new companies start because they have an idea for the creation and production of a new product. New product development is an innovative process. It is different from offering existing products and services to potential consumers. New products require additional and somewhat different marketing efforts. The potential consumers must be made aware of this new product and how it can satisfy a specific need or want. This topic will explore the process of new product development.

OBJECTIVES
Upon completion of this topic you will be able to describe the process of new product development.

OVERVIEW
As you start or grow your business venture you will need to have product or service for offer to the marketplace. There are a couple of ways to obtain a new product:

1. Acquisition—by buying a whole company, a patent, or a license to produce someone else’s product.
2. New-product development efforts.

Acquisition refers to the buying of a whole company, a patent, or a license to produce someone else’s product.

New product development refers to original products, product improvements, product modifications, and new brands developed from the firm’s own research and development.

New products fail for a myriad of reasons as listed below. The new product development process is straightforward if not wrought with risk and time consuming. Because of the risk involved the process can be drawn out as you attempt to satisfy yourself on the viability of the product.

The process itself is seen below. We shall examine each component in turn.
As we can see from the illustration above there are eight stages in product development process.

New-product development starts with idea generation—the systematic search for new-product ideas. A company typically has to generate many ideas in order to find a few good ones. Major sources of new-product ideas include internal sources, customers, competitors, distributors and suppliers, and others. Using internal sources, the company can find new ideas through formal research and development. It can pick the brains of its executives, scientists, engineers, manufacturing, and salespeople. Some companies have developed successful "entrepreneurial" programs that encourage employees to think up and develop new-product ideas. Good new product ideas also come from watching and listening to customers. The company can analyze customer questions and complaints to find new products that better solve consumer problems.

The company can conduct surveys or focus groups to learn about consumer needs and wants. Or company engineers or salespeople can meet with and work alongside customers to get suggestions and ideas. Finally, consumers often create new products and uses on their own, and companies can benefit by finding these products and putting them on the market. Customers can also be a good source of ideas for new product uses that can expand the market for and extend the life of current products. Competitors are another good source of new-product ideas. Companies watch competitors' ads and other communications to get clues about their new products. They buy competing new products, take them apart to see how they work, analyze their sales, and decide whether they should bring out a new product of their own. Finally, distributors and suppliers contribute many good new-product ideas. Resellers are close to the market and can pass along information about consumer problems and new-product possibilities. Suppliers can tell the company about new concepts, techniques, and materials that can be used to develop new products. Other idea sources include trade magazines, shows, and seminars; government agencies; new product consultants; advertising agencies; marketing research firms; university and commercial laboratories; and inventors. The search for new-product ideas should be systematic rather than haphazard. Otherwise, few new ideas will surface and many good ideas will sputter in and die. Top management can avoid these problems by installing an idea management system that directs the flow of new ideas to a central point where they can be collected, reviewed, and evaluated. In setting up such a system, the company can do any or all of the following:

1. Appoint a respected senior person to be the company's idea manager.
2. Create a multidisciplinary idea management committee consisting of people from R&D.

3. Engineering, purchasing, operations, finance, and sales and marketing to meet regularly and evaluate proposed new-product and service ideas.

4. Set up a toll-free number for anyone who wants to send a new idea to the idea manager.

5. Encourage all company stakeholders—employees, suppliers, distributors, dealers—to send their ideas to the idea manager.

6. Set up formal recognition programs to reward those who contribute the best new ideas.

The idea manager approach yields two favourable outcomes. First, it helps create an innovation oriented company culture. It shows that top management supports, encourages, and rewards innovation. Second, it will yield a larger number of ideas among which will be found some especially good ones. As the system matures, ideas will flow more freely. No longer will good ideas wither for the lack of a sounding board or a senior product advocate.

IDEA GENERATION

Idea generation is the systematic search for new-product ideas.

*Internal Idea Sources* - Using internal sources, the company can find new ideas through formal research and development. Or it can pick the brains of employees—from executives to scientists, engineers, and manufacturing staff to salespeople.

*External Idea Sources* - Companies can also obtain good new-product ideas from any of a number of external sources, such as distributors and suppliers or even competitors.

Perhaps the most important source of new-product ideas is customers themselves.

IDEA SCREENING

The first idea-reducing stage is idea screening, which helps spot good ideas and drop poor ones as soon as possible.

CONCEPT DEVELOPMENT AND TESTING

A product idea is an idea for a possible product that the company can see itself offering to the market.

A product concept is a detailed version of the idea stated in meaningful consumer terms.

A product image is the way consumers perceive an actual or potential product.

*Concept Development* - In concept development, several descriptions of the product are generated to find out how attractive each concept is to customers. From these concepts, the best one is chosen.
Concept Testing - Concept testing calls for testing new-product concepts with groups of target consumers.

**Marketing Strategy Development**
Marketing strategy development is designing an initial marketing strategy for introducing this car to the market.

A marketing strategy statement consists of three parts.

- A description of the target market; the planned value proposition; and the sales, market share, and profit goals for the first few years.
- Outline of the product’s planned price, distribution, and marketing budget for the first year.
- Description of the planned long-run sales, profit goals, and marketing mix strategy.

**Business Analysis**
Business analysis involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company’s objectives.

**Product Development**
In product development, R&D or engineering develops the product concept into a physical product.

The product development step calls for a large jump in investment.

**Test Marketing**
Test marketing is the stage at which the product and marketing program are introduced into realistic market settings. Standardized Test Markets occur when the company finds a small number of representative test cities, conducts a full marketing campaign in these cities, and uses store audits, consumer and distributor surveys, and other measures to gauge product performance.

Drawbacks include:

- Costly
- Time consuming
- Competitors can monitor results
- Competitors get early look at your new product.

Controlled Test Markets track individual consumer behavior for new products from television set to the checkout counter. These markets are composed of stores that have agreed to carry new products for a fee. Such test markets provide in-depth purchasing data not possible with retail point-of-sale data alone. Also, the system allows companies to evaluate their specific marketing efforts.

Drawbacks include:

- Competitors can monitor results
• Competitors get early look at your new product
• Limited number of markets may not be representative of overall market.

Simulated Test Markets are basically simulated shopping environments. The company shows ads and promotions for a variety of products, including the one being tested, to a sample of consumers. It gives consumers a small amount of money and invites them to a store where they may keep the money or use it to buy items.

COMMERCIALIZATION
Commercialization is introducing the new product into the market.

Decisions must be made concerning:

• Timing.
• Where to launch the new product.
• Market rollout.

Marketing is all around you; it is a living breathing discipline. Before we actually discuss what is marketing I would like you to give me your definition of marketing before we proceed. Us the space provided below.

TOPIC SUMMARY
The process of creating a new product and bringing it to market is an exhilarating and rewarding process. It is when entrepreneurs can take their dreams and turn them into reality. But many fail because they forget to follow a process. They often stumble early on because they do not know how to apply a process to produce their innovative idea for a product. This topic provided an eight step process from idea generation to commercialization. You should use this process or a similar one to produce your new products. In the next topic will discuss how to place your products once ready for distribution.
UNIT SUMMARY

In this unit we explored how to create marketing strategies and how to brand your products and services. Branding is particularly important when creating new products or offering new services. You must position your products and services in a way that attracts customers. The next unit will explore additional marketing strategies including how to place, price and promote your products.

ASSIGNMENT

Before proceeding to the next unit consider how you will brand your proposed products and services. Produce a short paper that explains your branding approach. Submit the paper to your instructor for review and feedback.
UNIT SIX – THE FOUR P’S OF MARKETING

UNIT INTRODUCTION
In this unit we are going to examine the four Ps of marketing: product, price, promotion and place. This unit will also explore different marketing channels, who are the intermediaries in each type of channel and the conflicts that may occur during the channel operations. We will also explore marketing logistics /physical distribution of products and its importance, for persons managing a business.

UNIT OBJECTIVES
Upon completion of this unit you will be able to:

1. Outline what is a middleman and what are the distribution channels
2. Discuss briefly the classification of retailers
3. Explain the importance of wholesaling and retailing
4. Outline the kind of Conflicts in Channels of Distribution
5. Discuss the importance of Physical Distribution/Marketing Logistics.

UNIT READINGS
As you complete this unit it recommended you read the following online articles:


ASSIGNMENTS AND ACTIVITIES
The recommended assignment for this unit is to is to create a supply chain map for your proposed business. Instructions are provided at the end of the unit. In addition there are a number of reflective activities throughout each topic discussion. The results of your deliberations re: the reflective activities should be recorded in your personal journal. Marking and credit value for each will be established by your instructor at the beginning of the course.
TOPIC 6.1 - PLACE OR DISTRIBUTION

INTRODUCTION
This topic deals with one of the four P’s in marketing and that is place. Every businessperson must understand the importance of distribution of its goods to customer; otherwise profits will not be realized. Also in order to be efficient the entrepreneur must make wise decision about the choice of channels he/she would like for his/her business.

OBJECTIVES
Upon completion of this topic you will be able to:

1. Discuss what are marketing channels.
2. Define what are intermediaries/middlemen
3. Discuss the functions these channels members perform
4. Outline the various channel levels.

MARKETING CHANNELS
Producers try to forge a marketing channel (or distribution channel)—which is a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.

The following is an illustration of a simple marketing system

The illustration demonstrates that a marketing system consists of customer, producers making transactions. These transactions are made in exchange process and creation availability of products for customers. This availability is created by using networks of distribution channels.

Every product and service, whether an automobile, a watch, a personal computer, or office furniture, must somehow be made available to billions of people. Products must also be made available to millions of industrial firms, businesses, and government worldwide. Firms try to realize this goal through the creation of distribution channels.
Channel structure has three basic dimensions: the length of the channel, the intensity at various levels, and the types of intermediaries involved.

Channel intensity ranges from intensive to selective to exclusive. Intensive means that there are many intermediaries. Selective means that there are a smaller number of intermediaries. Exclusive refers to only one.

**INTERMEDIARIES AND THEIR RELATIONSHIP TO A PRODUCER**

**Definition:** Intermediaries are middlemen which under various functions on behalf of the producer in order to get the goods/service to the consumers.

**Why Do You Need Intermediaries?**

Why do producers give some of the selling job to intermediaries? After all, doing so means giving up some control over how and to whom the products are sold. The use of intermediaries results from their greater efficiency in making goods available to target markets.

Through their contacts, experience, specialization, and scale of operation, intermediaries usually offer the firm more than it can achieve on its own. From the economic system's point of view, the role of marketing intermediaries is to transform the assortments of products made by producers into the assortments wanted by consumers. Producers make narrow assortments of products in large quantities, but consumers want broad assortments of products in small quantities.

In the distribution channels, intermediaries buy large quantities from many producers and break them down into the smaller quantities and broader assortments wanted by consumers. Thus, intermediaries play an important role in matching supply and demand.

The concept of distribution channels is not limited to the distribution of tangible products.

Producers of services and ideas also face the problem of making their output available to target markets. In the private sector, retail stores, hotels, banks, and other service providers take great care to make their services conveniently available to target customers. In the public sector, service organizations and agencies develop "educational distribution systems" and "health care delivery systems" for reaching sometimes widely dispersed populations. Hospitals must be located to serve various patient populations, and schools must be located close to the children who need to be taught. Communities must locate their fire stations to provide rapid response to fires and polling stations must be placed where people can vote conveniently.

**Functions of Intermediaries**

The role of marketing intermediaries is to transform the assortments of products made by producers into the assortments wanted by consumers. Members of the marketing channel perform many key functions. Some help to complete transactions:
• **Information:** Gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange.

• **Promotion:** Developing and spreading persuasive communications about an offer.

• **Contact:** Finding and communicating with prospective buyers.

• **Matching:** Shaping and fitting the offer to the buyer’s needs, including activities such as manufacturing, grading, assembling, and packaging.

• **Negotiation:** Reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.

Others help to fulfill the completed transactions:

• **Physical distribution:** Transporting and storing goods.

• **Financing:** Acquiring and using funds to cover the costs of the channel work.

• **Risk taking:** Assuming the risks of carrying out the channel work.

**MARKETING DISTRIBUTION CHANNELS**

Distribution channels can be described by the number of channel levels involved. Each layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer is a channel level. Because the producer and the final consumer both perform some work, they are part of every channel. We use the number of intermediary levels to indicate the length of a channel.

The figure below shows several consumer distribution channels of different lengths for consumer and business users.

**CONSUMER DISTRIBUTION CHANNELS EXAMPLE**

**Channels**

1. **Channel 1,** called a direct marketing channel, which has no intermediary levels. It consists of a company selling directly to consumers. The remaining channels in are **indirect marketing channels.**

2. **Channel 2** contains **one intermediary level.** In consumer markets, this level typically has a retailer supplying their goods to consumers. For example, the makers of televisions, cameras, tires, furniture, major appliances. Many producers sell their goods directly to large retailers which then sell the goods to final consumers.
Channel 3 contains two intermediary levels, a wholesaler and a retailer. This channel is often used by small manufacturers of food, drugs, hardware, and other products.

Channel 4 contains one intermediary level of just the wholesaler. This channel can be utilized by both retailers and consumers who desire to buy in bulk.

Channel 5 contains three intermediary levels. In the meatpacking industry, for example, jobbers buy from wholesalers and sell to smaller retailers who generally are not served by larger wholesalers. Distribution channels with even more levels are sometimes found, but less often. From the producer’s point of view, a greater number of levels mean less control and greater channel complexity.

BUSINESS CHANNELS EXAMPLE

Channels

1
PRODUCER → BUSINESS USER

2
PRODUCER → AGENT/BROKER → BUSINESS USER

3
PRODUCER → WHOLESALER → BUSINESS USER

4
PRODUCER → AGENT/BROKER → WHOLESALER → BUSINESS USER

The illustration demonstrates some common business distribution channels. The business marketer can use its own sales force to sell directly to business customers. It can also sell to industrial distributors, who in turn sell to business customers. It can sell through manufacturer's representatives or its own sales branches to business customers, or it can use these representatives and branches to sell through industrial distributors. Thus, business markets commonly include multilevel distribution channels.

All of the institutions in the channel are connected by several types of flows. These include the physical flow of products, the flow of ownership, the payment flow, the information flow, and the promotion flow. These flows can make even channels with only one or a few levels very complex.

TOPIC SUMMARY

To ensure your product gets to the consumer you need help from others. These are called intermediaries. Depending on the type of product you may need to use different distribution channels to procure the product and get it to the consumer. This could include intermediaries like the producer, the agent/broker, wholesaler or business entity. As an entrepreneur you will become part of the distribution channel. You need to identify what role you will play. Are you producing the product or selling the product. Where do you fit into the marketing channel?
TOPIC 6.2 - RETAILERS

INTRODUCTION
Many entrepreneurs start a business that sells directly to the consumers. They have become the retailers in the marketing chain. But a retailer comes in a variety of forms and offers a variety of products and services to their customers. We will explore the different types of retailers and their approach to sales and marketing.

OBJECTIVES
Upon completion of this topic you will be able to:

1. Describe the different types of retail operations.
2. Explore the different types of products sold in a retail operation.
3. Examine the different retail pricing models.
4. Explain the different types of retail marketing decisions that must be made.

RETAILING
What is retailing? Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal and non-business use. Many institutions—manufacturers, wholesalers, and retailers—do retailing. But most retailing is done by retailers: businesses whose sales come primarily from retailing.

Although most retailing is done in retail stores, in recent years nonstarter retailing has been growing much faster than has store retailing. Non-store retailing includes selling to final consumers through direct mail, catalogs, telephone, home TV shopping shows, home and office parties, door-to-door contact, vending machines, online services and the Internet, and other direct retailing approaches.

Types of Retailers
Retail stores come in all shapes and sizes, and new retail types keep emerging. They can be classified in terms of several characteristics, including the amount of service they offer, the breadth and depth of their product lines, the relative prices they charge, and how they are organized.

Amount of Service
Different products require different amounts of service, and customer service preferences vary. Retailers may offer one of three levels of service—self-service, limited service, and full service.

1. Self-service retailers serve customers who are willing to perform their own "locate-compare-select" process to save money. Self-service is the basis of all discount operations and is typically used by sellers of convenience goods (such as supermarkets) and nationally branded, fast-moving shopping goods (such as Best Buy or Service Merchandise).
2. **Limited-service retailers** provide more sales assistance because they carry more shopping goods about which customers need information. Their increased operating costs result in higher prices.

3. **Full-service retailers**, such as specialty stores and first-class department stores, salespeople assist customers in every phase of the shopping process. Full-service stores usually carry more specialty goods for which customers like to be "waited on." They provide more services resulting in much higher operating costs, which are passed along to customers as higher prices.

**Product Line**

Retailers also can be classified by the length and breadth of their product assortments. Some retailers, such as specialty stores, carry narrow product lines with deep assortments within those lines. Today, specialty stores are flourishing. The increasing use of market segmentation, market targeting, and product specialization has resulted in a greater need for stores that focus on specific products and segments.

In contrast, **department stores** carry a wide variety of product lines. In recent years, department stores have been squeezed between more focused and flexible specialty stores on the one hand, and more efficient, lower-priced discounters on the other. In response, many have added "bargain basements" and promotional events to meet the discount threat. Others have set up store brand programs, "boutiques" and "designer shops" within department stores, and other store formats that compete with specialty stores. Still others are trying mail-order, telephone, and Web site selling. Service remains the key differentiating factor.

**Supermarkets** are the most frequently shopped type of retail store. Today, however, they are facing slow sales growth because of slower population growth and an increase in competition from convenience stores, discount food stores, and superstores. Supermarkets also have been hit hard by the rapid growth of out-of-home eating. Thus, most supermarkets are making improvements to attract more customers. In the battle for "share of stomachs," most large supermarkets have moved upscale, providing from-scratch bakeries, gourmet deli counters, and fresh seafood departments. Others are cutting costs, establishing more efficient operations, and lowering prices in order to compete more effectively with food discounters.

**Convenience stores** are small stores that carry a limited line of high-turnover convenience goods. In the 1990s, the convenience store industry suffered from overcapacity as its primary market of young, blue-collar men shrunk. As a result, many chains have redesigned their stores with female customers in mind. They are dropping the image of a "truck stop" where men go to buy beer, cigarettes, and magazines, and instead offer fresh, prepared foods and cleaner, safer environments. Many convenience chains also are experimenting with micromarketing—tailoring each store's merchandise to the specific needs of its surrounding neighborhood. **Superstores** are much larger than regular supermarkets and offer a large assortment of routinely purchased food products, nonfood items, and services. Stores, the so-called **category killers**. They feature stores the size of airplane hangers that carry a very deep assortment of a
particular line with a knowledgeable staff. Category killers are prevalent in a wide range of categories, including books, baby gear, toys, electronics, home improvement products, linens and towels, party goods, sporting goods, even pet supplies. Another superstore variation, hypermarkets, are huge superstores, perhaps as large as six football fields. Finally, for some retailers, the product line is actually a service. Service retailers include hotels and motels, banks, airlines, colleges, hospitals, movie theaters, tennis clubs, bowling alleys, restaurants, repair services, hair care shops, and dry cleaners.

Relative Prices

Retailers can also be classified according to the prices they charge. Most retailers charge regular prices and offer normal-quality goods and customer service. Others offer higher-quality goods and services at higher prices. The retailers that feature low prices are discount stores, "off-price" retailers, and catalog showrooms:

Discount Stores

A discount store sells standard merchandise at lower prices by accepting lower margins and selling higher volume. The early discount stores cut expenses by offering few services and operating in warehouse like facilities in low-rent, heavily traveled districts. In recent years, facing intense competition from other discounters and department stores, many discount retailers have "traded up." They have improved decor, added new lines and services, and opened suburban branches, which have led to higher costs and prices.

Off-Price Retailers

When the major discount stores traded up, a new wave of off-price retailers moved in to fill the low-price, high-volume gap. Ordinary discounters buy at regular wholesale prices and accept lower margins to keep prices down. In contrast, off-price retailers buy at less-than-regular wholesale prices and charge consumers less than retail. Off-price retailers can be found in all areas, from food, clothing, and electronics to no-frills banking and discount brokerages.

The three main types of off-price retailers are independents, factory outlets, and warehouse clubs.

1. **Independent off-price retailers** are either owned and run by entrepreneurs or are divisions of larger retail corporations. Although many off-price operations are run by smaller independents, most large off-price retailer operations are owned by bigger retail chains.
2. **Factory outlets** sometimes group together in *factory outlet malls* and *value-retail centers*, where dozens of outlet stores offer prices as low as 50 percent below retail on a wide range of items. Whereas outlet malls consist primarily of manufacturers' outlets, value-retail centers combine manufacturers' outlets with off-price retail stores and department store clearance outlets. Factory outlet malls have become one of the hottest growth areas in retailing.

The malls now are moving upscale, narrowing the gap between factory outlets and more traditional forms of retailers. As the gap narrows, the discounts offered by outlets are getting smaller.

Manufacturers counter that they send last year’s merchandise and seconds to the factory outlet malls, not the new merchandise that they supply to the department stores. The malls are also located far from urban areas, making travel to them more difficult. Still, the department stores are concerned about the growing number of shoppers willing to make weekend trips to stock up on branded merchandise at substantial savings.

3. **Warehouse clubs** (*or wholesale clubs, or membership warehouses*), operate in huge, drafty, warehouse like facilities and offer few frills. Customers themselves must wrestle furniture, heavy appliances, and other large items to the checkout line. Such clubs make no home deliveries and accept no credit cards, but they do offer rock-bottom prices.

How are they organized?
RETAILER MARKETING DECISIONS

Retailers are searching for new marketing strategies to attract and hold customers. In the past, retailers attracted customers with unique products, more or better services than their competitors offered, or credit cards. Today, national-brand manufacturers, in their drive for volume, have placed their branded goods everywhere. Thus, stores offer more similar assortments—national brands are found not only in department stores but also in mass-merchandise and off-price discount stores. As a result, stores are looking more and more alike.

Retailers first must define their target markets and then decide how they will position themselves in these markets. Should the store focus on upscale, miscalled, or downscale shoppers? Do target shoppers want variety, depth of assortment, convenience, or low prices? Until they define and profile their markets, retailers cannot make consistent decisions about product assortment, services, pricing, advertising, store decor, or any of the other decisions that must support their positions. Too many retailers fail to define their target markets and positions clearly. They try to have "something for everyone" and end up satisfying no market well. In contrast, successful retailers define their target markets well and position themselves strongly.

Product Assortment and Services Decision

Retailers must decide on three major product variables: product assortment, services mix, and store atmosphere. The retailer’s product assortment should match target shoppers’ expectations. In its quest to differentiate itself from competitors, a retailer can use any of several product-differentiation strategies. For one, it can offer merchandise that no other competitor carries—its own private brands or national brands on which it holds exclusives. Retailers also must decide on a services mix to offer customers. The old mom-and-pop grocery stores offered home delivery, credit, and conversation—services that today’s supermarkets ignore. The services mix is one of the key tools of nonprime competition for setting one store apart from another.

The store’s atmosphere is another element in its product arsenal. Every store has a physical layout that makes moving around in it either hard or easy. Each store has a
"feel"; one store is cluttered, another charming, a third plush, a fourth somber. The store must have a planned atmosphere that suits the target market and moves customers to buy.

Increasingly, retailers are turning their stores into theaters that transport customers into unusual, exciting shopping environments. All of this confirms that retail stores are much more than simply assortments of goods. They are environments to be experienced by the people who shop in them. Store atmospheres offer a powerful tool by which retailers can differentiate their stores from those of competitors.

**Price Decision**

A retailer’s price policy is a crucial positioning factor and must be decided in relation to its target market, its product and service assortment, and its competition. All retailers would like to charge high markups and achieve high volume, but the two seldom go together. Most retailers seek *either* high markups on lower volume (most specialty stores) or low markups on higher volume (mass merchandisers and discount stores).

**Promotion Decision**

Retailers use the normal promotion tools—advertising, personal selling, sales promotion, public relations, and direct marketing—to reach consumers. They advertise in newspapers, magazines, radio, and television. Advertising may be supported by newspaper inserts and direct-mail pieces. Personal selling requires careful training of salespeople in how to greet customers, meet their needs, and handle their complaints. Sales promotions may include in-store demonstrations, displays, contests, and visiting celebrities. Public relations activities, such as press conferences and speeches, store openings, special events, newsletters, magazines, and public service activities, are always available to retailers. Many retailers have also set up Web sites, offering customers information and other features and sometimes selling merchandise directly.

**Place Decision**

Retailers often cite three critical factors in retailing success: *location, location, and location!* A retailer’s location is key to its ability to attract customers. The costs of building or leasing facilities have a major impact on the retailer’s profits. Thus, site-location decisions are among the most important the retailer makes. Small retailers may have to settle for whatever locations they can find or afford. Large retailers usually employ specialists who select locations using advanced methods.

**SITE SELECTION FOR RETAIL LOCATION**

Site selection is an important decision for retailers planning to open new stores. Not only do they have to decide whether they want to locate in a mall or as a standalone store, they also have to assess the site's potential in terms of likely sales and profitability. Most stores today cluster together to increase their customer pulling power and to give consumers the convenience of one-stop shopping. A shopping center is a group of retail businesses planned, developed, owned, and managed as a unit. It
normally contains a branch of a department store or variety store, a supermarket, specialty stores, professional offices, and sometimes a bank. Most shopping centers are neighborhood shopping centers or strip malls that generally contain between 5 and 15 stores. They are close and convenient for consumers. They usually contain a supermarket, perhaps a discount store, and several service stores—dry cleaner, self-service laundry, drugstore, video-rental outlet, barber or beauty shop, hardware store, or other stores.

**TOPIC SUMMARY**

Some of you will end up creating and managing a retail operation. It is essential that you make the right decisions as you plan your operation. Issues of place, price are important to a retailer. In addition you must decide on the assortment of products your will provide, the type of customer services and guarantees you will support and how you will position your business in the local environment.

It is important for a retailer to understand and collaborate with his or her wholesalers. The next topic will explore the issues that a wholesaler must consider.
TOPIC 6.3 – WHOLESALING

INTRODUCTION

We earlier explored the business value chain. One of the participants was the wholesaler, the organization that takes the products created by others and distributes to businesses and retail outlets for sale to the consumers. There are a number of different wholesalers depending on the industry that they are servicing. Each is structured in a different way. This topic will explore the role of the wholesaler in the value chain.

OBJECTIVES

Upon completion of this topic you will be able to:

1. Describe the difference between a wholesaler and retailer.
2. Describe distribution channels for wholesalers.
3. Describe the different types of wholesalers.
4. Employ the wholesalers’ decision matrix.
5. Examine the different ways a wholesaler reaches his/her market.

THE WHOLESALER

Wholesaling includes all activities involved in selling goods and services to those buying for resale or business use.

We call wholesalers those firms engaged primarily in wholesaling activity. Wholesalers buy mostly from producers and sell mostly to retailers, industrial consumers, and other wholesalers. But why are wholesalers used at all? For example, why would a producer use wholesalers rather than selling directly to retailers or consumers?

Quite simply, wholesalers are often better at performing one or more of the following channel functions:

• Selling and promoting: Wholesalers’ sales forces help manufacturers reach many small customers at a low cost. The wholesaler has more contacts and is often more trusted by the buyer than the distant manufacturer.
• Buying and assortment building: Wholesalers can select items and build assortments needed by their customers, thereby saving the consumers much work.
• Bulk-breaking: Wholesalers save their customers money by buying in carload lots and breaking bulk (breaking large lots into small quantities).
• Warehousing: Wholesalers hold inventories, thereby reducing the inventory costs and risks of suppliers and customers.
• Transportation: Wholesalers can provide quicker delivery to buyers because they are closer than the producers.
• Financing: Wholesalers finance their customers by giving credit, and they finance their suppliers by ordering early and paying bills on time.
• Risk bearing: Wholesalers absorb risk by taking title and bearing the cost of theft, damage, spoilage, and obsolescence.
• **Market information:** Wholesalers give information to suppliers and customers about competitors, new products, and price developments.

• **Management services and advice:** Wholesalers often help retailers train their salesclerks, improve store layouts and displays, and set up accounting and inventory control systems.

**Types of Wholesalers**
Wholesalers fall into three major groups: merchant wholesalers, brokers and agents, and manufacturers’ sales branches and offices. These are further broken down into different distribution channels. The diagram below illustrates the major wholesaler channels.

![Distribution Channels Diagram]

Merchant wholesalers are the largest single group of wholesalers, accounting for roughly 50 percent of all wholesaling. Merchant wholesalers include two broad types: full service wholesalers and limited-service wholesalers.

Full-service wholesalers provide a full set of services, whereas the various limited-service wholesalers offer fewer services to their suppliers and customers. The several different types of limited-service wholesalers perform varied specialized functions in the distribution channel.

**Merchant Wholesalers**
Independently owned businesses that take title to the merchandise they handle. In different trades they are called jobbers, distributors, or mill supply houses. Include full-service wholesalers and limited service wholesalers:

**Full-Service Wholesalers**
Provide a full line of services: carrying stock, maintaining a sales force, offering credit, making deliveries, and providing management assistance. There are two types:
1. **Wholesale merchants**: Sell primarily to retailers and provide a full range of services.
   a. *General merchandise*: wholesalers carry several merchandise lines, whereas *general-line wholesalers* carry one or two lines in greater depth.
   b. *Specialty wholesalers* specialize in carrying only part of a line. (Examples: health food wholesalers, seafood wholesalers.)

2. **Industrial distributors**: Sell to manufacturers rather than to retailers. Provide several services, such as carrying stock, offering credit, and providing delivery. May carry a broad range of merchandise, a general line, or a specialty line.

**LIMITED-SERVICE WHOLESALERS**

Offer fewer services than full-service wholesalers. Limited-service wholesalers are of several types:

1. **Cash-and-carry wholesalers**: Carry a limited line of fast-moving goods and sell to small retailer for cash. Normally do not deliver. Example: A small fish store retailer may drive to a cash-and-carry fish wholesaler, buy fish for cash, and bring the merchandise back to the store.

2. **Truck wholesalers (or truck jobbers)**: Perform primarily a selling and delivery function. Carry a limited line of semi perishable merchandise (such as milk, bread, snack foods), which they sell for cash as they make their rounds to supermarkets, small groceries, hospitals, restaurants, factory cafeterias, and hotels.

3. **Drop shippers**: Do not carry inventory or handle the product. On receiving an order, they select a manufacturer, who ships the merchandise directly to the customer. The drop shipper assumes title and risk from the time the order is accepted to its delivery to the customer. They operate in bulk industries, such as coal, lumber, and heavy equipment.

4. **Rack jobbers**: Serve grocery and drug retailers, mostly in nonfood items. They send delivery trucks to stores, where the delivery people set up toys, paperbacks, hardware items, health and beauty aids, or other items. They price the goods, keep them fresh, set up point-of-purchase displays, and keep inventory records. Rack jobbers retain title to the goods and bill the retailers only for the goods sold to consumers.

5. **Producers’ cooperatives**: Owned by farmer members and assemble farm produce to sell in local markets. The co-op’s profits are distributed to members at the end of the year. They often attempt to improve product quality and promote a co-op brand name, such as Sun Maid raisins, Sunkist oranges, or Diamond walnuts.

6. **Mail-order wholesalers**: Send catalogs to retail, industrial, and institutional customers featuring jewelry, cosmetics, specialty foods, and other small items. Maintain no outside sales force. Main customers are businesses in small outlying areas. Orders are filled and sent by mail, truck, or other transportation.
BROKERS AND AGENTS
Do not take title to goods. Main function is to facilitate buying and selling, for which they earn a commission on the selling price. Generally, specialize by product line or customer types.

1. **Brokers**: Chief function is bringing buyers and sellers together and assisting in negotiation. They are paid by the party who hired them, and do not carry inventory, get involved in financing, or assume risk.

   Examples: food brokers, real estate brokers, insurance brokers, and security brokers.

2. **Agents**: Represent either buyers or sellers on a more permanent basis than brokers do. There are several types.
   a. **Manufacturers’ agents**: Represent two or more manufacturers of complementary lines. A formal written agreement with each manufacturer covers pricing, territories, order handling, delivery service and warranties, and commission rates. They are often used in such lines as apparel, furniture, and electrical goods. Most manufacturers’ agents are small businesses, with only a few skilled salespeople as employees. They are hired by small manufacturers who cannot afford their own field sales forces, and by large manufacturers who use agents to open new territories or to cover territories that cannot support full-time salespeople.
   b. **Selling agents**: Have contractual authority to sell a manufacturer’s entire output. The manufacturer either is not interested in the selling function or feels unqualified. The selling agent serves as a sales department and has significant influence over prices, terms, and conditions of sale. Found in product areas such as textiles, industrial machinery and equipment, coal and coke, chemicals, and metals.
   c. **Purchasing agents**: Generally they have a long-term relationship with buyers and make purchases for them, often receiving, inspecting, warehousing, and shipping the merchandise to the buyers. They provide helpful market information to clients and help them obtain the best goods and prices available.
   d. **Commission merchants**: Take physical possession of products and negotiate sales. Normally, they are not employed on a long-term basis. They are used most often in agricultural marketing by farmers who do not want to sell their own output and do not belong to producers’ cooperatives. The commission merchant takes a truckload of commodities to a central market, sells it for the best price, deducts a commission and expenses, and remits the balance to the producer.
**MANUFACTURERS' AND RETAILERS' BRANCHES AND OFFICES**

Wholesaling operations conducted by sellers or buyers themselves rather than through independent wholesalers. Separate branches and offices can be dedicated to either sales or purchasing.

1. **Sales branches and offices**: Set up by manufacturers to improve inventory control, selling, and promotion. Sales branches carry inventory and are found in industries such as lumber and automotive equipment and parts. Sales offices do not carry inventory and are most prominent in dry-goods and notions industries.

2. **Purchasing offices**: Perform a role similar to that of brokers or agents but are part of the buyer's organization. Many retailers set up purchasing offices in major market centers.

   *Brokers* and *agents* differ from merchant wholesalers in two ways: They do not take title to goods, and they perform only a few functions. Like merchant wholesalers, they generally specialize by product line or customer type. A broker brings buyers and sellers together and assists in negotiation. Agents represent buyers or sellers on a more permanent basis.

3. **Manufacturers' agents** - (Also called manufacturers' representatives) are the most common type of agent wholesaler. The third major type of wholesaling is that done in manufacturers' sales branches and offices by sellers or buyers themselves rather than through independent wholesalers.

**WHOLESALE'S TARGET MARKET AND POSITIONING DECISION**

Like retailers, wholesalers must define their target markets and position themselves effectively—they cannot serve everyone. They can choose a target group by size of customer (only large retailers), type of customer (convenience food stores only), need for service (customers who need credit), or other factors. Within the target group, they can identify the more profitable customers, design stronger offers, and build better relationships with them. They can propose automatic reordering systems, set up management-training and advising systems, or even sponsor a voluntary chain. They can discourage less profitable customers by requiring larger orders or adding service charges to smaller ones.

**WHOLESALE'S MARKETING MIX DECISIONS**

Like retailers, wholesalers must decide on product assortment and services, prices, promotion, and place. The wholesaler's "product" is the assortment of *products and services* that it offers. Wholesalers are under great pressure to carry a full line and to stock enough for immediate delivery. But this practice can damage profits. Wholesalers today are cutting down on the number of lines they carry, choosing to carry only the more profitable ones. Wholesalers are also rethinking which services count most in building strong customer relationships and which should be dropped or charged for. The key is to find the mix of services most valued by their target customers.
Price is also an important wholesaler decision. Wholesalers usually mark up the cost of goods by a standard percentage—say, 20 percent. Expenses may run 17 percent of the gross margin, leaving a profit margin of 3 percent. In grocery wholesaling, the average profit margin is often less than 2 percent. Wholesalers are trying new pricing approaches. They may cut their margin on some lines in order to win important new customers. They may ask suppliers for special price break when they can turn them into an increase in the supplier's sales.

Although promotion can be critical to wholesaler success, most wholesalers are not promotion minded. Their use of trade advertising, sales promotion, personal selling, and public relations is largely scattered and unplanned. Many are behind the times in personal selling—they still see selling as a single salesperson talking to a single customer instead of as a team effort to sell, build, and service major accounts. Wholesalers also need to adopt some of the non-personal promotion techniques used by retailers. They need to develop an overall promotion strategy and to make greater use of supplier promotion materials and programs.

Finally, place is important—wholesalers must choose their locations and facilities carefully. Wholesalers typically locate in low-rent, low-tax areas and tend to invest little money in their buildings, equipment, and systems. As a result, their materials-handling and order-processing systems are often outdated. In recent years, however, large and progressive wholesalers are reacting to rising costs by investing in automated warehouses and online ordering systems. Orders are fed from the retailer's system directly into the wholesaler's computer, and the items are picked up by mechanical devices and automatically taken to a shipping platform where they are assembled. Most large wholesalers use computers to carry out accounting, billing, inventory control, and forecasting. Modern wholesalers are adapting their services to the needs of target customers and finding cost reducing methods of doing business.

**CONFLICTS IN CHANNELS OF DISTRIBUTION**

A marketing channel consists of firms that have partnered for their common good. Each channel member depends on the others. Each channel member plays a specialized role in the channel. The channel will be most effective when each member assumes the tasks it can do best.

Disagreements over goals, roles, and rewards generate channel conflict.

- **Horizontal conflict** occurs among firms at the same level of the channel.
- **Vertical conflict** occurs between different levels of the same channel.

**VERTICAL MARKETING SYSTEMS**

A conventional distribution channel consists of one or more independent producers, wholesalers, and retailers. Each is a separate business seeking to maximize its own profits, perhaps even at the expense of the system as a whole.
A vertical marketing system (VMS) consists of producers, wholesalers, and retailers acting as a unified system. One channel member owns the others, has contracts with them, or wields so much power that they must all cooperate.

**TOPIC SUMMARY**

Wholesalers are essential to the distribution of a wide variety of products to potential consumers. There are different types of consumers and different types of distribution channels depending on the type of retail business the wholesalers are servicing. Before you begin your business you must decide what type of wholesaler you wish to be; assuming that your business is about supporting the distribution and sale of products to other entities. In fact the retailer is the wholesaler’s customer.

But in all supply chain/distribution channels products must some form of storage and logistic support. The process of distributing your products will be explored in the next topic.
INTRODUCTION
As a new business you must consider the logistics requirements of your business. You must ensure that effective flow of materials to and from your company. You must find ways of streamlining the process and reducing the distribution and storage costs. This unit will explore the concepts supporting marketing logistics.

OBJECTIVES
Upon completion of this topic you will be able to:

4. Define marketing logistics.
5. Describe the different options for transporting products to the market.
6. Explain the different logistics required to support a typical business.
7. Develop a logistics strategy.

MARKETING LOGISTICS – AN INTRODUCTION
Marketing logistics—also called physical distribution—involves planning, implementing, and controlling the physical flow of goods, services, and related information from points of origin to points of consumption to meet customer requirements at a profit.

Marketing logistics involves outbound distribution (moving products from the factory to resellers and ultimately to customers), inbound distribution (moving products and materials from suppliers to the factory) and reverse distribution (moving broken, unwanted, or excess products returned by consumers or resellers).

It involves the entire supply chain management—managing upstream and downstream value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers.

Companies today are placing greater emphasis on logistics for several reasons.

• Companies can gain a powerful competitive advantage by using improved logistics to give customers better service or lower prices.
• Improved logistics can yield tremendous cost savings to both the company and its customers.
• The explosion in product variety has created a need for improved logistics management.
• Improvements in information technology have created opportunities for major gains in distribution efficiency.

The goal of marketing logistics should be to provide a targeted level of customer service at the least cost.
LOGISTICS FUNCTIONS

Warehousing

A company must decide on **how many** and **what types** of warehouses it needs and **where** they will be located. Storage warehouses store goods for moderate to long periods. **Distribution centers** are designed to move goods rather than just store them.

Inventory Management

**Just-in-time** logistics systems: Producers and retailers carry only small inventories of parts or merchandise, often only enough for a few days of operations.

Transportation

**Trucks** have increased their share of transportation steadily and now account for nearly 35 percent of total cargo ton-miles (more than 60 percent of actual tonnage). Trucks are highly flexible in their routing and time schedules and they can usually offer faster service than railroads. They are efficient for short hauls of high-value merchandise.

**Railroads** account for 31 percent of total cargo ton-miles moved. They are one of the most cost-effective modes for shipping large amounts of bulk products—coal, sand, minerals, and farm and forest products—over long distances.

**Water carriers** account for 11 percent of cargo ton-miles, transport large amounts of goods by ships and barges on U.S. coastal and inland waterways. Although the cost of water transportation is very low for shipping bulky, low-value, non-perishable products, it is the slowest mode and may be affected by the weather.

**Pipelines** account for 16 percent of cargo ton-miles, are a specialized means of shipping petroleum, natural gas, and chemicals from sources to markets.

**Air** carriers transport less than 5 percent of the nation’s goods. Airfreight rates are much higher than rail or truck rates.

The **Internet** carries digital products from producer to customer via satellite, cable, or phone wire.

**Intermodal transportation:** Combining two or more modes of transportation.

- **Piggyback:** Rail and trucks;
- **Fishyback:** Water and trucks;
- **Trainship:** Water and rail; and
- **Airtruck:** Air and trucks.
LOGISTICS INFORMATION MANAGEMENT

Electronic data interchange (EDI) is the computerized exchange of data between organizations.

Vendor-managed inventory (VMI) systems or continuous inventory replenishment systems, is the customer sharing real-time data on sales and current inventory levels with the supplier. The supplier then takes full responsibility for managing inventories and deliveries.

DEVELOPING A LOGISTICS STRATEGY

When a company creates a logistics strategy it is defining the service levels at which its logistics organization is at its most cost effective. Because supply chains are constantly changing and evolving, a company may develop a number of logistics strategies for specific product lines, specific countries or specific customers.

Why Implement a Logistics Strategy?

The supply chain constantly changes and that will affect any logistics organization. To adapt to the flexibility of the supply chain, companies should develop and implement a formal logistics strategy. This will allow a company to identify the impact of imminent changes and make organizational or functional changes to ensure service levels are not reduced.

What Is Involved in Developing a Logistic Strategy?

A company can start to develop a logistics strategy by looking at four distinct levels of their logistics organization.

1. **Strategic**: By examining the company’s objectives and strategic supply chain decisions, the logistics strategy should review how the logistics organization contributes to those high-level objectives.

2. **Structural**: The logistics strategy should examine the structural issues of the logistics organization, such as the optimum number of warehouses and distribution centers or what products should be produced at a specific manufacturing plant.

3. **Functional**: Any strategy should review how each separate function in the logistics organization is to achieve functional excellence.

4. **Implementation**: The key to developing a successful logistics strategy is how it is to be implemented across the organization. The plan for implementation will include development or configuration of an information system, introduction of new policies and procedures and the development of a change management plan.
Components to Examine when Developing a Logistics Strategy

When examining the four levels of logistics organization, all components of the operation should be examined to ascertain whether any potential cost benefits can be achieved. There are different component areas for each company but the list should at least include the following:

- **Transportation**: Does the current transportation strategies help service levels?
- **Outsourcing**: What outsourcing is used in the logistics function? Would a partnership with a third party logistics company improve service levels?
- **Logistics Systems**: Do the current logistics systems provide the level of data that is required to successfully implement a logistics strategy or are new systems required?
- **Competitors**: Review what the competitors offer. Can changes to the company’s customer service improve service levels?
- **Information**: Is the information that drives the logistics organization real-time and accurate? If the data is inaccurate then the decisions that are made will be in error.
- **Strategy Review**: Are the objectives of the logistics organization in line with company objectives and strategies.

A successfully implemented logistics strategy is important for companies who are dedicated to keeping service levels at the highest levels possible despite changes that occur in the supply chain.

**TOPIC SUMMARY**

As a company grows it must invest more time and money into its logistics supply chain. Entrepreneurs’ must consider how to receive their products and to distribute these products to their consumers. Having sufficient inventory and just in time supply is a balancing act that everyone must master.
UNIT SUMMARY

In this unit we examined the role of the wholesaler and retailer. We reviewed the decisions that each must make as they grow their business. We also examined the marketing supply chain. How to get your products and services to your customer and from your suppliers. Time must be spent understanding your supply chain. Time must be spent creating partnerships with your suppliers, your logistics providers, your warehousing company and others that are an essential part of your business success.

ASSIGNMENT

Before proceeding to the final unit in the course you should think of your current and future business. What you need to do is:

1. Create a detailed supply chain map that shows the creation of the product or service and how it eventually reaches your customer.
2. Identify the organizations and companies that must handle your product or support the delivery of your service.
3. Determine the strengths and weaknesses of each organization in your supply chain.
4. Determine how you could overcome any potential risks in your supply chain.

Once you have produced your supply chain map and paper submit it to your instructor for review and feedback.
UNIT INTRODUCTION

This unit focuses on the final P in marketing which is promotion. This section deals with the various strategies an entrepreneur or business can utilize to encourage consumers to purchase their product. These strategies includes advertising, sales promotion, direct marketing, public relations.

UNIT OBJECTIVES

Upon completion of this unit you will be able to:

1. Employ marketing communications;
2. Explain the steps in developing effective marketing communication;
3. Describe different promotion tools; and
4. Analyze the nature of each promotion tools.

UNIT READINGS

As you complete this unit it recommended you read the following online articles:


ASSIGNMENTS AND ACTIVITIES

The recommended assignment for this unit is to create a communications plan. Instructions are provided at the end of the unit. In addition there are a number of reflective activities throughout each topic discussion. The results of your deliberations re: the reflective activities should be recorded in your personal journal. Marking and credit value for each will be established by your instructor at the beginning of the course.
TOPIC 7.1 - THE MARKETING COMMUNICATIONS

INTRODUCTION
You may have the best product or provide the most effective service, but if potential consumers do not know about your products and services they will not buy it. How you communicate with your clients and how you raise their awareness about your products and services is a critical step that many entrepreneurs struggle with. This topic will examine various communications channels that you should consider when developing and growing your business.

OBJECTIVES
Upon completion of this topic you will be able to:

1. Identify different marketing channels that could be used to reach your customers.
2. Employ different communications channels.
3. Create a marketing communications plan.

OVERVIEW OF MARKETING COMMUNICATIONS
Modern marketing calls for more than just developing a good product, pricing it attractively, and making it available to target customers. Companies must also communicate with current and prospective customers, and what they communicate should not be left to chance. For most companies, the question is not whether to communicate, but how much to spend and in what ways. All of their communications efforts must be blended into a consistent and coordinated communications program. As shown in the fig, completion of marketing process requires something of value with both producer and customer that should be communicated with each other for performing the exchange process.

THE MARKETING COMMUNICATIONS MIX
A company's total marketing communications mix—also called its promotion mix consists of the specific blend of advertising, personal selling, sales promotion, public relations, and direct marketing tools that the company uses to pursue its advertising and marketing objectives.

The six major promotion tools used in marketing communications include:

1. Advertising: Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.
2. Personal selling: Personal presentation by the firm's sales force for the purpose of making sales and building customer relationships.
3. Sales promotion: Short-term incentives to encourage the purchase or sale of a product or service. They includes point-of-purchase displays, premiums, discounts, coupons etc.
4. Public relations: Building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events.
5. **Direct marketing**: Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships—the use of telephone, mail fax, e-mail, the Internet, and other tools to communicate directly with specific consumers.

6. **Personal selling** includes sales presentations, trade shows, and incentive programs.

Each category involves specific tools. For example, advertising includes print, broadcast, outdoor, and other forms.

**DEVELOPING EFFECTIVE MARKETING COMMUNICATIONS**

There are several steps in developing an effective integrated communications and promotion program.

**Step 1 - Identify the Target Audience**

A marketing communicator starts with a clear target audience in mind. The audience may be potential buyers or current users, those who make the buying decision or those who influence it. The audience may be individuals, groups, special publics, or the general public. The target audience will heavily affect the communicator’s decisions on what will be said, how it will be said, when it will be said, where it will be said, and who will say it.

**Step 2 - Determine the Communication Objectives**

Once the target audience has been defined, the marketing communicator must decide what response is sought. The marketing communicator needs to know where the target audience now stands and to what stage it needs to be moved. The target audience may be in any of six buyer-readiness stages, the stages consumers normally pass through on their way to making a purchase. (The communicator must first build *awareness* and *knowledge*.

Assuming target consumers know about the product, how do they feel about it? These stages include *liking* (feeling favorable about the product), *preference*, (preferring it to other brands), and *conviction* (believing that the product is best for them).

Some members of the target market might be convinced about the product, but not quite get around to making the *purchase*. The communicator must lead these consumers to take the final step. Actions might include offering special promotional prices, rebates, or premiums.

**Step 3 - Design a Message**

Having defined the desired audience response, the communicator turns to developing an effective message. The message should get *Attention*, hold *Interest*, arouse *Desire*, and obtain *Action* (a framework known as the *AIDA* model).
Introduction to Marketing

AIDA Model

In putting the message together, the marketing communicator must decide what to say (message content) and how to say it (message structure and format).

Step 4 - Message Content

The communicator has to figure out an appeal or theme that will produce the desired response. There are three types of appeals.

1. **Rational appeals** relate to the audience’s self-interest. They show that the product will produce the desired benefits.
2. **Emotional appeals** attempt to stir up either negative or positive emotions that can motivate purchase. Communicators may use *positive emotional appeals* such as love, pride, joy, and humor. Communicators can also use *negative emotional appeals*, such as fear, guilt, and shame that get people to do things they should or to stop doing things they shouldn’t.
3. **Moral appeals** are directed to the audience’s sense of what is “right” and “proper.” They are often used to urge people to support social causes such as a cleaner environment, better race relations, equal rights for women, and aid to the disadvantaged.

Step 5 - Message Structure

The communicator must also decide how to handle three message structure issues.

1. The first is whether to draw a conclusion or leave it to the audience. Recent research suggests that in many cases, rather than drawing a conclusion, the advertiser is better off asking questions and letting buyers come to their own conclusions.
2. The second message structure issue is whether to present the strongest arguments first or last. Presenting them first gets strong attention but may lead to an anticlimactic ending.
3. The third message structure issue is whether to present a one-sided argument (mentioning only the product’s strengths) or a two-sided argument (touting the product’s strengths while also admitting its shortcomings).

Step 6 - Message Format

The marketing communicator also needs a strong format for the message. In a print ad, the communicator has to decide on the headline, copy, illustration, and color. To attract attention, advertisers use novelty and contrast; eye-catching pictures and headlines; distinctive formats; message size and position; and color, shape, and movement. If the message is to be carried on television or in person, then all these elements plus body
language have to be planned. Presenters plan their facial expressions, gestures, dress, posture, and hairstyles. If the message is carried on the product or its package, the communicator has to watch texture, scent, color, size, and shape.

**Step 7 - Choosing Media**

The communicator now must select *channels of communication*. There are two broad types of communication channels – *personal* and *non-personal*.

**PERSONAL COMMUNICATION CHANNELS**

In *personal communication channels*, two or more people communicate directly with each other. Some personal communication channels are controlled directly by the company. For example, company salespeople contact buyers in the target market. But other personal communications about the product may reach buyers through channels not directly controlled by the company. *Word-of-mouth influence* has considerable effect in many areas. Companies can take steps to put personal communication channels to work for them. They can create marketing programs that will generate favorable word-of-mouth communications about their brands. Companies can create *opinion leaders*—people whose opinions are sought by others—by supplying influencers with the product on attractive terms or by educating them so that they can inform others. *Buzz marketing* involves cultivating opinion leaders and getting them to spread information about a product or service to others in their communities.

**Non-Personal Communication Channels**

*Non-personal communication channels* are media that carry messages without personal contact or feedback.

- *Major media* include print media, broadcast media, display media, and online media.
- *Atmospheres* are designed environments that create or reinforce the buyer’s leanings toward buying a product
- *Events* are staged occurrences that communicate messages to target audiences.

Non-personal communication affects buyers directly. Communications first flow from television, magazines, and other mass media to opinion leaders and then from these opinion leaders to others. Thus, opinion leaders step between the mass media and their audiences and carry messages to people who are less exposed to media. This suggests that mass communicators should aim their messages directly at opinion leaders, letting them carry the message to others.

**Step 8 - Selecting a Message Source**

The message’s impact on the target audience is also affected by how the audience views the communicator. Messages delivered by highly credible sources are more persuasive. Marketers often hire celebrity endorsers to deliver their message. But companies must be careful when selecting celebrities to represent their brands.
**Step 9 - Collecting Feedback**

After sending the message, the communicator must research its effect on the target audience. This involves asking the target audience members whether they remember the message, how many times they saw it, what points they recall, how they felt about the message, and their past and present attitudes toward the product and company.

The communicator would also like to measure behavior resulting from the message—how many people bought a product, talked to others about it, or visited the store. Feedback on marketing communications may suggest changes in the promotion program or in the product offer itself.

**TOPIC SUMMARY**

Think about the communications channels available to your company. Determine what should be in your communications plan. Craft your message so that has meaning to your target audience. Take time to build and implement a communications plan as part of your business process. In the next topic we will explore some of the communications tools that you could use to implement your communications plan.
**TOPIC 7.2 – ADVERTISING AND SALES PROMOTIONS**

**INTRODUCTION**
Advertising is one component of the communications planning process. There are a number of advertising methods that you could employ to promote your products. This topic will explore how to select and implement a company advertising and sales promotions methods you should consider.

**OBJECTIVES**
Upon completion of this topic you should be able to:

1. Develop an advertising programme.
2. Employ different sales promotions methods.
3. Examine the use of different promotion tools.
4. Establish a public relations approach.

**PROMOTION TOOL CHARACTERISTICS**
Each promotion tool has unique characteristics and costs. Marketers/students must understand these characteristics in selecting their tools.

**ADVERTISING**
Advertising can reach masses of geographically dispersed buyers at a low cost per exposure, and it enables the seller to repeat a message many times. For example, television advertising can reach huge audiences. Beyond its reach, large-scale advertising says something positive about the seller's size, popularity, and success. Because of advertising's public nature, consumers tend to view advertised products as more legitimate. Advertising is also very expressive—it allows the company to dramatize its products through the artful use of visuals, print, sound, and color. Advertising also has some shortcomings. Although it reaches many people quickly, advertising is impersonal and cannot be as directly persuasive as company salespeople. For the most part, advertising can carry on only a one-way communication with the audience, and the audience does not feel that it has to pay attention or respond. In addition, advertising can be very costly. Although some advertising forms, such as newspaper and radio advertising, can be done on smaller budgets, other forms, such as network TV advertising, require very large budgets.

**DEVELOPING AN ADVERTISING PROGRAM**
Marketing management must take five important decisions when developing an advertising program:

1. Setting advertising objectives.
2. Setting advertising budgets.
3. Developing advertising strategy.
   a. Message decisions.
   b. Media decisions.
4. Evaluating advertising campaigns.
**STEP 1 - SETTING ADVERTISING OBJECTIVES**

Setting advertising objectives is the first step in developing an advertising program. These objectives should be based on past decisions about the target market, positioning, and marketing mix, which define the job that advertising must do in the total marketing program. An advertising objective is a specific communication task to be accomplished with a specific target audience during a specific period of time.

Advertising objectives can be classified by primary purpose as:

- **Informative advertising**, which is used to inform consumers about a new product or feature or to build primary demand.
- **Persuasive advertising** which is used to build selective demand for a brand by persuading consumers that it offers the best quality for their money.
- **Comparison advertising** which is advertising that compares one brand directly or indirectly to one or more other brands.
- **Reminder advertising**, which is used to keep consumers thinking about a product. This form of advertising is more important for mature products.

**STEP 2 - SETTING THE ADVERTISING BUDGET**

After determining its advertising objectives, the marketer must set the advertising budget for each product and market. No matter what method is used, setting the advertising budget is no easy task. How does a company know if it is spending the right amount? Some critics charge that large consumer packaged goods firms tend to spend too much on advertising and business-to-business marketers generally under spend on advertising. They claim that, on the one hand, the large consumer companies use lots of image advertising without really knowing its effects. They overspend as a form of "insurance" against not spending enough. On the other hand, business advertisers tend to rely too heavily on their sales forces to bring in orders. They underestimate the power of company and product image in pre-selling to industrial customers. Thus, they do not spend enough on advertising to build customer awareness and knowledge.

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<thead>
<tr>
<th>Affordable Method</th>
<th>Percentage-of-Sales Method</th>
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<tr>
<td><strong>Competitive-Parity Method</strong></td>
<td><strong>Objective-and-Task Method</strong></td>
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Specific factors that should be considered when setting the advertising budget are:

1. Stage in the product life cycle. New products typically need large advertising budgets.
2. Market share. High-market share brands usually need more advertising.
3. Competition and clutter. More advertising is usually required in a market with many more competitors and their advertising clutter.
4. Product differentiation. When a brand closely resembles other brands in its product class, more advertising (and therefore budget) is needed.

The primary questions to be answered during the budget process are how much to spend and what impact is expected or acceptable. This process is difficult because measurement techniques of effectiveness rarely give precise answers.

**STEP 3 - DEVELOPING ADVERTISING STRATEGY**

Advertising strategy consists of two major elements: creating the advertising message; and selecting the advertising media. Let’s explore both.

**Element One - Creating the Advertising Message**

No matter how big the budget, advertising can succeed only if commercials gain attention and communicate well. Good advertising messages are especially important in today’s costly and cluttered advertising environment. If all this advertising clutter bothers some consumers, it also causes big problems for advertisers. Until recently, television viewers were pretty much a captive audience for advertisers. Viewers had only a few channels from which to choose. But with the growth in cable and satellite TV, VCRs, and remote-control units, today’s viewers have many more options. They can avoid ads by watching commercial-free cable channels. They can "zap" commercials by pushing the fast-forward button during taped programs. With remote control, they can instantly turn off the sound during a commercial or "zip" around the channels to see what else is on. In fact, a recent study found that half of all television viewers now switch channels when the commercial break starts.

Thus, just to gain and hold attention, today’s advertising messages must be better planned, more imaginative, more entertaining, and more rewarding to consumers. Some advertisers even create intentionally controversial ads to break through the clutter and gain attention for their products.

**Message Strategy**

The first step in creating effective advertising messages is to decide what general message will be communicated to consumers—to plan a message strategy. The purpose of advertising is to get consumers to think about or react to the product or company in a certain way. People will react only if they believe that they will benefit from doing so. Thus, developing an effective message strategy begins with identifying customer benefits that can be used as advertising appeals. Ideally, advertising message strategy will follow directly from the company's broader positioning strategy. Message strategy statements tend to be plain, straightforward outlines of benefits and positioning points that the advertiser wants to stress. The advertiser must next develop a compelling creative concept—or "big idea"—that will bring the message strategy to life in a distinctive and memorable way. At this stage, simple message ideas become great ad campaigns. Usually, a copywriter and art director will team up to generate many creative concepts, hoping that one of these concepts will turn out to be the big
idea. The creative concept may emerge as visualization, a phrase, or a combination of the two.

The creative concept will guide the choice of specific appeals to be used in an advertising campaign. Advertising appeals should have three characteristics: First, they should be meaningful, pointing out benefits that make the product more desirable or interesting to consumers. Second, appeals must be believable—consumers must believe that the product or service will deliver the promised benefits. However, the most meaningful and believable benefits may not be the best ones to feature. Appeals should also be distinctive—they should tell how the product is better than the competing brands.

Message Execution

The advertiser now has to turn the big idea into an actual ad execution that will capture the target market’s attention and interest. The creative people must find the best style, tone, words, and format for executing the message. Any message can be presented in different execution styles, such as the following:

- Slice of life: This style shows one or more "typical" people using the product in a normal setting.
- Lifestyle: This style shows how a product fits in with a particular lifestyle.
- Fantasy: This style creates a fantasy around the product or its use.
- Mood or image: This style builds a mood or image around the product, such as beauty, love, or serenity. No claim is made about the product except through suggestion.
- Musical: This style shows one or more people or cartoon characters singing about the product.
- Technical expertise: This style shows the company’s expertise in making the product.
- Scientific evidence: This style presents survey or scientific evidence that the brand is better or better liked than one or more other brands.
- Testimonial evidence or endorsement: This style features a highly believable or likable source endorsing the product.

Element Two - Selecting advertising media

In the past, companies often viewed media planning as secondary to the message-creation process. The creative department first created good advertisements, and then the media department selected the best media for carrying these advertisements to desired target audiences. This often caused friction between creative and media planners.

Today, however, media fragmentation, soaring media costs, and more focused target marketing strategies have promoted the importance of the media-planning function. In some cases, an advertising campaign might start with a great message idea, followed by the choice of appropriate media. In other cases, however, a campaign might begin with
a good media opportunity, followed by advertisements designed to take advantage of that opportunity. Increasingly, companies are realizing the benefits of planning these two important elements jointly.

Thus, more and more advertisers are orchestrating a closer harmony between their messages and the media that deliver them. Media planning is no longer an after-the-fact complement to a new ad Campaign. Media planners are now working more closely than ever with creative to allow media selection to help shape the creative process, often before a single ad is written. In some cases, media people are even initiating ideas for new campaigns.

Selecting advertising media - The major steps in media selection are:

1. Deciding on reach, frequency, and impact.
2. Choosing among major media types.
4. Deciding on media timing.

**Deciding on Reach, Frequency, and Impact**

To select media, the advertiser must decide what reach and frequency are needed to achieve advertising objectives. *Reach* is a measure of the percentage of people in the target market who are exposed to the ad campaign during a given period of time. For example, the advertiser might try to reach 70 percent of the target market during the first three months of the campaign. *Frequency* is a measure of how many times the average person in the target market is exposed to the message. For example, the advertiser might want an average exposure frequency of three. The advertiser also must decide on the desired *media impact*—the qualitative value of a message exposure through a given medium. For example, for products that need to be demonstrated, messages on television may have more impact than messages on radio because television uses sight *and* sound. The same message in one magazine may be more believable than in another. In general, the more reach, frequency, and impact the advertiser seeks, the higher the advertising budget will have to be.

**Choosing Among Major Media Types**

The media planner has to know the reach, frequency, and impact of each of the major media types. The major media types are newspapers, television, direct mail, radio, magazines, outdoor, and the Internet. Each medium has advantages and limitations.

Media planners consider many factors when making their media choices. The *media habits of target consumers* will affect media choice—advertisers look for media that reach target consumers effectively. So will the *nature of the product*—for example, fashions are best advertised in color magazines, and automobile performance is best demonstrated on television. Different *types of messages* may require different media. A message announcing a major sale tomorrow will require radio or newspapers; a message with a lot of technical data might require magazines, direct mailings, or an online ad and Web site. *Cost* is another major factor in media choice. For example,
network television is very expensive, whereas newspaper or radio advertising costs much less but also reaches fewer consumers. The media planner looks both at the total cost of using a medium and at the cost per thousand exposures—the cost of reaching 1,000 people using the medium.

Media impact and cost must be reexamined regularly. For a long time, television and magazines have dominated in the media mixes of national advertisers, with other media often neglected. Recently, however, the costs and clutter of these media have gone up, audiences have declined, and marketers are adopting strategies beamed at narrower segments. As a result, advertisers are increasingly turning to alternative media—ranging from cable TV and outdoor advertising to parking meters and shopping carts—that cost less and target more effectively.

Selecting Specific Media Vehicles

The media planner now must choose the best media vehicles—specific media within each general media type. Media planners must compute the cost per thousand persons reached by a vehicle. The media planner ranks each magazine by cost per thousand and favors those magazines with the lower cost per thousand for reaching target consumers.

The media planner must also consider the costs of producing ads for different media. Whereas newspaper ads may cost very little to produce, flashy television ads may cost millions. In selecting media vehicles, the media planner must balance media cost measures against several media impact factors. First, the planner should balance costs against the media vehicle's audience quality.

Deciding on Media Timing

The advertiser must also decide how to schedule the advertising over the course of a year. Suppose sales of a product peak in December and drop in March. The firm can vary its advertising to follow the seasonal pattern, to oppose the seasonal pattern, or to be the same all year. Most firms do some seasonal advertising. Some do only seasonal advertising. Finally, the advertiser has to choose the pattern of the ads. Continuity means scheduling ads evenly within a given period. Pulsing means scheduling ads unevenly over a given time period. The idea is to advertise heavily for a short period to build awareness that carries over to the next advertising period. Those who favor pulsing feel that it can be used to achieve the same impact as a steady schedule but at a much lower cost. However, some media planners believe that although pulsing achieves minimal awareness, it sacrifices depth of advertising communications. Recent advances in technology have had a substantial impact on the media planning and buying functions.

STEP 5 - EVALUATING ADVERTISING

The fifth step in the advertising campaign is evaluation of the campaign. The advertising program should evaluate both the communication effects and the sales effects of advertising regularly. Measuring the communication effects of an ad—copy testing—tells
whether the ad is communicating well. Copy testing can be done before or after an ad is printed or broadcast. Before the ad is placed, the advertiser can show it to consumers, ask how they like it, and measure recall or attitude changes resulting from it. After the ad is run, the advertiser can measure how the ad affected consumer recall or product awareness, knowledge, and preference. But what sales are caused by an ad that increases brand awareness by 20 percent and brand preference by 10 percent? The sales effects of advertising are often harder to measure than the communication effects. Sales are affected by many factors besides advertising—such as product features, price, and availability.

PERSONAL SELLING

Personal selling is the most effective tool at certain stages of the buying process, particularly in building up buyers’ preferences, convictions, and actions. It involves personal interaction between two or more people, so each person can observe the other’s needs and characteristics and make quick adjustments. Personal selling also allows all kinds of relationships to spring up, ranging from a matter-of-fact selling relationship to personal friendship. The effective salesperson keeps the customer’s interests at heart in order to build a long-term relationship. Finally, with personal selling the buyer usually feels a greater need to listen and respond, even if the response is a polite “no thank you.” These unique qualities come at a cost, however. A sales force requires a longer-term commitment than does advertising—advertising can be turned on and off, but sales force size is harder to change.

SALES PROMOTION

Sales promotion includes a wide assortment of tools—coupons, contests, cents-off deals, premiums, and others—all of which have many unique qualities. They attract consumer attention, offer strong incentives to purchase, and can be used to dramatize product offers and to boost sagging sales. Sales promotions invite and reward quick response—whereas advertising says, “Buy our product,” sales promotion says, “Buy it now.” Sales promotion effects are often short lived, however, and often are not as effective as advertising or personal selling in building long-run brand preference.

SALES PROMOTION TOOLS

Many tools can be used to accomplish sales promotion objectives. Descriptions of the main consumer, trade, and business promotion tools follow.

Consumer Promotion Tools

The main consumer promotion tools include samples, coupons, cash refunds, price packs, premiums, advertising specialties, patronage rewards, point-of-purchase displays and demonstrations, and contests, sweepstakes, and games.

- **Samples** are offers of a trial amount of a product. Sampling is the most effective—but most expensive—way to introduce a new product. Some samples are free; for others, the company charges a small amount to offset its cost. The sample might be delivered door-to-door, sent by mail, handed out in a store, attached to another
product, or featured in an ad. Sometimes, samples are combined into sample packs, which can then be used to promote other products and services.

- **Coupons** are certificates that give buyers a saving when they purchase specified products. Most consumers love coupons: Coupons can stimulate sales of a mature brand or promote early trial of a new brand. However, as a result of coupon clutter, redemption rates have been declining in recent years. Thus, most major consumer goods companies are issuing fewer coupons and targeting them more carefully.

- **Cash refund offers (or rebates)** are like coupons except that the price reduction occurs after the purchase rather than at the retail outlet. The consumer sends a "proof of purchase" to the manufacturer, who then refunds part of the purchase price by mail.

- **Price packs (also called cents-off deals)** offer consumers savings off the regular price of a product. The reduced prices are marked by the producer directly on the label or package. Price packs can be single packages sold at a reduced price (such as two for the price of one), or two related products banded together (such as a toothbrush and toothpaste). Price packs are very effective—even more so than coupons—in stimulating short-term sales.

- **Premiums** are goods offered either free or at low cost as an incentive to buy a product, ranging from toys included with kids' products to phone cards, compact disks, and package (on-pack), or through the mail.

- **Advertising specialties** are useful articles imprinted with an advertiser's name given as gifts to consumers. Typical items include pens, calendars, key rings, matches, shopping bags, T-shirts, caps, nail files, and coffee mugs. Such items can be very effective. In a recent study, 63 percent of all consumers surveyed were either carrying or wearing an ad specialty item. More than three-quarters of those who had an item could recall the advertiser's name or message before showing the item to the interviewer.

- **Patronage rewards** are cash or other awards offered for the regular use of a certain company's products or services. For example, airlines offer frequent flier plans, awarding points for miles traveled that can be turned in for free airline trips.

- **Point-of-purchase (POP) promotions** include displays and demonstrations that take place at the point of purchase or sale. Unfortunately, many retailers do not like to handle the hundreds of displays, signs, and posters they receive from manufacturers each year. Manufacturers have responded by offering better POP materials, tying them in with television or print messages, and offering to set them up.

- **Contests, sweepstakes, and games** give consumers the chance to win something, such as cash, trips, or goods, by luck or through extra effort. A contest calls for consumers to submit an entry—a jingle, guess, suggestion—to be judged by a panel that will select the best entries. A sweepstakes calls for consumers to submit their names for a drawing. A game presents consumers with something—bingo numbers, missing letters—every time they buy, which may or may not help them win a prize. A sales contest urges dealers or the sales force to increase their efforts, with prizes going to the top performers.
TRADE PROMOTION TOOLS
Trade promotion can persuade resellers to carry a brand, give it shelf space, promote it in advertising, and push it to consumers. Shelf space is so scarce these days that manufacturers often have to offer price-offs, allowances, buy-back guarantees, or free goods to retailers and wholesalers to get products on the shelf and, once there, to stay on it.

Manufacturers use several trade promotion tools. Many of the tools used for consumer promotions—contests, premiums, displays—can also be used as trade promotions. Or the manufacturer may offer a straight discount off the list price on each case purchased during a stated period of time (also called a price-off, off-invoice, or off-list). The offer encourages dealers to buy in quantity or to carry a new item. Dealers can use the discount for immediate profit, for advertising, or for price reductions to their customers.

Manufacturers also may offer an allowance (usually so much off per case) in return for the retailer’s agreement to feature the manufacturer’s products in some way. An advertising allowance compensates retailers for advertising the product. A display allowance compensates them for using special displays.

Manufacturers may offer free goods, which are extra cases of merchandise, to resellers who buy a certain quantity or who feature a certain flavor or size. They may offer push money—cash or gifts to dealers or their sales forces to "push" the manufacturer's goods. Manufacturers may give retailers free specialty advertising items that carry the company’s name, such as pens, pencils, calendars, paperweights, matchbooks, memo pads, and yardsticks.

BUSINESS PROMOTION TOOLS
Companies spend billions of dollars each year on promotion to industrial customers. These business promotions are used to generate business leads, stimulate purchases, reward customers, and motivate salespeople.

Sales Promotion Program
PUBLIC RELATIONS

Public relations are very believable—news stories, features, and events seem more real and believable to readers than ads do. Public relations can also reach many prospects who avoid salespeople and advertisements—the message gets to the buyers as "news" rather than as a sales directed communication. As with advertising, public relations can dramatize a company or product. Marketers tend to under use public relations or to use it as an afterthought. Yet a well-thought-out public relations campaign used with other promotion mix elements can be very effective and economical.

Public relations involves building good relations with the company’s various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events. Major functions are:

1. Press relations or press gentry.
2. Product publicity.
3. Public affairs.
4. Lobbying.
5. Investor relations.
6. Development.

Public relations are used to promote products, places, ideas, activities, organizations, even nations

The Role and Impact of Public Relations and Public Relations Tools/Methods
TOPIC SUMMARY
Advertising is a way of reaching potential consumers. Your company must select the appropriate media to reach the target audience. You must select the appropriate form of advertising.
TOPIC 7.4 - DIRECT MARKETING

INTRODUCTION
Direct marketing is a very specific form of marketing communications and advertising. As you complete this topic we will explore the different types of direct marketing.

OBJECTIVES
Upon completion of this topic you will be able to explain the different forms of direct marketing.

DIRECT MARKETING
Although there are many forms of direct marketing—telemarketing, direct mail, electronic marketing, online marketing, and others—they all share four distinctive characteristics. Direct marketing is nonpublic: The message is normally addressed to a specific person. Direct marketing also is immediate and customized: Messages can be prepared very quickly, and they can be tailored to appeal to specific consumers. Finally, direct marketing is interactive: It allows a dialogue between the marketing and the consumer, and messages can be altered depending on the consumer’s response. Thus, direct marketing is well suited to highly targeted marketing efforts and to building one-to-one customer relationships.

FORMS OF DIRECT MARKETING
Major forms of direct marketing are summarized below:

Face-to-Face Selling - The original and oldest form of direct marketing is the sales. Today, many companies’ still use salespersons or representatives to reach their prospects, develop them into customers, build lasting relationships, and grow the business.

Telemarketing - In telemarketing the telephone is used to sell directly to consumers. Two general types of telemarketing include:

1. Outbound telephone marketing.
2. Inbound toll-free 800 numbers to receive orders from television and radio ads, direct mail, or catalogs. 900 numbers are used to sell consumers’ information, entertainment, or the opportunity to voice an opinion on a pay-per-call basis. Many customers appreciate the offers they receive by telephone, however, because of the recent explosion in unsolicited telephone marketing, lawmakers are responding with efforts to control unsolicited telemarketing during certain hours of the day. Most telemarketers support some form of legislation.

Direct-Mail Marketing - involves sending an offer, announcement, reminder, or other item to a person at a particular address. Direct mail is well suited to direct, one-to-one communication.
Advantages include:

2. Personalized.
3. Flexible.
4. Allows easy measurement of results.

Even though the cost per thousand can be high, the people who reached through direct marketing are better prospects than those who reached with other media. New forms of direct mail include:

1. Fax mail.
2. E-mail.
3. Voice mail.

**Catalog Marketing** - Catalog marketing involves selling through catalogs mailed to a selected list of customers or made available in stores. A **catalog** is a printed, bound piece of at least eight pages, selling multiple products, and offering a direct ordering mechanism. Some stores offer a complete line of goods through their catalogs. Most direct retailers have put their catalogs on the World Wide Web. Web catalogs are passive and must be marketed themselves.

**Direct-Response Television Marketing** - takes one of two major forms.

1. **Direct-response advertising** occurs when marketers air television spots or infomercials.
2. **Home shopping channels** are entire programs or channels dedicated to selling goods and services. In the near future, two-way interactive television and linkages with Internet technology will make television shopping much different from what it is today and it will become one of the major forms of direct marketing.

**Kiosk Marketing** - Some companies place information and ordering machines (called kiosks) in stores, airports, and other locations (in contrast to machines which dispense products—vending machines). Business marketers can also use kiosks (such as at trade shows). Kiosks are also going online as companies merge real-world and virtual worlds of commerce. The Gap interactive kiosk is a great example of this technology.

**Online Marketing and Electronic Commerce** - is conducted through interactive online computer systems, which link consumers with sellers electronically. There are two types of online channels:

1. Commercial online services offer information and marketing services to subscribers who pay a monthly fee.
2. The commercial online services are now being overtaken by the Internet as the primary online marketing channel. The Internet is a vast and burgeoning global web of computer networks. The World Wide Web is a popular meeting place for consumer and business commerce.
THE SHIFTING MARKETING COMMUNICATIONS MODEL

Although television, magazines, and other mass media remain very important, their dominance is declining. Advertisers are now adding a broad selection of more-specialized and highly targeted media to reach smaller customer segments. The new media range from specialty magazines, cable television channels, and video on demand (VOD) to Internet catalogs, e-mail, podcasts, cell phones, and online social networks. Companies are doing less broadcasting and more narrowcasting. Many large advertisers are shifting their advertising budgets away from network television in favor of more targeted, cost-effective, interactive, and engaging media. It seems likely that the new marketing communications model will consist of a shifting mix of both traditional mass media and a wide array of exciting new, more-target, more-personalized media.

Activity - Consider the following questions and enter your answer in your personal journal.

1. What is the difference between the marketing mix and the promotional mix? Define the five types of promotion in the promotional mix.
2. What is different about today's promotional environment? What are the implications of this?
3. Define the various methods of setting a promotion budget. Which is the most effective?

TOPIC SUMMARY

Direct marketing is an effective way of reaching potential consumers. It is most often used to sell physical products. Some of the best examples of direct marketing includes Amway Corporation (direct sales), Shoppers Channel (telemarketing and catalogues) and direct sales web sites. Direct marketing often reduces the supply chain required to reach the client.
**FINAL ASSIGNMENT/MAJOR PROJECT**

NOTE: The instructor may choose to employ a different type of major project. If this happens he or she will provide appropriate instructions.

**PROPOSED MAJOR PROJECT**

Upon completion of the course content, readings and unit level assignments you should complete the following course project. The course project requires that you produce a detailed marketing plan for your proposed or existing company and its products and services.

Task: Consider your future or existing company and the products and services you plan to provide to potential consumers. Produce a detailed marketing plan that illustrates the following:

1. The type of company you propose to create (e.g. wholesaler, retailer, etc.)
2. The company’s products and services.
3. Description of the potential consumers and their buying behaviours.
4. Analysis of the proposed marketing environment.
5. Price analysis of your products and services.
7. Your marketing logistics plan including:
   a. Supply Chain including participants.
   b. Storage and Distribution plan.
   c. Customer service and support.
8. Types of Promotions and Tools to be used to support the marketing effort.
9. The Communications/Advertising Plan for the company.
10. Resources and media required to implement marketing plan.
11. Budget for implementing the marketing plan.
COURSE SUMMARY

It is hoped that by the time you have finished this course that you will understand the complexity of marketing in both the wholesale and retail environment. The ultimate aim is for you to create a realistic marketing plan that will support the growth of your company and the pursuit of new markets.

COURSE EVALUATION

Your instructor will provide guidance on the form and format of the course evaluation process.