BUSINESS STUDIES

Marketing

1. ROLE OF MARKETING

Strategic Role of Marketing Goods and Services

- Marketing refers to the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives.

- The strategic role of marketing is:

    - Profit and sales maximisation
    - Monitoring consumer needs and desires

Interdependence With Other Key Business Functions

- Marketing will affect the volume of products made, and may require for **operations** to modify existing production processes or supplies.

- **Finance** allows for funds to be allocated for marketing activities and sets budgets

- Marketing determines the volume and quality demanded, which affects the skills and number of employees. **HR** may also act as a 'face' of the business.

Production, Selling, Marketing Approaches

- **Production-** Up until 1920's. Emphasis on producing goods. 'Whatever we make will be bought'.

- **Selling-** Up until 1960's. Emphasis on the hard sell, advertising and personal selling.

- **Marketing Orientation-** Identify customer needs and wants, market research and feedback.

- The **marketing concept** is a philosophy that states all sections of the business are involved in satisfying a customer's needs and wants while achieving the business's goals.

    e.g. Omo consults mothers to find out about their specific needs and preferences, to develop a product which caters to these needs.

Types Of Markets

- **Resource** markets consist of those who are involved in primary production, e.g. fishing, forestry, mining and agriculture.

- **Industrial** markets includes industries and businesses that purchase products to use in the production of other products or in their daily operations. *E.g. CCA must purchase products which go into making the drink.*

- **Intermediate** markets consist of wholesalers and retailers who purchase finished products and sell them again in order to make a profit.

- **Consumer** markets involve direct selling to consumers, e.g. housing, clothing, food and entertainment.

- **Mass** markets are a more traditional approach, focussed around the production approach. Today, only basic items such as food, electricity and water are part of a mass market.

- **Niche** markets, also known as concentrated or micro markets, focus on a small target market, such as male, female, young, old, high income or low incomes. E.g. magazines.

2. INFLUENCES

Factors Influencing Customer Choice

- **Psychological** factors include:

    - **Perception**- the process through which people select, organise and interpret information to create meaning.

    - **Attitudes**- An attitude is a person's overall feeling about an object or activity. It generally influences the success or failure of a business's marketing strategy.

    - **Lifestyle-** Different lifestyles attract different types of products and services.

    - **Personality and self-concept-** The way we view ourselves and the way we respond to other people's perception of us.

- **Sociocultural** factors include social class, culture and sub-culture, family roles and peer groups.

    - **Family and Roles**- Men are more likely to be seen purchasing tools and cars whereas women purchase health care and laundry products. However, roles are changing and marketers are beginning to understand that as well.

    - **Peer Groups**- A reference or peer group is a group of people with whom a person closely identifies, adopting their attitudes, values and beliefs. E.g. if a friend tells you that they had a bad experience at a certain store, you will most probably alter your buying behaviour.

- **Economic** factors have an enormous impact on the buying behaviour of businesses and customers. The level of economic activity fluctuates and its four distinct phases influences the marketing environment.

    - **Boom**- is a period of low unemployment and high economic growth which leads to higher incomes. This is the phase where businesses and consumers are optimistic about economic future. Customers are willing to spend and businesses attempt to increase their market share by promoting heavily.

    - **Recession**- sees unemployment reach high levels and incomes fall dramatically. There is a lack of confidence in the economy and a very small level of spending. Marketing during this time should concentrate on maintaining existing market share.

- **Government** policies directly or indirectly influence business activity and customers' spending habits.

  - Laws such as the *Competition and Consumer Act 2010* (Cwlth), *Sale of Goods Act 1923* (NSW) and the *Fair Trading Act 1987* (NSW) influence marketing decisions.

    - Interest rates are significant in determining the level of expenditure in the economy and the level of credit that consumers and business will access.

    - Fiscal and monetary policies, microeconomic reform and age restrictions are also placed on the purchase of specific products.

- **Consumer Laws**

  - The Commonwealth Government controls business behaviour through the ***Competition and Consumer Act 2010* (Cth)**. This legislation attempts to promote fair and competitive behaviour in the marketplace.

  - **Deceptive and Misleading Advertising** involves making unfair, false or potentially misleading claims about a product. This is illegal under the Trade Practices Act (1974). Examples of deceptive and misleading advertising include:

    - Overstating the benefits that products provide
    - Offering discounts and special offers that don't exist
    - Using bait and switch advertising- promotes a product that is heavily discounted even though the business has very limited supplies

  - **Price Discrimination** is another form of illegal marketing, where either different prices are set for different markets, or a business may give preference to some retail stores by providing them with stock at lower prices than is offered to the competitors of those retailers.

- **Implied Conditions** or terms are unspoken and unwritten terms in a contract. The two most important terms are:

    - **Merchantable quality**- means that the product is of a standard a reasonable person would expect for the price.

    - **Fitness of purpose**- means that the product is suitable for the purpose for which it is being sold.

Warranties

- A warranty is a promise by the business to repair or replace faulty products. All businesses have certain obligations with regard to the products they sell.

- Regardless of whether the product is carrying a warranty, a business must, by law, either refund a client's money or offer an exchange of the good should the good be recognized to have been faulty at the time of leaving the store. This is why all products are said to have an **implied warranty**.

Resale price maintenance

- Under the ***Competition and Consumer Act*,** a manufacturer cannot refuse to sell goods to a retailer who decides not to sell the good at the price that is suggested by the manufacturer.

- A manufacturer cannot discriminate against stores for selling at a price that is lower than it has recommended.

Ethical and legal aspects of marketing

- Ethics in marketing refers to a combination of broad principles that establish standards of behaviour and guidelines for people working across the marketing industry.

- They are not enforceable through law.

Truth, accuracy and good taste in advertising

- It is expected that when promotional material is distributed, this material represents information that is truthful, accurate and in good taste.

- The ***Competition and Consumer Act*** prohibits a corporation from supplying consumer goods that do not comply with prescribed product safety standards.

- **The Advertising Federation of Australia (AFA)** is the peak body representing companies in advertising and marketing communications. It seeks to promote the best practices in advertising.

- Using somewhat controversial advertisements to promote social issues, while at that the same time selling its brand name.

Products that may damage health

- Products and services that damage people's health are regarded as "sin" products, so the government puts restrictions. They include:

    - Restrictions on tobacco sponsorship entries into casinos
    - Restricted opening hours for leagues and RSL clubs for gambling
    - Packets contain health warnings for cigarettes

Engaging in fair competition

- The role of the Australian Competition and Consumer Commission is to regulate business behavior.

- Unfair competitive behavior includes:

    - Price-fixing between two or more major competitors
    - Long-term loss leader – pricing strategy by undercutting smaller competitors
    - Misleading advertising regarding products

Australian Competition and Consumer Commission

- The ACCC attempts to regulate the level of competition within a range of industries. It aims to promote fair and ethical behaviour by businesses towards their competitors and allows businesses to lodge complaints against competitors regarding behaviour that they deem to be unfair and against the Acts.

Sugging

- Selling under the appearance of a survey is a sales technique disguised as market research. This technique is not illegal, however, it does raise several ethical issues including invasion of privacy and deception.

3. PROCESSES

Situational Analysis

- The situational analysis provides the firm with an opportunity to examine its current position within the market. There are two key elements to a situational analysis.

SWOT

- The use of SWOT analysis provides the information needed to complete the situational analysis and gives a clear indication of the business's position compared with its competitors.

- The **Strengths and Weaknesses** of the business are <u>internal</u> forces as they operate inside the business and a largely controlled by it.

    - Does the business have a good reputation amongst its stakeholders?
    - Is the business financially stable?

- **Opportunities and Threats** are the <u>external</u> forces as they operate outside the business and cannot be controlled by the business.

    - What is the degree of competition?
    - Are competitors reacting to the business's products?

Product lifecycle

Introduction stage

- The business tries to increase consumer awareness and build a market share for the new product.

- *Product* brand and reliability are established.

- *Price* is often noticeably lower than competitors' prices in order to gain a market foothold.

- *Promotion* directed at early buyers and users occurs, and communications seek to educate potential customers about the merits of the new product.

- *Distribution* is selective, which enables consumers to gradually form an acceptance of the product.

Growth stage

- The producers of the product actively pursue brand acceptance and market share.

- *Product* quality is maintained and improved and support services may be added.

- *Price* per unit of production is maintained as the firm enjoys increased consumer demand and a growing market share.

- *Promotion* now seeks a wider audience.

- *Distribution* channels are increased as the product becomes more popular.

Maturity phase

- Sales plateau as the market becomes saturated:

  - *Product* features and packaging try to differentiate the product from those of competitors.
  - *Price* may need to be adjusted downwards to hold off competitors and maintain market share.
  - *Promotion* suggests the product is tried and true — "it's still the best."
  - *Distribution* incentives may need to be offered to encourage preference over rival products.

Decline stage

- Sales begin to decline as the business faces several options:

  - *Product* maintained with some improvements or rejuvenation. Cut the losses by selling it to another business.
  - *Price* is reduced to sell the remaining stock.
  - *Promotion* discontinued.
  - *Distribution* channels reduced and product offered to a loyal segment of the market only.

Market research

1. The business should know the type of information that it requires e.g. customer profiles, brand awareness. Once information needs are established, the business can determine the most appropriate research method.

2. **Data Collection** (primary and secondary)- Marketing data refers to the information, usually expressed as facts and figures, relevant to the defined marketing problem.

Step	Explanation
1. Determining information needs	The problem is clearly and accurately stated to determine what needs to be measured and the issues involved. This is a crucial step.
2. Collecting data from primary and secondary sources	At this stage, the researchers know the facts that are needed and those that are already available. Plans must be made to gather missing data. Information may be collected by mail, telephone and personal surveys, as well as by personal observation or from private data sources.
3. Analysing and interpreting data	Facts by themselves do not always provide a solution to the marketing problem. They need to be analysed and interpreted to determine what they mean.

- **Primary data** are the facts and figures collected from original sources for the purpose of the specific research problem. This data can be collected by the business itself but it is very expensive and time consuming, which is why it is usually outsourced. Three types are:

  - **Survey**- personal interviews, questionnaires and telemarketing,

  - **Observation**- personal and mechanical look at research and surveillance footage. E.g. asking question

  - **Experimental**- field tests to evaluate cause and effect. E.g. showing a film

- **Secondary data** is information that has already been collected by some other person or organisation. The two types of secondary data are:

  - **Internal** data- information that has been collected from internal sources such as statistics, feedback and reports.

  - **External** data- published data from other sources such as magazines, Internet and the ABS.

3. **Data analysis and interpretation**- Statistical interpretation analysis is the process of focusing on the data that represents average, typical or deviations from typical patterns. Businesses will analyse and interpret the collected data so management can gain a better understanding of the impact of the data on the operations of the business, and then determine the course of action

Establishing market objectives

- Businesses generally adopt a **SMART** approach to setting objectives:

  S = specific – the objective needs to be clear
  M = measurable – the business needs to find ways to measure success
  A = achievable – the business needs to have the financial and human resources
  R = realistic – the objective should be reasonable
  T = time – the time frame must be reasonable

- Marketing objectives should be closely aligned to the overall business objectives. Such objectives can be measured and should include specific targets to be met.

Central marketing objectives

- **Increasing market share**- Market share refers to the business's share of the total industry sales for a particular market. Increasing market share is of prime importance for each of the companies involved in any market that is dominated by only a few large businesses.

  E.g. CCA's carbonated beverages had 56% market share in 2010, growth to 63% market share in 2012.

- **Expanding the product range**- the product mix is the total range of the products offered by the business. Businesses are usually eager to increase their product mix as the same mix will not be effective in the long term due the changing tastes and preferences of consumers.

- **Expanding existing markets**- the demand for some products varies greatly from one geographic location to another. Geographical representation refers to the presence of a business and the range of its products across a suburb, state, city, town or country. E.g. BlueScope Steel is a transnational corporation that allows it to be near its' customers.

- **Maximizing customer service**- Customer service means responding to the needs and problems of the customer and is perhaps the most important objective. A high level of customer service usually results in improved customer satisfaction.

Identifying Target Markets

- One of the main objectives of conducting market research is to identify the business's target market for its products.

- Target markets allow for a business to direct its marketing strategies to a specific group of consumers. There are three approaches to identifying target markets:

  - **Mass marketing approach** assumes that individual customers I in the target market have similar needs.

  - **Market segmentation approach** involves subdividing the market into groups of people who share common characteristics.

  - **Niche market approach** is a narrowly selected target market segment. This can lead to decreased competition with larger businesses.

Developing Marketing Strategies

- Marketing involves a number of strategies designed to price, promote and place products in the market place. The marketing mix consists of 4 elements called the **4P's:**

- **Product**- The product is a combination of: quality, design, name, warranty, packaging and exclusive features. Customers buy products that satisfy their needs as well as provide them with intangible benefits.

- **Price**- The right price needs to be chosen to prevent the product from not selling at all if the price is too high or receiving lower turnover as well as a cheap image if the price is too low.

- **Promotion**- The promotion strategy is the method that is to be used by the business to inform, persuade and remind customers about its products.

- **Place**- Deals with the distribution of the good or service and consists of two parts, which are: transportation and the number of intermediaries involved.

Implementing, monitoring and controlling

- **Implementation**- is the process of putting the marketing strategies into operation. Implementation of the marketing plan involves integrating it with all the sections of the business, establishing lines of communication, motivating the employees and making them familiar with the marketing objectives and strategies.

- **Monitoring and controlling**- Monitoring means checking and observing the actual progress of the marketing plan. The information collected is used to control the plan. Controlling involves the comparison of planned performance against actual performance and taking corrective action to make sure the objectives are achieved. The controlling process requires the business to outline what is to be accomplished by establishing a performance standard which is a forecast level of performance against which actual performance can be compared. The common forms of analysis are:

- **Sales Analysis:** is the comparing of actual sales with forecast sales to determine the effectiveness of the marketing strategy. Benefit of the sales analysis is that it is inexpensive to produce however the figures may not be 100% accurate.

- **Market Share analysis/ratios:** refers to a business evaluating its' marketing strategies compared to its competitors through analysing the business market.

- **Marketing profitability analysis:** is a method in which the business breaks down the total marketing costs into specific marketing activities. By assessing the costs of the specific marketing activities in relation to the profit levels, the manager can assess the effectiveness of each activity.

- **Developing a financial forecast:** A business must develop a financial forecast that details the revenues and expenditures for each strategy when evaluating alternatives. Cost benefit analysis is a helpful tool used to itemize fixed and variable costs and draw up a profit forecast showing profit and return. Developing a financial forecast requires two steps that are: cost estimate- how much the marketing plan is expected to cost and revenue estimate- how much revenue will be generated as a result.

4. STRATEGIES

Market Segmentation

- Market segmentation is the process of breaking down a total market into small markets based on the similar characteristics of a customer group.

- By focusing on a particular target group, a business is able to identify the specific needs of this group.

- The marketing plan would consider the features that consumer of the target group so that marketing strategies can be determined. Types of segmentation are:

- **Geographic segmentation:** dividing a market or customer groups into smaller markets based on different geographic locations. By focusing on a particular target group, a business is able to identify the specific needs of this group and tailor its marketing plan accordingly..

- **Demographic segmentation:** The process of dividing a market into smaller markets based on the customers' age, gender. E.g. girls at older ages would buy more mature magazines. Girls would not buy car magazines.

- **Behavioral segmentation:** dividing a market based on people's knowledge of, attitudes towards and use of a product. Some factors are:

  - **Purchase occasion:** when customer is most likely to purchase products
  - **Usage rate:** how often customers use the business's good or service. E.g. Internet providers have many packages depending on rate of use .
  - **User loyalty:** to develop a loyal customer base. E.g. Woolworths Everyday reward cards was introduced to increase loyalty.
  - **Benefits sought:** what customers want from a product.

Product/Service Differentiation

Product differentiation

- Product differentiation is the process whereby a business distinguishes the attributes and features of a product from those of its competitors' products. Some strategies to emphasize product differentiation are:

    - **Price**- the cheapest provider of a specific range of goods. E.g. Big W promotes with 'Australia's lowest prices everyday'.
    - **Product quality**- the best quality for products around E.g. Woolworths uses the slogan 'The fresh food people',

Service differentiation

- It involves a direct and immediate form of contact between the business and the consumer.

- After-sales service is a type of strategy to emphasise service differentiation. This will develop into strong brand loyalty.

Positioning

- Product positioning refers to the technique in which marketers try to create an image or identity for a product/service compared with the image of competing products/services.

- Positioning can be done in terms of price and quality, and is often shown in graphical form.

Products – Goods And/Or Services

- The term *product* can refer to either a good or service. A product offers a consumer tangible and intangible benefits.

- **Tangible benefits** refer to the <u>physical attributes</u> of the product. These can include the design style, colour and features of a product.

- **Intangible benefits** refer to the <u>benefits a consumer associates with purchasing a product</u>. E.g. Customer care help desks, warranties and customer care help desks, warranties and maintenance checks.

- When developing **marketing strategies positioning, branding and packaging** need to be considered.

- **Positioning-** the image that a product has in the mind of a consumer. It is of prestige and reliability.

- **Branding-** the reputation that a business or product has developed over a period of time. A strong brand name is important in enhancing the relationship,

- **Packaging-** the physical appearance of the good. It is often the first image of the product that the consumer will see.

Price

Pricing methods

- **Cost-based pricing-** where a business determines the cost of production for one product, then adds a mark-up to cover expenses and provide a profit margin.

- **Market-based pricing**- where the price for a particular product varies depending on demand. *Eg. Beach houses in summer months increase in price, where an oversupply in bananas will result in a price decrease, as demand is lower.*

- **Competition-based pricing-** where price considers the costs which need to be covered, and is comparable to competitors.

Pricing strategies

- **Price skimming-** involves setting the highest possible price for a new product, enabling the business to recover the costs of research and development.

- **Price penetration-** basically the opposite of skimming, where the lowest possible price is set to gain an immediate group of customers. Used to penetrate a market and gain market share rapidly.

- **Loss leaders-** are products which are sold below cost price. The business often hopes to entice customers with low prices and recover losses through the purchasing of other stock once customers are in the store.

- **Price points-** where a business sets different prices for similar products, i.e. $55, $75 and $90. The products are differentiated by their features.

Price and quality interaction

- **Prestige pricing-** used for products that consumer's regard as prestigious and, therefore, for which they are willing to pay higher prices.

Promotion

Elements of the promotional mix

- The promotion mix is the part of the marketing mix that seeks to generate interest in and awareness of a particular product or brand. It consists of:

    - **Personal selling-** aims to establish a direct link between the business and the consumer. It involves taking the business to the consumer, some forms include door-to-door sales and party plans.
    - **Relationship marketing-** the process of building and maintaining long-term relationships with customers. It involves creating a high level of customer satisfaction, value and service.
    - **Advertising-** It seeks to convey a message to a broad group of customers. It includes radio, television and the internet.
    - **Sales promotion-** It is intended to create interest in and generate awareness of a particular product. These promotions include competitions, samples, and discounts.
    - **Public relations-** the process of creating an event for a business to generate awareness of its products, attracting interest in the business's activities and products.

The communication process

- Market research will allow the business to develop strategies that will attract the interest of the product's intended market. Ways of communication are via:
  - **Opinion leaders**- business use individuals in the community that are highly respected. They have knowledge and expertise and will create a link between the leader's image and reputation.
  - **Word of mouth-** involves consumers relating to others, their reaction to the use of a product, including the degree to which they were satisfied with the product.

Place/Distribution

- **Place/distribution-** The process of distributing the product from where it is made to the consumer.
- **Distribution channels** - The channels by which a product is moved from the place of manufacture to the consumer.
- **Intermediary-** a business that purchases the final product and then takes on the responsibility of selling this product to the consumer.

There are three channels of distribution:

- **Producer to consumer-** where the good or service is produced by an individual/organisation and is then passed directly onto the consumer. There are no intermediaries.
  - **Advantages:** It allows the producer to maintain control over all areas of the product and provides the producer with a direct point of contact with consumers.
- **Produce to retailer to consumer-** where the good is produced and then passed on to the retailer who passes it onto consumers.
  - **Advantages:** Allows the producer to concentrate on manufacturing. There is greater distribution and access to the good.
- **Producer to wholesaler to retailer to consumer-** where the good is produced and then passed on a wholesaler who sells part of the stock to the retailer who passes it onto consumers.
  - **Advantages:** allows the produce to hold lesser amounts of idle stock. Marketing and sales tend to be the responsibility of the retailer so less costs.

Channel choices

- The choice of distribution channel will influence the type of customers the product attracts. There are 3 distribution channel categories:
  - **Intensive distribution-** the product is readily available to a wide selection of stores or locations. Used for convenience items.

- **Selective distribution-** involves the use of a limited number of stores/locations to sell or distribute a product. Allows a producer to control the market. Used for fashion and electronics.

- **Exclusive distribution-** where there is a restriction on the number of products and/or availability of the product. E.g. expensive jewelry and watches.

Physical distribution issues

- **Transport** - Transport refers to the process of moving goods from one location to another. Transportation can be expensive and the type of good needs to be considered.

- **Warehousing-** The process of storing products before they are distributed to the consumer. They are used to store finished products and holding stock. Some goods can only be warehoused for a very limited time before losing use, e.g. foods.

- **Inventory-** A business must ensure that it has sufficient stock to satisfy demand. They also must not overstock otherwise clearance sales are needed. This reduces profits.

People

- Having the right people to support the company's products and/or service. This may include detailed product knowledge and attending to customer concerns in an understanding manner.

Processes

- The consumer's total experience of buying the product from a simple stage of searching for information to the final stage of experiencing the benefits.

Physical Evidence

- The physical appearance of the product across every aspect of its presentation to the consumer.

- Physical evidence may also refer to the people within a business and the visual presentation that they display to clients. E.g. how employees act and dress.

- The packaging needs to be able to talk to the consumer, as it is the final point of promotion where it can be communicated.

E-Marketing

- Internet marketing is also known as e-marketing. E-marketing allows a business with online operations to reach a global audience.

- The website must be creative to attract the interest of consumers while fulfilling technical aspects of the site.

Global Marketing

- Many businesses operate in countries beyond their domestic operations. It provides the opportunities to increase sales, further their brand awareness and establish markets in new countries.

Global branding

- It is more effective and efficient to promote a brand rather than individual products, as a brand has the same meaning in any language.

Standardisation and differentiation

- Owing to differences in language, religion, tastes and ethics it is very important researches the market. The product may have to be changed to suit aspects of different cultures.

Marketing strategies in global markets

Product

- A product's features will vary from market to market to suit customers in different countries. Labels need to be printed in different languages.

Place

- Place in the marketing mix refers to the process of delivering the product to consumers. Through the internet, products are available 24 hours a day.

- Having a good relationship with the local distributor is important. It will ensure products are given the attention they need.

- **Competitive positioning** involves the formal process of a business determining how to differentiate itself from its competitors. This makes it easier for consumers to make a choice. Value proposition is part of this, there are 3 types of value:

    - **Operational excellence** - refers to the ability of the business to be run efficiently as a means of producing a low-cost operation. Benefit: allows the business to pass on cost savings to consumers.

    - **Customer intimacy** - involves a business developing a personalised profile of their customers shopping habits so the business can devise the correct marketing strategy.

    - **Product leadership—**refers to how the business can be the first to produce the best product.

Price

- Because of the additional costs of exporting – packing, transport insurance, documentation and currency variation – a competitive price is more difficult to establish. If the product is considered exclusive, the price can be set high.

Promotion

- Global can use a variety of mediums like the TV, Internet and radio. Language, religion and culture need to be considered. Names do not always translate well.