CONTINUING PROFESSIONAL DEVELOPMENT

MARKETING FOR NON-MARKETING MANAGERS

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Marketing for Non-Marketing Managers

INTRODUCTION

This unit is designed to help you understand and learn the basic principles of marketing and is aimed at non marketing managers, professionals who are working in business or commerce but who have no formal marketing qualifications and a limited knowledge of marketing principles.

Part of the unit's assessment of learning will involve undertaking an assignment based on a marketing audit carried out in your own company/organisation. You will be given detailed guidance and advice about this element of assessment later in this workbook.

Aims of the unit

The aim of the unit is to examine and discuss issues associated with basic marketing principles. The course is focused on the fundamental principles of marketing, which form an essential underpinning to an understanding of marketing in action. The theoretical underpinning will be complemented by a series of short work-based activities.

Objectives of the unit

- To equip you with the knowledge and skills to understand and interpret marketing principles

- To give you practical experience of marketing principles, including preparing a marketing audit and review of brand strategy within your own company/organisation

Learning outcomes

On successful completion of this Section you should be able to:
- Understand the role, activities and tasks of a marketing manager
- Recognise the importance of the marketing mix
- Produce a marketing audit and a review of brand strategy in your own company/organisation
- Understand the importance of relationship marketing

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What does this workbook contain?

This workbook contains a number of information and learning resources:

- Background and contextual information about marketing for non marketing managers
- Key ideas, theories, concepts, structures, processes in relation to marketing Principles
- ‘Activities’ designed to engage you in reflection and action-focused thinking
- Case examples of marketing in action

Assessment

You are required to write a 2,500-word assignment on the following.

Undertake a marketing audit of your company/organisation, paying particular attention to the marketing mix. Comment on your company’s positioning and branding strategy and outline creative ideas to win and retain customers in the next 12 months.

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How should this workbook be used?

This workbook will direct your study throughout the learning experience. There are six sections, designed to be studied sequentially. However, a good learning technique is to refresh your learning by re-reading, so you are recommended to read back and forth between sections whenever you feel the need. Each section covers a different topic and, together with any associated activities, practical work or further reading, is designed to take approximately 20 hours of study.

The workbook uses an interactive learning approach. This is achieved through the use of self-assessment questions and activities throughout the text. These activities will enable you to apply the concepts presented in the workbook and explore issues that extend your knowledge and skills.

Preparing to use the workbook

If you are new to the study of marketing and/or this study method, then we suggest it is worth you spending some time becoming familiar with its contents and approach to learning and development. This will enhance your own understanding of key ideas in ‘Marketing for non-marketing managers’, and your ability to lead and facilitate the learning of others.

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Section 1

The core theme of this section is the role of marketing within business organisations.

Objectives

Upon successful completion of this section you will:

- Understand the development of marketing as an exchange process, a philosophy of business and a managerial function
- Recognize the contribution of marketing as a means of creating customer value and as a form of competition
- Appreciate the importance of a market orientation to organisational performance and identify the factors that promote and impede the adoption of a market orientation
- Appreciate the significance of buyer – seller relationships and the role of relationship marketing in facilitating the retention of customers

What is marketing?

At this stage a formal definition is not being presented but do you know what marketing is?

Activity 1.1

In your own words describe what you think marketing entails.

Individuals will have different views of what marketing is but it would be surprising if their descriptions did not contain one or more of the following.

Marketing is about:

- Selling
- Market research
- Advertising

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Perhaps for those of you who work with marketers it is about ‘selling products that don’t come back, to customers who do’.

The common theme that runs through this variety of viewpoints about what marketing entails is that marketing is a set of managerial activities or functions required to be performed in an organisation. Certainly marketing does encompass activities such as selling, researching markets, attracting and keeping customers, and developing and implementing plans. Marketing is a managerial function and perhaps the most succinct definition of marketing is the one used by the Chartered Institute of Marketing as follows:

Definition

Marketing: Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably.

Activity 1.2

Take the definition above and apply each aspect of it to your own company situation. For example, how does your organisation identify what customers’ needs are?

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The marketing concept: marketing orientation

In simple terms, the marketing concept focuses on customers. A company that adopts the marketing concept puts the customer at the centre of all business decision-making and planning, and not just marketing decision-making and planning. A company with this approach is said to be marketing-oriented. In order to understand the meaning and implications of being marketing-oriented we need to examine briefly the background to the development of the marketing concept and the distinction between a marketing versus a production-, product-, or sales-oriented company.

Activity 1.3

Marketing-oriented versus other possible orientations of an organisation

A company can be:

Production-oriented
Product-oriented
Sales-oriented
Marketing-oriented

Using the following statements from the management of the hypothetical organisations shown below, can you assess which of these four possible orientations for a company best fits the organisation described by each statement. Read each of the descriptions and then place a number in the circles to indicate the following:

1.This company is marketing-oriented
2.This company is sales-oriented
3.This company is production-oriented
4.This company is product-oriented

Company A
'We believe that our products are the most innovative on the market. Our quality is second to none and we've gone all out to develop the best design team in the business'.
No. (

Company B
'Our salespeople understand how to get the customer to sign on the dotted line. Most customers really want to purchase our product when they see it, they just need a little push to make up their mind'.
No. (

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Company C
'Customers can be very fickle sometimes. We've just had to change a specification because the customer wanted something else at the last minute. This also affected our production schedules and our delivery department, and everything had to be re-costed. Still at least everyone pulled together on this one.
No. (

Company D
'The customer can have any colour so long as its black'
No. (

Of course some of you will have recognised in company D the words of Henry Ford, the founder of the Ford Motor Company. Allegedly Ford was said to have uttered this much-quoted phrase about the world's first mass-produced car.
At the time, the 1920s, Ford's major concern was with the problems of producing cars in sufficient volume and at a price the huge latent mass market, which he rightly perceived to exist, could afford. The colour of his cars therefore mattered little to Henry Ford other than the fact that only producing one colour enabled both output to be greater and prices lower.

Interestingly, at the time, Ford's focus on production rather than the colour preferences of his customers was right. Customers at the time were less interested in colour than in availability and affordability. Henry Ford's approach was right for the time.

This is an important lesson to learn. The need to be marketing-oriented (Company C in our example) is a function of the market and competitive conditions now faced by companies.

Business definition and a marketing culture

The starting point for building a marketing culture in an organisation is quite simply to 'think customers'. Perhaps one of the fundamental ways in which the extent to which the management of an organisation is 'thinking customers' can be assessed is in how it defines what business the organisation is in.

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Activity 1.4

Briefly, in your own words, summarise what business the following organisations are in:

Hilton

B & Q

IBM

Max Factor

Legoland

Aldi

Your own company

Discussion

The non-marketing oriented manager will base the definition of each of these organisations essentially on the products or services they produce. So, for example Max Factor = cosmetics, perfume; IBM=computers.

In the marketed –oriented company, however, business definitions will be based on a customer perspective, i.e. the definition will stem from the benefits that the customer is seeking. So now, Max Factor = beauty; IBM =solutions to business problems.

Any organisation that sees and hence defines its business in anything other than customer benefit terms has simply not reached first base in developing a marketing culture. An organisation that defines its business in terms of what it produces is said to be suffering from what a famous marketing pundit, Theodore Levitt, called ‘marketing myopia’.

Definition

Marketing myopia: Marketing myopia results from a company having a shortsighted and narrow view of the business it is in as a result of product or service based business definitions rather than customer need based ones.

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Instilling and enhancing a marketing culture: factors that promote and impede the adoption of a market orientation

We have seen that a marketing culture essentially means putting the customer first and 'thinking customers'. We have also seen that this must permeate the organisation at all levels and all functions. But what if we find that no such culture exists and we wish therefore to instil a marketing culture? Or, as is more usual, what if we wish to enhance and extend a marketing culture throughout an organisation? This is probably the most difficult step for the majority of companies, especially when it comes to instilling such a culture into non-marketing staff. But a number of steps can be taken to grow a marketing culture.

Activity 1.5

Think about your own organisation. Use the following questions to prompt your thoughts about the key steps in growing a marketing culture.

1. Is senior management in the organisation totally committed to customers and improved marketing?

2. Has anyone the specific responsibility and authority for enhancing a marketing culture in the organisation?

3. Do job descriptions in functions other than marketing include reference to customer satisfaction?

4. Are marketing staff regularly trained in developments in contemporary marketing concepts and techniques?

5. Are non-marketing staff trained in customer appreciation and care?

6. Are non-marketing and sales staff ever given a chance to meet customers/clients?

7. Do reward and motivation systems in all jobs encourage employees to serve customers better?

If the answer to any of the questions in the activity is no, then there are opportunities to enhance the marketing culture in the organisation.

The development of a marketing culture and, in particular, the training and motivation of all the individuals in an organisation to achieve this is often referred to as internal marketing.

Definition
Internal marketing: 'Internal marketing is the creation of an internal environment which supports customer-consciousness and sales-mindedness amongst all personnel within an organisation'

Christian Groonroos

Although internal marketing is important for all organisations it has proved particularly popular in service organisations, e.g. banks, hotels, and so on, where a wide range of staff are often in contact with customers**.**

Relationship marketing

Relationship marketing is the term that is used to describe the process of building long-term commitment and loyalty from customers. Relationship marketing itself can be defined as all of the activities which an organisation can use to build, maintain, and develop customer relations. Relationship marketing requires a building of trust between the organisation and its customers. It also demands long-term loyalty between both parties. Initially, practised principally in business to business markets, relationship marketing has now grown in consumer markets too. So, for example, many of the UK supermarket retailers, such as Tesco and Sainsbury, have developed so-called loyalty schemes designed to reward customers for continuing patronage.

Under a relationship marketing approach, all the activities of an organisation are used to build, maintain and develop customer relations, the objective being to build customer loyalty, thereby leading to customer retention. A key element of relationship marketing is the development of mutually beneficial long-term relationships between customers and suppliers.

Activity 1.6

1. Give a synopsis of how relationship-marketing techniques are used in your own company/organisation.

2. If none are evident, specify what your company /organisation ought to be doing to build customer loyalty.

Summary

In this section we have seen that:

- Marketing is first and foremost a way of thinking that puts the customer at the centre of all organisational decisions. In doing so, marketing is a form of competition, which serves as the means of creating customer value.

- Marketing orientation is the result of an evolution from a product-oriented through a sales-oriented era.

- A marketing culture must be developed throughout the organisation but this takes time and resources.

- Marketers recognise the importance of treating customers as partners and in developing long-term, customer loyalty through the development of improved relationships with customers.

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Section 2 Marketing planning

Objectives
Upon successful completion of this section you will:

- Understand the importance of the marketing planning process, the structure and components of the marketing plan, and where it fits into the corporate or organisational planning framework.
- Understand the models that describe the various stages of the marketing planning process.
- Understand the concept of the marketing audit.
- Understand the value of marketing research and information in developing marketing plans.

The nature and importance of marketing planning

Increasingly, marketing is characterised by much more systematic and structured marketing planning using a variety of powerful and sometimes sophisticated planning tools and techniques. Contemporary marketing is now imbued with a planning culture.

The reasons for this are many, but amongst the more important are the following:

- A more dynamic and competitive marketing environment
- High levels of investment required to develop new products and markets and hence high risk
- More sophisticated and powerful planning tools and models
- Better trained marketing managers
- Access to marketing data and information
- A recognition of the need for improved co-ordination and integration of marketing and other plans

In recent years, marketing planning has become more strategic in nature and as a result, so too has marketing itself. Strategic, as opposed to tactical marketing planning has the following characteristics:
Strategic marketing planning involves

- Longer term planning horizons
- Major commitments of company resources
- All levels, functions and activities of a business

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Perhaps the most succinct definition of strategic marketing is that proposed by Cravens.

Definition of Strategic marketing

It is a process of strategically analysing environmental, competitive and business factors affecting business units and forecasting future trends in business areas of interest to the enterprise. Participating in setting objectives and formulating corporate and business unit strategies. Selecting target market strategies for the product markets in each business unit, establishing marketing objectives, and developing, implementing and managing programme positioning strategies for meeting target market needs.

The marketing planning process

Business mission/corporate objectives

Marketing audit

SWOT analysis

Business objectives

Marketing objectives

Marketing strategies

Marketing tactics/marketing mix decisions

Implementation

Monitoring and control

Each step will now be considered in more detail.

Business mission/corporate objectives

The business mission is the determination of what the company intends to be, its general culture and operating philosophies. An example of a business mission might be, for example:

'To be the leading provider of software solutions in the information technology market with a commitment to develop outstanding customer relations'

Corporate objectives may encompass several areas relating to, for example, growth, financial performance, innovation, corporate reputation, contributions to community and society, etc. and are more specific and quantified than the business mission statement.

Activity 2.1

What is your company's business mission?

What are you company's corporate objectives?

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Marketing audit

The second step in the marketing planning process involves the marketer in assessing the situation facing the organisation. The first half of the marketing audit will encompass the internal situation of the organisation and its performance. The second half of the marketing audit involves analysing the external situation facing the organisation. It is extremely important that marketing managers are able to understand the environment in which they are operating. This means that a systematic so-called PEST analysis will need to be undertaken on a regular basis.

PEST stands for:

- Political factors such as government regulations, policies and strategies, tax, education, business and industry.
- Economic factors such as movements in the trade cycle, levels of disposable income, interest rates and inflation.
- Social/cultural factors such as the ageing consumer, increases in one-parent families, changing values, attitudes and beliefs.
- Technological factors such as the increased rate of computer capability, developments in IT and production methods.

Activity 2.2

In relation to your own company, carry out a PEST analysis, stating what external factors are likely to impact over the next 12 months.

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With regard to the internal half of the audit the marketer must regularly and systematically assess the resources, systems and procedures and skills of the organisation from the point of view of a customer/marketing orientation. The internal audit is seeking to establish bases for competing in the market place. The following aspects are normally included:

- Financial
- Marketing
- Manufacturing
- Physical resources
- Personnel
- Research and development

SWOT Analysis

The internal and external audit allows the marketer to produce a systematic SWOT analysis. Widely known and used in marketing planning, these initial letters stand for:

- Strengths
- Weaknesses
- Opportunities
- Threats

The strengths and weaknesses aspects of the SWOT derive from the internal half of the marketing audit. In conducting the internal marketing audit, the objective is to assess company resources, activities and skills with regard to establishing the extent to which the company is strong or weak. Completing the strengths and weaknesses part of the SWOT analysis helps to point out what is possible in terms of marketing objectives and strategies.

The opportunities and threats half of the SWOT analysis is derived from the analysis of the marketing environment including the PEST factors. It is relatively easy to find examples of how the marketing environment might give rise to opportunities and threats.

For example:

- A downturn in disposable income may threaten the demand for, say, luxury products.
- A change in government policy may give rise to opportunities for more environmentally friendly products.
- A decline in the birth rate may threaten the baby food manufacturer.
- Developments in information technology may provide opportunities for direct marketing.

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One of the main aims of a SWOT analysis, having identified the company's weaknesses, is to look at ways in which these can be converted into strengths, and similarly to convert the threats into opportunities. Decision-makers can then decide which are the best ways to achieve these conversion processes.

Activity 2.3

Undertake a SWOT analysis of your own company.

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Business objectives

In any company or organisation business objectives can include:

- A profitable return on investment
- Increased turnover and profitability
- Development of a new product range
- Acquisition of more customers
- Sustained growth
- Optimisation of assets

Marketing objectives

Marketing objectives may relate, for example to market share, sales, growth and so on. It is important that these objectives are specific, measurable, actionable, realistic, and timely. In addition, it should be remembered that marketing objectives must reflect and be integrated with the company's overall business objectives.

Marketing strategies

Marketing strategies represent the overall thrust of a company's marketing activities. There are a number of components to marketing strategies as follows.

Growth strategies: The Ansoff Matrix

	Current products	New products
Currents markets	Market penetration strategy	Product development
New markets	Market development strategy	Diversification strategy

Each of the strategies delineated in the matrix is briefly explained below.

- *Market penetration:* This strategy is based on expanding sales from existing products in existing markets. There are a number of ways in which this can be achieved; for example, the company may attempt to encourage customers to use the product more frequently or more heavily. Alternatively, market penetration can be achieved through attacking competitors' market share through, for example, heavy promotion and price discounts.

- *Market development:* This strategy for growth involves entering new markets with existing products; for example, a company may achieve growth by attacking new market segments by export marketing. With this strategy it is essential that proposed new markets are carefully assessed with respect to, say, attractiveness, and in particular the extent to which the company can match the requirements for success in the new markets.

- *Product development:* This strategy for growth involves developing and launching new products for sale in existing markets. Sometimes these may be extensions to the existing product range, such as additional features or different packaging, but also may involve entirely new products for the market. In the case of entirely new products, this can be an extremely risky, if potentially profitable strategy.

- *Diversification:* This strategy is the highest risk of all the four strategic options for growth, involving as it does both new products and new markets for the organisation.

Diversification can take a number of forms ranging from moving into related products and markets through to entirely new products and markets. Again this can be a very profitable route to growth but needs to be carefully planned if it is to succeed.

Activity 2.4

Using Ansoff's Matrix, comment on which one of the four strategies your own company currently adopts. Additionally, select one further strategy that your company could adopt in the next 12 months and explain how it should be implemented.

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Marketing tactics/marketing mix decisions

Having determined the key elements of marketing strategy, a company is able to develop more detailed marketing tactics. Essentially, this involves planning how the different marketing tools will be used in the marketing plan. It is therefore concerned with planning a co-ordinated marketing mix for each target market. By this stage of the planning process the previous steps will now effectively dictate these marketing mix decisions. It is in this stage of the marketing plan that these elements are brought together to form an integrated and cohesive whole.

The marketing mix represents those controllable factors or tools which the company can make decisions about with a view to developing effective marketing programmes. The basic marketing mix comprises of the four P's of Product, Price, Place (Distribution) and Promotion. Increasingly, marketers now think about an additional three elements comprising of People, Process and Physical evidence. Within each of these major tools of the marketing mix however, there are any number of variations and ways in which the marketer may use each tool to satisfy customer requirements and compete effectively. So, for example, taking the promotional element of the mix, the following sub-elements within this marketing mix tool can be identified.

- Advertising
- Sales promotion
- Personal selling
- Publicity and PR
- Sponsorship and exhibitions etc.

The above components are often referred to as the communications mix or the promotional mix.

Each of these tools can be used in a wide range of ways. So, for example, when it comes to advertising the marketer can aim advertising at, say, distributors or consumers or both. Similarly, advertising programmes and spends may be run over an extended period of time with short bursts of advertising spend or with large advertising spends concentrated in short bursts. The content of the advertising itself can be factual, emotional or informative. Media use for advertising could be one or a combination of press, television, trade publications, magazines, newspapers etc.

Implementation, monitoring and control of the marketing mix and programmes

Plans are nothing unless they generate action. Implementation is the steps and activities required to bring plans to life. It requires detailed scheduling of planning activities and involves areas such as budgets, staffing, detailed timetables and so on. In addition, organisational structures and systems must be designed in order to ensure that the necessary structures, people, budgets, and processes are in place in order to effectively implement-marketing plans.

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The importance of monitoring and control

Essentially, the process of monitoring and control comprises comparing actual performance against required or desired performance objectives and then taking any necessary action to correct differences between actual and required. Consequently, the control process in marketing stems from the marketing objectives and strategies of the company.

Without monitoring and control it is impossible to assess the extent to which marketing objectives have been achieved and the strategies have been effective. Given the potentially large costs and use of resources in implementing the elements of the marketing mix, it would be inadvisable not to assess how well these resources have been used.

In addition, markets are dynamic. The environment changes, customers change, competitors change, and even the company itself can change over time. Therefore, the marketing mix also needs to change to reflect and cope with these external changes. Monitoring and control of the marketing mix facilitates the planning of such changes. Without monitoring and control there is a danger that marketing strategies become outmoded and no longer fit the market situation.

Types of control in marketing

The major types of control used in marketing include the following:

1. Customer feedback/customer tracking e.g.
    - Customer surveys
    - Customer complaints
    - Sales-force reports
    - Customer panels

2. Sales analysis and control, e.g.
    - Sales volume/value
    - Sales trends
    - Breakdown of sales by product, customer, sales person, etc.

3. Market share analysis and control, e.g.
    - As per sales analysis above, but based on percentage of market

4. Profitability analysis and control, e.g.
    - Analysis of costs and margins
    - Net profits
    - Return on capital

5. Strategic control. This is the most wide-ranging and comprehensive of control techniques used in marketing, covering the control of the strategic planning process itself. Two main tools are used in strategic control, and both call for a wide-ranging review of the effectiveness of marketing activities, namely:
    - Marketing-effectiveness rating reviews
    - The marketing audit

Activity 2.5

Arrange an interview with a senior marketing manager in your own company and try to establish what types of controls are being used to evaluate marketing performance.

Summary

This section has:

- Looked at the central key activity in marketing, namely marketing planning.

- Examined in turn each of the steps in the planning process, beginning with the identification and formulation of overall business and corporate objectives through to the evaluation and control of marketing plans.

- Looked at the marketing planning process; and introduced some of the key models that describe the various stages of this process and the various analytical tools including the marketing audit, PEST, and SWOT analysis and the Ansoff matrix.

- Indicated the need for monitoring and controlling marketing activities and the types of control available to marketing managers.

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3: The marketing mix: product

Objectives

By the end of this unit you will:

- Understand the role of the product in satisfying customer requirements.
- Understand the notion of products as bundles of benefits that deliver customer value and have different characteristics.
- Understand the notion of different levels of a product.
- Understand the product lifecycle concept and recognizes its effect on marketing mix decisions.
- Understand the principles of branding.

The five levels of product

It is useful for marketers to think of the product as comprising a number of levels.
These levels are shown in Figure 1 below.

Figure 1 The five levels of the Product

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Level 1:The core product

This level of product is the most fundamental level and consists of the core benefits which the product or service provides. So, for example, in the case of a car this might be, say, transport.

Level 2:The actual or basic product

This level of product comprises the features offered in a product. It could include, for example, the design of a product, its packaging, its quality levels and so on.

Level 3:The expected product

This level of product is a set of attributes that the buyers normally accept and agree to when they purchase the product. Clearly where these attributes exceed the buyers' expectations we have satisfied customers, where they do not come up to the customers' expectations we have dissatisfied customers.
So, for example, when a customer purchases a car he expects it to start, accelerate, steer, stop, etc. Much less obvious, however are the 'psychological expectations' of buyers, such as, for example, expectations with regard to the extent to which a product will confer, say, status or credibility for the purchaser.

Level 4:The augmented product

The augmented product are those aspects or elements of a product which support the core and actual product features, so, for example, we could include customer service, delivery and credit, after-sales support, and so on. In many ways this is where a product can meet and exceed customers' desires beyond their expectations referred to in level 3.Today's competition mainly takes place at the augmented product level. Product augmentation requires the marketer to look at the buyers' total consumption system. On the other hand the marketer has to realize that the product augmentation strategy will inevitably cost money, and the augmented benefits can soon become expected benefits by the customer.

Many products are essentially marketed at the augmented product level. In other words, it is this level of the product which is used to distinguish the offering from that of competition, thereby bestowing a competitive edge. So, for example, many computer companies distinguish their product offering on the basis of say, the level of after-sales service including on-site and off-site warranties. It can be these aspects of the product offering which are most influential in customer choice of supplier.

Level 5:The potential product

The fifth level of the product is the potential product, which encompasses all the augmentations and transformations that the product might ultimately undergo in the future. This level is important because it raises the possibility of future product improvements in order to keep the product competitive.

Some products have much more potential than others, for example, products that embody developing technologies where constant improvements are being made. However, all products have some further potential and the marketer must be creative in looking for and seeking to develop such further potential for products and brands.

Activity 3.1

Analyse your company's product range and comment on how products are augmented to create more sales.

Product life cycle

This concept is based on the idea that a new product enters a life cycle once it is launched on the market. It has a birth (introduction) and a death (decline). By thinking of product in this manner it is possible to devise different marketing strategies for relevant stages in the product's life.

This theory is perhaps an oversimplification, because in reality very few products will fit into the theoretical curve, so there is a danger of taking the concept too literally.
Figure 3.3 shows the course of the product life cycle from the developmental pre-introduction stage to decline. A profit (and loss) curve is superimposed on this figure.

During the development phase there are of course no sales, but the product is picking up costs of development, including marketing-research costs. The introduction phase witnesses a slow growth as the product 'catches on'. Once it has caught on, sales grow rapidly and the product becomes profitable. The product then matures as the market reaches saturation. In fact the terms 'maturity' and 'saturation' are sometimes used interchangeably, although some authors say that saturation follows maturity. This phase tends to be longer than Figure 3.3 infers. Decline is the final phase, when the product eventually drops out of the market, usually at the point when losses begin to be incurred.

The product life cycle is influenced by the nature of the product itself, changes in the macro environment, i.e. outside the control of the company, and changes in consumer - preferences and competitive actions. These factors also influence the time span of the life cycle, which can range from a few weeks to many decades.

Characteristics of the different product life-cycle stages

It can be useful to the marketer to understand the essential characteristics of each stage of the product life cycle. Kotler has usefully summarised the characteristics for each stage and these are shown in Table 1.

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Table 1 Characteristics of each product life-cycle stage

Development	**Introduction**	**Growth**	**Maturity**	**Decline**
No sales	Low sales	Rapidly rising sales	High sales	Declining sales
1Egh cost of R&D	Negative profits	Rising profits	High profits	Declining profits
Test market	Innovator customers	Early adopters customers	Middle majority	Laggard customers
	Few competitors	More competitors	Competitors start to decline	Smaller number of competitors

Understanding these characteristics is useful because it helps the marketer to develop strategies for the different life-cycle stages. These different strategies are now discussed.

Strategies at different life-cycle stages

Development of course takes place before the product launch and here marketing research in the form of testing out the product's acceptance takes place. Some companies attempt to ensure secrecy during this phase in order that competitors cannot pre-empt the product's launch, while others use this period as a time for informing the public that the new product is forthcoming.

Introduction is when the new product is launched, and the goal here is to create awareness. This usually calls for a disproportionate level of marketing expenditure relative to sales revenue, and it must be regarded as an investment in the product's future. Promotion tends to be informative at this stage, and the principal aim of selling is to communicate the product's benefits to customers. Pricing is considered later, but for innovative products a skimming strategy is often employed at this stage. If indeed the product is innovative, then it is likely that it will be only available in a limited number of outlets at this early stage.

Growth is where competitive products usually enter the market and there is less product distinctiveness. Rising sales generally mean more profitable returns, and company or product acquisitions sometimes feature at this stage. Promotional expenditure still features highly, but the type of promotion moves from informative advertising to advertising to achieve brand superiority. In FMCG examples, finding shelf space is important, and every effort is made to persuade retailers to stock goods. In non-FMCG examples, suppliers are often in competition with each other to acquire dealerships and distributive outlets. During the growth period a company must attempt to optimise the product's price. At the end of the growth period prices are sometimes reduced because the full effect of economies of scale can be passed on to customers. As the growth period tends towards maturity, market shares will begin to stabilize and a hierarchy of brand or market leaders will probably have emerged.

Maturity is where most products are situated, and much marketing activity is devoted to this stage. The major characteristics here are that sales continue to grow, but at a much-decreased rate, attempts are made to differentiate and re-differentiate products; and there is increased brand and inventory rationalization among retailers and distributors.

Promotion tends to reinforce brand loyalty, and there is a need for sustained promotional activity, even if only to retain existing customers. Distribution strategies too are designed to retain outlets. 'Price wars' are common, and the aim of price-cutting is usually to attempt to increase purchases sufficiently to offset any revenue losses.

Saturation follows maturity, and this period sees some marginal manufacturers retiring from the market when faced with severe competition and reduced margins. As prices begin to fall in battles to retain market share, profits begin to fall correspondingly. In some cases the major thrust of promotional effort moves away from consumers to distributive intermediaries in that maximum display at point of sales is regarded as being important to support brands, so ’below the line’ activity features more strongly than ’above the line’ (dealt with in detail in the Unit ’Tools of marketing: Promotion’). Many marketing writers do not recognize this as a separate phase and simply view it as the tail end of the maturity phase.

Again remember that products may be at different stages according to country, but three products that are in the maturity or saturation phases of the product lifecycle, at least in the United Kingdom would be mobile phones, videocassette recorders, and microwave ovens.

Decline is where consumer preferences may have changed or innovative products may have displaced existing products. Characteristics of this period are intensified price-cutting and producers deciding to abandon the market. Some firms find it worth extending the product’s life cycle well into decline, while the number of competitors is falling. During this period the attention of management is likely to move from active marketing to strict cost control as the main means of maintaining profitability.

Examples of products that are at the decline stage of their lifecycles, again in the context of the United Kingdom would include cassette recorders, heated hair rollers, black and white televisions.

Applications of the product life cycle

The ability to accurately identify the transition from one stage of the product life cycle to another is a key issue for marketing management. Such prediction requires the use of marketing research and market intelligence. Once these are in place, marketing management has the basis for long term marketing planning, with appropriate strategies duly budgeted to meet changing conditions.

Normally an extension of the product life cycle can be found by finding new uses for the product or by finding new markets, but such extensions should not call for too many product modifications. It should also be remembered that although Figure 3.3 shows the maturity/ saturation as a short continuum, in fact this period can last for months, years or decades, depending upon the nature of the product being considered.

The product lifecycle stages and the marketing mix

We have already considered the fact that marketing strategies and hence by implication, the marketing mix will need to be modified in each stage of a product's lifecycle. We can now consider this in a little more detail. Below is outlined in indicative terms the likely focus and thrust of the combination of the marketing mix elements in each of the stages of the product lifecycle.

In the introductory stage

Spending on the promotional element of the mix will be high compared to sales. This is necessary to create awareness and interest. (See the Unit 'Tools of marketing: promotion'.)

Within the promotional mix the emphasis will tend to be on advertising backed by special sales promotions to the trade. Selling will emphasize missionary selling.

The product element of the mix is likely to be basic, with few (if any) variations or added features.

Distribution and logistics (place) will centre on securing initial channels of distribution and ensuring that products are in stock to coincide with the launch plans.

Price may be set either to skim or to penetrate the market according to circumstances. (See the Unit 'Tools of marketing: price'.)

In the growth stage

Spending on promotion will still be heavy to expand the market and strengthen competitive position.
Product quality may be improved, together with the addition of special features, styling, etc. The product mix may be widened.
The emphasis in place will be on securing new channels of distribution. If price skimming has been used in the introductory stage, prices will be reduced to bring in the next price-sensitive layer of the market.

Activity 3.2

Think of a product that you feel has passed through the introduction stage and is now in the growth phase of the product life cycle.

In the maturity stage

Promotion will be aimed at trying to maintain market share. The emphasis is likely to be on sales promotions aimed at both trade and consumer. Advertising is likely to take the form of reminder advertising.
Further product modifications may take place to try and maintain sales. Further features and alternative product variations may be added.
Distribution decisions will stress the importance of ensuring that costs are kept to a minimum compatible with desired levels of customer service.
Price, although needing to be competitive, may be less price-elastic, owing to brand loyalty.

Activity 3.3

Think of 3 products that are in the maturity or saturation phases of the product life cycle.

In the decline stage

At this stage of the product life cycle both the total market and for many brands their market share will gradually be eroded. Those customers still buying the product win tend to be core customers that have bought the product or brand for a long time and still remain loyal. Any new customers buying at this stage will come from the laggards group of adopters, i.e. those who do not seek market innovation and older members of the community who tend to be behind in current developments. Competition will be intense but will gradually reduce as companies leave the market. Some competitors may attempt to re-grow the market and/or capture market share by introducing product improvements or technological advances.
Promotion will tend to be reduced to minimum levels. Emphasis within the promotional mix will again tend to be on sales promotion.
Unprofitable products in the range will be phased out. Similarly, unprofitable/marginal outlets will be phased out. Price elasticity will be high, so that prices and company margins may be cut to maintain sales and dealer loyalty. Trying to maintain sales as long as possible is essential. The organisation may seem to cut costs by, for example, reducing the number of product features. Price should be carefully monitored but remember at this stage the product may be a cash cow and prices should be kept steady if possible so as to maximize this cash flow.

Activity 3.4

Think of a product that you feel has now reached the decline stage of its product life cycle. Chart how long it has taken this product to reach the decline stage.

Criticisms of the product life cycle

Needless to say, the concept of the product life cycle, particularly as a planning tool for marketers, is not without its limitations. Indeed, the concept of the product life cycle has many critics. The main criticisms of the product life cycle have been as follows:

- The stages are not always easily defined. Identifying where one stage ends and another begins, therefore, is often difficult and dangerous in terms of basing marketing plans upon the identification of each stage.

- As we shall see shortly, not all products go through each stage. For example, fad products such as ’cyberpets’ the children’s toy. We shall consider different possible shapes for the product life cycle in the next part of the unit.

- The life cycle is not inevitable, or a given, but rather strategic decisions can change the cycle. In other words, product life cycles may be a function of strategies and not the other way around. For example, the re-positioning of a product can have an impact on the length of the stages.

- The length of life cycles differs enormously and therefore makes the concept difficult to use. So, for example, the life cycle varies between different industries. In electronics, for example, fife cycles are relatively short. Whereas in more traditional industries such as, for example, shipbuilding life cycles can be extremely long.

Marketing for Non-Marketing Managers

The product adoption process

It is essential to consider the product life-cycle concept in conjunction with the product adoption process. From the product adoption process we can learn something about the users or consumers who are the targets of marketing efforts. Its nature is described in Figure 3.5.

The rate at which the product moves through the adoption categories is the function of a process called the diffusion of innovations. It should be specifically noted that this measure is for first-time adopters only; once the product has been purchased, successive purchases do not count in this theory. In other words, what we are looking at is the extent to which each adopter category successively influences another towards adoption. Each of the adopter categories is now discussed in turn.

Innovators are likely to be younger, better educated and relatively affluent, with a higher social status than other customers. In terms of personal characteristics they are likely to be broadminded, receptive people, with a wide range of social relationships. Their product knowledge relies more upon their own efforts to gather objective information than on company literature or sales people.

Early adopters possess many of the characteristics of innovators, but tend to belong to more ’local’ systems. Although their social relationships are less broadly based, they tend to be opinion leaders and are highly influential within their particular group. As such, they are a major target for marketers, whose aim is to have their product accepted as quickly as possible.

The **early majority** group--is slightly above average in socio-economic terms. They rely heavily on the marketing effort for information and are clearly influenced by the opinion leaders of the early adopter category.

Late majority adopters are more likely to adopt innovations because previous groups have generally accepted those innovations. Social pressure or economic considerations are more influential in this group than innate personal characteristics.

Laggards make up the cautious group. They tend to be older, with a relatively low socio-economic status. The innovator group may be considering another newer product before laggards have entirely adopted the original innovation.

Activity 3.5
Consider the ‘home personal computer’. Analyse how this product has spead though a market with which you are familiar and the different groups of consumers who have adopted it at varying stages of diffusion.

Marketing for Non-Marketing Managers

Branding

Brands perform a strong communication role in marketing and are often supported by heavy spends on promotion. Most however, consider branding to be part of the product management element of the marketing mix and so we shall consider the importance of the brand and the elements of managing brands in this unit.
Irrespective of where in the mix we think branding lies, there is little doubt that building and managing successful brands is one of the most important areas and issues in contemporary marketing. There are many reasons for this but amongst some of the most important are as follows.

Brands represent one of the most important and powerful of ways for a company to create and maintain a differential advantage.

- Brands represent case of choice and psychological comfort for consumers.

- Related to the above, prestigious brands confer status and legitimacy for some consumers.

- Successful brands are a major company asset not only in marketing but in financial terms.

Together, these factors have made brands and brand management one of the hottest issues in marketing over the decade of the 90s and if anything this trend is set to continue with an even greater momentum during the first decade of the new millennium. But what are some of the key issues in the brand area of product management, and in particular what makes for successful management of this element of the product. First we need to establish what a brand is.

What is a brand?

In its most prosaic sense a brand, or perhaps more accurately branding is an approach to distinguishing one suppliers product(s) from another suppliers products in the market place. This is best illustrated by the fact that one of the decisions regarding building and managing brands relates to the basis of such distinctions. Again, in its simplest sense a brand is often distinguished through its name. So, for example, in the Cola market we have of course Coca Cola, Pepsi Cola, Virgin Cola and so on. In addition, or alternatively, brands may be distinguished through for example their appearance such as, say, their packaging. Finally a brand may be distinguished through, for example, their image which in turn may comprise of a combination of factors including for example, design, after-sales service, company reputation and so on. Certainly brands are often and usually physically distinguished from their competitor brand counterparts, but actually a brand is much more than simply the physical characteristics of a product. In essence a brand represents a product which has a set of values that meet certain of the customer's psychological needs leading to a perception of added values and feelings of confidence on the part of customers. It is these added values and the psychological and perceptual effects they have on customer choice that constitute the essence of what a brand is.

Marketing for Non-Marketing Managers

The importance of brands in customer choice

It is now recognized that in many markets, and not just as initially felt in the market for fast moving consumer goods, brands and brand values are amongst the most important influences on buying decisions and customer choice. There are many reasons for this but Peter Doyle has suggested the following are amongst two of the major reasons.

Firstly, Doyle believes that in markets now characterized by a wealth of alternative offerings, the task of choosing between competing products has simply become too difficult, time consuming and expensive for most buyers. In addition, the customer is subjected to an enormous variety of competing claims and advertising and selling messages. Reputable brands allow the customer to choose with confidence and reduce the risks, therefore, associated with choice and the complexities thereof.

The second reason according to Doyle we have already touched on and that is that brands are strongly associated with, and bought, for emotional, psychological and status reasons as well as function. It is in fact the brand and the brand image which conveys as much functionality, in a psychological sense, as the product itself Most Colas refresh so why is Coca Cola the world’s lea ding brand in this market? Most watches tell the time accurately so why do some choose a Rolex or a Tag Hauer? As we have moved into the 21st century of course these psychological and emotional reasons associated with brand values reflect the fact that in many societies consumers have moved from merely buying products and services to fulfil basic physical needs and requirements to buying products to satisfy higher needs such as self-actualisation and esteem.

We can see then the importance and relevance of branding in customer choice and company success, but what are the elements of developing and managing successful brand and in particular what are some of the key decisions that the marketer must consider?

Elements of branding and brand management

Amongst the major elements of branding and brand management decisions are the following:

- **Branding versus no branding.** Perhaps an obvious decision but the marketer must decide whether or not to brand the organizations products and services. The alternative is to market products unbranded and therefore essentially as commodity items. As you would expect from our discussion above, increasingly marketers are opting to brand their products hoping to build better value and hence stronger market positions. However, some products are difficult to brand in the sense of being difficult to distinguish in any way from their competitive counterparts. Examples would include: many raw materials, industrial commodities, and so on. Even here, however, an element of branding can be introduced through developing a corporate approach to branding establishing a corporate image. Some marketers of course do not brand their own products but rather leave the branding element to their distributors. So, for example, in many markets we have retailer brands as opposed to company brands.

- **Brand names.** If a marketer decides that branding is the best option, then brand names must be selected. Brand naming is in fact a quite surprisingly complex and technical- area of brand management. There are, for example, legal issues to be considered with regard to ensuring that no other manufacturers brand names are infringed; there are language problems and issues when it comes to international marketing; and finally, related to language issues there can be cultural issues associated with the choice of brand names. Although some of the mistakes made by brand names in the past are potentially amusing or perhaps insulting depending on your view, such as the Slovakian pasta brand 'Kuk & FuW, for the marketer such brand naming mistakes are horrendous. In choosing a brand name, ideally, the name should have the following characteristics:
    1. It should be distinctive.
    2. lt should be legal.
    3. lt should be protectable.
    4. lt should be user-friendly.
    5. lt should match the desired image of the company and the positioning of the brand.

When it comes to naming there are also strategic aspects to consider. In particular the extent to which individual as opposed to company branding will be used. So, for example some organizations rely principally on company brand name establishing this as the dominant brand identity across the range of their products. Examples would include Heinz and Mercedes Benz. At the other extreme companies such as Unilever and Proctor and Gamble prefer a strategy of individual brand names and identities for each of their products.

Establishing and supping successful brands

Although decisions regarding whether or not to brand, naming brands and generic or individual naming brand strategies are important, perhaps the most important element of branding and brand management is how to establish, build and support successful brands. Needless to say, this is not an easy process and will often require considerable skill, investment and patience on the part of the marketer. The following, however, are some of the key steps in building and supporting successful brands.

- Establish target market and customer needs with respect to what constitutes important aspects of brand choice and values.
- Determine the brand values to be established in relation to these needs and considering competitor offerings and brand perceptions.
- Position brands so as to occupy important value positions in the market with regard to customer needs and perceptions, which can be defended.
- Ensure that brand values are communicated to customers.
- Ensure that brand values are supported over time.
- Monitor changes in company and competitor brand positions and update brands as appropriate.

As already mentioned it is not easy to build successful brands from scratch. Many of the market leading brands today have taken many, many years to develop to this position. Moreover, the often-dominant position of the leading brands in a market place can make it very difficult and often impossible to displace them. This may seem surprising given our earlier discussion of the product lifecycle in this unit. After all, the lifecycle concept seems to suggest that brands in particular have finite lives. In fact, the lesson here is that the effective marketer can, through careful attention to re-vitalizing, re-positioning and rationalizing brands keep even the longest established brands fresh and exciting.

Activity 3.6

Think of a long established, successful brand. In what ways have the marketers of this brand maintained its successful position in its market?

Summary

In this unit you have seen that:

- Product decisions lie at the heart of marketing mix tools.
- It is useful to distinguish between the different levels of a product ranging from the inner most core product or basic benefits through to the augmented and potential product levels.
- The product life cycle suggests that products have finite lives and pass through definitive and identifiable product lifecycle stages.
- Branding has become a very important element of the product area of the marketing mix.

Marketing for Non-Marketing Managers

Section 4 The marketing mix: price

Objectives

Upon successful completion of this Section you will:

- Understand the role and importance of price in the marketing mix.
- Appreciate the process of making pricing decisions.
- Understand the different pricing policies, strategies and tactics.

Pricing and the product life cycle

It is often necessary to have different pricing policies for each stage of the product life cycle, due to differing degrees of competition, size of market etc. These are shown in Table 4.1

Table 4.1 Pricing and the product life cycle

Introduction stage	**Growth stage**	**Maturity stage**	**Decline stage**
Skimming policy with high prices, but low profit margin due to high fixed costs	Reduce price to penetrate market further	Price to match or beat competitors	Cut price if not repositioning
Penetration policy to enter the market and gain a high share quickly or to prevent competitors from entering	Retain higher prices in some market segments		Some increases in prices may occur in the late decline stage

Competitors and prices

In all marketing decisions it is important to assess competitors, both existing and potential. This is especially true of pricing decisions. The extent and nature of competition in a market obviously affects the prices the marketer is able to charge. In markets where competitors are numerous and aggressive, and where new competitors can enter easily, price competition is likely to be intense and price elasticity high. On the other hand, where the number of competitors is limited and/or where a company is much more powerful than its competitors, the marketer may enjoy some degree of monopoly power, and price elasticity will be low.

Monopoly power in a market may derive from several sources. For example, a company can gain a degree of monopoly power from control over resources and raw material supplies in a market. Diamonds occur only in certain parts of the world and any company which controls this supply has potentially at least a degree of monopoly power. Monopoly power may also stem from government and/or regulatory restrictions. For example, although recently deregulated in many countries, to some extent airlines may have some degree of monopoly power due to government protection and regulations, which prevent competitors from entering markets. Finally, and many would argue, perhaps the only defensible monopoly is where the monopoly power stems from superior performance on the part of a company which in turn generates very loyal customers and makes it very difficult for other competitors to enter.

Throughout the world most countries have legislation to protect the customer from the worst excesses of monopoly power. Related to this, a number of factors have also tended to increase competition in markets throughout the world. So, for example, the World Trade Organisation promotes world trade without barriers; many governments have acted to deregulate markets and in the United Kingdom, for example, there has been a continuing trend towards privatisation even in public utilities. Finally, increasing global competition and the ubiquitous Internet have, of course, meant more and more competition between companies.

The marketer must carefully assess the prices competitors are charging and/or are likely to charge, and how they may respond to the marketer's own pricing decisions.

Activity 4.1

How are your own company's products and/or services priced? What factors are taken into account when setting them?

Company considerations and prices

All marketing decisions, but again particularly pricing decisions, should reflect and be consistent with company objectives and marketing strategies. So, for example, the pricing decision will probably be different if the company objective is growth as opposed to short-term return on capital.

Similarly pricing decisions should reflect wider considerations, such as company resources, target markets and positioning, and desired company/corporate image. It is important to stress that the pricing decision must be consistent and planned in conjunction with the marketing mix. Finally, pricing strategies will obviously differ where price is used as a major element of competitive strategy, as opposed to where it is used in a more passive way in the marketing strategy. Some companies decide to be price leaders, others price followers.

Activity 4.2

Pricing decisions should reflect company and marketing objectives and strategies. For each of the following indicate whether you think a higher or lower price would generally be appropriate:

1. A company wishes to achieve rapid market growth. Higher/Lower
2. A company wants quick returns on capital employed. Higher/Lower
3. A company wishes to promote a quality image. Higher/Lower
4. A company is targeting socio-economic groups D/E. Higher/Lower

Marketing for Non-Marketing Managers

Communicational aspects of pricing

Another major consideration in pricing decisions is that prices have an important communicational role as regards customers and potential customers. In other words, the price set for a product sends signals to customers about the company and its products. This is why it has been suggested here that pricing decisions must be in line with target markets and positioning and desired company/corporate image. Pricing decisions therefore need to be closely linked to other areas of the mix, but particularly to the promotion elements. So, for example, pricing may be linked to promotional objectives so as to encourage trial of a new product.

Another area where price has a strong communicational aspect is in relation to price as an indicator of quality. Rightly or wrongly, but certainly in the absence of experience or, say, objective information about a product offering, customers will often use price as an indication of the quality of a product offering. This means that, contrary to what many companies appear to believe and certainly practice, it is possible to price a product too low where the price acts as a deterrent to potential customers, and particularly new ones, because of suspicions regarding the quality of a product.

Selection of a pricing method

The three major categories of pricing methods are cost-based methods, competitor-based methods and demand/market-based methods. Each of these will now be examined in turn.

Cost-based methods

Cost-based methods of pricing primarily reflect the accountant's approach, with prices being set primarily on the basis of costs. There are several alternatives for cost-based pricing but the major ones are:

- Full cost/cost plus pricing. One of the simplest and most widely used methods of pricing. Usually a standard percentage is added to the total cost of the product to arrive at a price.
- The strengths of full cost/post plus pricing are as follows:
- It provides a means of trying to ensure that all overheads (e.g. fixed and product costs) are met. In addition, it tries to allow for a profit return on top.
- It should be easy to calculate, as the organisation is more certain about cost than demand.
- It does not require frequent adjustments to the price as demand changes. Where competitors are using cost plus pricing, prices will tend to be similar and therefore price competition is minimised.
- It can be seen to be fairer to both buyers and sellers.

The weaknesses of full cost/cost pricing include:

- This approach to pricing takes no account of other elements in the marketing mix, i.e. product, place, etc.
- It does not reflect consumers' perceptions. If a consumer perceives a product as cheap, it is often associated with poor quality. It does not consider different segments, etc.
- It does not consider the 'needs' and 'wants' of customers. Similarly, this method does not consider competitors' prices.
- It may be more difficult to identify direct costs and overheads for each item.
- It does not consider the elasticity of demand for the product.
- This method only works if the price actually brings in the expected level of sales.
- Marginal cost pricing. Here the distinction between the variable and fixed costs comes into play. With this pricing method the marketer assesses whether or not a contribution to fixed costs can obtained. Hence marginal cost pricing can lead to prices that are less than full cost.

Marginal cost pricing overcomes some of the major weaknesses of full cost/cost plus pricing, for example, it allows prices to reflect demand conditions to a greater extent. However, it is still primarily cost based and hence is not really marketing oriented. In general, cost-based pricing methods are inward looking and neglect marketing considerations.

Competitor-based methods

Sometimes companies base their pricing decisions largely on competitors' prices. Note that this does not mean charging the same prices as competitors; they may be more or less than major competitors. Such pricing is predominant in oligopolistic markets; a larger company may act as the price leader, with smaller companies following this lead. This pricing method is sometimes called 'going rate pricing'.

The advantages of competitor-based pricing include the fact that it is relatively simple, and of course, takes into account competitor considerations. However, one of the disadvantages of this pricing method is that it is essentially passive in approach, especially when following rather than leading competitors on price. The major disadvantage of this approach to pricing, however, is that it does not reflect differences in company cost structures, objectives, resources, and marketing strategies.

A particularly good example of where competition and therefore competitor-based methods of pricing can come to predominate in a market is in the pricing methods used by many of the larger UK supermarkets. Although some companies do try to avoid it, competitor-based pricing is so predominant now in this market that price wars are a regular occurrence and margins have been severely depressed.

Demand/market-based methods

These are the most marketing-oriented methods of pricing. Predominantly prices are set with demand and market considerations in mind. There are several alternative methods available to the marketer that are demand/market-based according to circumstances. Some of the most frequently encountered methods are as follows.

When pricing new products the marketer may choose between **market skimming prices** and **market penetration prices.**

Market skimming is where the marketer charges a high or premium price for a new product, effectively skimming off the cream of demand. The advantages of a market skimming pricing policy are as follows:

- It allows for quick recovery on investment in the new product, such as R&D costs, etc.
- It may confer a prestigious/quality image to customers. Higher prices are likely to appeal to innovator groups.
- It allows for flexibility in reducing prices should the initial price result in too few sales. It also allows for reduced prices for later stages of the product life cycle to appeal to the mass market.

Amongst the disadvantages of a market skimming pricing policy are:

- It may encourage competitors to enter the market more quickly.
- It results in lower levels of sales, and hence fewer economies of scale and experience curve effects, i.e. costs are higher.
- It may attract attention from regulatory bodies, or consumer groups where ’profiteering’ is suspected.

Many marketers have used price skimming as their approach in markets and many will no doubt continue to do so. The innovators in markets in particular want to be amongst the first to purchase new products and are willing and able to pay higher prices to achieve this. Many new electronic consumer products are therefore priced in this way. For example, when first launched, CD players were extremely expensive compared to their prices today. Similarly, the new generation of DVD based players are also an example of a price skimming strategy at work.

Market penetration pricing is the setting of low prices in order to gain rapid market share.

The advantages of a market penetration pricing policy are as follows:

- It should produce larger sales volume.
- This should lead to an organisation gaining a large slice of the market.
- It can prevent competitors from entering the market.

The limitations of a market penetration pricing policy include:

- It is often difficult to raise price after this policy has been used.
- It is less flexible than using a skimming policy.
- It may not be appropriate due to the costs of R&D and competitors' positions.

Petrol retailers in the United Kingdom recently launched their new low-sulphur petrol products, aimed at a cleaner environment, at penetration prices. By pricing these products at slightly lower prices than their other existing products in the range the companies are hoping to switch customers to these cleaner fuel products.

Perceived value pricing is perhaps one of the most marketing-oriented ways of setting prices. The price is set on the perceived value of the product to the customer. It is in fact a variation on 'price at what the market will bear'. The marketer uses other elements of the mix - product, promotion, etc. - to build up the perceived value of the product or service in the mind of the customer. Prices are then set to reflect this value.

Perceived value pricing also is related to the aforementioned 'price as an indicator of quality'. This approach to pricing is particularly useful when pricing products for organisational markets or more expensive consumer products where the usage takes place over a long period of time, such as for example, a car. Mercedes Benz use this approach very successfully in pricing their products. The perceived value of them is heightened through stressing the quality and engineering aspects embodied, but in addition, Mercedes, probably with some justification, stress the lifetime value of their cars, not the least of which is affected by their claims for low depreciation costs.

Psychological pricing has to do with the strong behavioural forces at work in the pricing of products and services. For example, we know that price is used by consumers as an indicator of quality. Similarly, high prices can bestow 'prestige' on the purchaser. Some marketers believe that ending the price with certain numbers can influence buyers, e.g. pricing a product at £9.99 instead of £10.00. This is known as 'odd' pricing. Similarly there is some evidence that rounding prices up from say £9.99 to £10.00 adds to an image of quality in the mind of the customer. This is known as 'even' pricing.

Psychological, and particularly odd pricing are used extensively in retailing with regard to consumer products. Even pricing tends to be used where connotations of quality are important in determining product and brand choice, and is often used in pricing in expensive restaurants or for theatre tickets.

Promotional pricing is perhaps more of a tactical than a strategic approach to pricing, but price is potentially a very powerful tactical weapon. This approach is based on temporary changes in price, usually though not always reductions, in order to boost sales. Examples include:

- **Cash rebates:** A variety of different types of these, but as the term implies they all involve offering some cash reduction or payback to customers. They may be related to, for example, purchasing in quantity or perhaps for buying at particular times of the year. Some holiday package companies are beginning to use systems of cash rebates to tempt customers to book early.

- **Special event pricing:** Again, a variety of different types, but this is where special prices are linked to one-off events. So, for example many companies offered special prices and promotional deals during the 2000 Sydney Olympics.

- **Loss leader pricing:** Used extensively in retail marketing settings, this approach to pricing involves setting very low prices on certain selected products as an attraction to draw customers into the store.

- **Low interest deals:** Obviously, this type of pricing weapon is particularly useful where a customer is likely to want extended credit on a product. So, for example, it is used extensively in marketing cars or other high value consumer products where payments are spread over a period of time.

- **Other promotional deals:** Many sales promotion offers are effectively price offers

including some of those discussed above. But for example ’two for one’ offers, ’buy one get one free’ offers (bogofs), ’20% extra’ offers, etc. - all widely used by marketers - are in fact really promotional pricing offers.

Marketers need to be careful how they use promotional pricing. Excessive use can lead to an image of ’inferior’ products, and/or customers can come to expect low prices.

Overall policies for pricing

It is important that pricing decisions are taken within and guided by a policy for pricing. As with all policies in organisations, such a policy should serve to provide an indication of what is acceptable and unacceptable in decision-making and action. A pricing policy should encompass the following:

- Responsibilities and authority for pricing decisions.
- Discretion with regard to price discounts, special deals, etc.
- Procedures for responding to competitor price changes.
- Procedures for changing prices in the company
- Credit policy

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Activity 4.3

Consider the pricing strategies used in your own company. Comment on what type of pricing strategy is used and why.

Summary

This section has shown that price plays a central and unique role in the marketing mix:

- Pricing decisions include cost-based methods, competitor-based methods and demand/market-based methods.
- Pricing strategies should reflect company objectives and strategies.
- Pricing strategies may vary over the life cycle of a product
- Two alternative pricing strategies for new products are price skimming and price penetration. A company needs to establish pricing policies, including responsibilities for pricing, credit policies and price adjustment policies.

References

Kotler P, (2000) Marketing Management: The Millennium Edition, Prentice Hall

Marketing for Non-Marketing Managers

Section 5 The marketing mix: place

Objectives

Upon completion of this section you will be able to:

- Understand the importance of distribution and logistics in marketing
- Appreciate the process of designing channels of distribution including the factors that affect decisions in this area
- Be aware of some of the key trends and developments in distribution including the effects of new information and communications technology

The role of this element of the marketing mix is to ensure that products and services are available to target customers in the ‘right place’ and at the ‘right time’.

Companies have often gone out of business and new products have failed because of problems with distribution and logistics. Another way of illustrating the role and importance of place in marketing is to consider some of the things that can go wrong and the implications for the marketer and their company. Here are some examples:

- ‘Nobody could be persuaded to stock the product’. Perhaps the marketing implications of this are obvious.

- ‘Most of the retailers who carry the product are out of stock’. Customers go elsewhere, become angry and brand disloyal.

- ‘Ten per cent of our products are being damaged in transit’. Customers, distributors and the board of directors become angry.

- ‘Our competitors will now deliver direct to the customer’s home’. The company has lost 10 per cent market share.

Effective management of place is now recognised as being a major factor in competitive marketing strategy and company success.

Activity 5.1

1. Recall a ‘bad experience’ you have had as a customer or a potential customer for a product/service which you believe were due to badly planned and managed distribution.

What effect did the experience have at the time with regard to your attitudes towards the product or brand and its supplier? Make brief notes here:

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Information Technology and direct marketing: use of databases

Recent advances in information technology have enabled organisations to develop and use sophisticated databases to identify their customers, their behaviour and characteristics, and as a result, to market to them directly without the need for intermediaries. There is no doubt that the database is central to successful direct marketing activities. Increasingly powerful and low cost computing has enabled companies to collect and store customer data, which can be used to determine appropriate segments and target markets, produce mailing lists, store information on customer responses to direct communications, and so on.

Information may be stored regarding transactions with customers in the past, but can also be bought in from, e.g. list agencies for targeting direct mail and other forms of direct marketing contact. The databases can be used to track, analyse and develop relationships with customers. Many companies are now using their databases to develop these relationships as a key part of their overall marketing and promotional strategy.

Databases now include information on customers from a variety of sources which can be layered and amalgamated together to give a comprehensive profile of customers. Examples of sources of information for databases, which facilitate direct marketing, include, for example: census data, postcode data, electoral role data, credit data, transactional data, vehicle ownership data and lifestyle databases.

Often database information is available from commercial databases and indeed there are some companies whose whole business is the provision of data including for example, list companies which specialise in supplying information for direct marketing.

A good example of a company developing business opportunities through the provision of databases and database information is the Royal Mail in the United Kingdom. As would be expected, the Royal Mail's database centres around address and postcode information. However, this information is also linked to vast amounts of other consumer information in their database. In this way postcode addresses can be linked to, for example, purchasing behaviour variables and/or lifestyle information to provide insightful information for marketing decisions. Direct marketers in particular have found this and other similar databases useful.

Activity 5.2

How does your company use databases to provide information about your target customers?

Do you think your company is effective in its direct marketing campaigns? If not, why?

The Internet and the World Wide Web

The growth of the Internet and the World Wide Web represents probably the most significant development in direct marketing. Customers can now shop from home by searching the World Wide Web for products and services to buy on-line.

At first restricted in many countries by the low incidence of PC ownership and by concerns about security, the Internet and the direct marketing which goes with it has finally taken off; there is little doubt that it will continue to grow in importance. In some ways the Internet probably represents the most direct marketing channel possible; other than an Internet Service provider (ISP) and perhaps an Internet search engine no intermediaries are involved in the channel. Hence, as was seen in the previous section, prices can potentially be much lower than through conventional channels.

Above all the Internet may represent one of the most convenient ways of purchasing for the customer. No longer does s/he have to venture out in inclement weather and struggle to find a parking space at the shopping centre; the customer can now not only shop, but shop around from the comfort of their homes. Although the Internet is growing rapidly as a marketing channel throughout Europe and particularly in the United Kingdom, many marketers have still not woken up to the potential and impact from a channel and marketing perspective. Even those companies that have developed websites, have often not fully realised that in order to be effective great care must be taken in the design of their website and its links with search engines.

Put bluntly, website and Internet marketing skills in general are poorly developed in many companies. They make the mistake of thinking that a website is just another way of advertising or presenting information about the company and its products. Many companies and certainly many marketers who would never dream, for example, of designing their own advertising and copy content, are quite content to design their own websites. As a result, many websites are unprofessional, under-utilised and unimpressive. Marketers must realise that website design in all its facets requires specialised skills and knowledge and is far better left to experts.

Activity 5.3

Examine closely your company’s website and comment on its effectiveness as a means of direct marketing to potential and actual customers.

Marketing for Non-Marketing Managers

The Internet offers several advantages compared to other channels, including other direct channels such as mail order, telemarketing and so on. Some of these advantages accrue to the marketer and some to the customer, but the real driving forces in the growth of this channel are those where the advantages accrue to both. Some of the advantages which serve to explain the growth of the Internet as a marketing channel include:

- Convenience
- Potential for lower prices to customers
- Potential for customers to shop around
- Potential for marketers to build databases based on customer visits, information provision etc.
- Flexibility and speed, e.g. customer orders can be dealt with immediately, quick delivery, etc.
- Websites potentially much more interesting than other direct promotional material, i.e. can include movement and sound.

In addition to PC ownership and the cost of access to the Internet, probably the major factor determining future growth of this area of marketing will be consumer attitudes towards security factors. A recent government survey in the United Kingdom, for example, indicated that worries about security amongst Internet users represents the major barrier to an increased growth in shopping via this channel. Some 70% of regular Internet users expressed concern and said that it was the main reason for their not having bought anything through this channel. Certainly there have been problems in some instances with, for example, protecting customers' information and interests, but perhaps as much as anything this is really a marketing problem, i.e. potential shoppers need to be convinced and persuaded about the levels of security in Internet shopping systems.

Despite these concerns, however, the advantages of the Internet as a channel of distribution mean that it will certainly continue to grow in importance.

Trends and developments in channels of distribution

Among some of the most significant trends and developments affecting channels of distribution are the following:

- *The increased power of the retailers*. In many economically developed countries, and particularly in the United Kingdom, retailing has become very concentrated. The national multiples are now very powerful and can often dictate terms to suppliers.

- *The growth of own branding.* Related to the above, the power of the retailers has enabled them to market their own brands in direct competition with the suppliers' brands.

- *The growth of 'vertical' marketing channels.* Vertical marketing channels are channels where the different levels and members in a channel are co-ordinated or managed by a single channel member so as to achieve efficient and effective distribution to target market customers. Vertical marketing channels also potentially reduce the inherent conflict between different levels and members in a channel.

- *The growth of horizontal marketing channels.* This is where institutions at the same level of the marketing channel are combined under one management. Horizontal integration is used to achieve efficiencies and economies of scale in areas such as purchasing, promotion and so on, but can lead
to a decrease in flexibility.

Summary

This section has shown that:

- Place decisions have a major impact on levels of customer satisfaction.
- Place costs a company a great deal.
- Channels are one of the most dynamic areas of marketing, with many changes taking place. These are often underpinned by developments and changes in technology, in particular the growth of more direct channels based on electronic and communication technologies.

References

Jobber D, (2001), *Principles and Practice of Marketing*, 3rd Ed, McGraw Hill

Section 6 The marketing mix: promotion

Learning Objectives

Upon successful completion of this section you will be able to:

- Understand the range of tools that comprise the marketing communications mix.
- Understand the factors that contribute to the development and implementation of the marketing communications mix.
- Be aware of key trends and developments in promotion.

The promotional mix

The five elements of the promotional mix are as follows:

- Advertising
- Personal selling
- Sales promotion
- Publicity and public relations
- Direct mail

Definition: Advertising
Any paid-for type of marketing communication that is non-personal, aimed at a specific target audience through a mass media channel.

In many markets advertising constitutes the largest spend area for marketing communications, especially in consumer goods markets.

Activity 6.1

1. List the main advantages of advertising as a promotional tool.

2. How does your own company use advertising as a promotional tool?

Marketing for Non-Marketing Managers

Personal selling

Personal selling is an important promotional tool. In many industrial markets spending on personal selling is a major promotional spend.

Definition: Promotional spend

A paid-for type of marketing communication that normally calls for personal and often one-to-one contact between marketer and customer.

Sales promotion

In some markets spending on sales promotion is equivalent to or greater than spending on either advertising or personal selling.

Definition: Sales promotion

Any intermittent short-term incentive designed to encourage purchase or sale of a product or service. Usually but not always impersonal in nature and usually non-media-based**.**

Types of sales promotion activity and tools include:

- Premiums
- Coupons
- Self-liquidating offers
- Buy-back allowances
- Bargain packages
- Giveaways
- Dealer loaders
- Discounts and cash allowances
- Merchandising allowances
- Exhibitions
- Sales contests

Activity 6.2

1. With reference to your own company, list the sales promotional activities that are used to increase sales and profitability.

2. Which are the most and least successful, and why?

Publicity and public relations

Definition: Publicity
Publicity is any form of news story and information about an organisation and/or its products, transmitted through a mass medium, and at no charge to recipients. Public relations are activities designed to create understanding and goodwill among its publics.

Publicity and public relations are often planned together, frequently using the services of a specialist publicity and PR agency. Some of the potential disadvantages associated with publicity and PR are as follows:

- Difficult to control media comments/reactions to publicity and PR.
- Difficult to assess impact, if any, on sales/profits.
- More difficult to control content and timing of communication.

Activity 6.3

Identify an occasion when a company you know of has received ‘bad publicity’.

What do you think was the cause of the negative publicity?

How did the company handle the situation and try to reduce its impact?

Marketing for Non-Marketing Managers

Factors affecting the choice of the promotional mix

Many factors will affect the choice of an appropriate promotional mix. Some of the most important of these are as follows.

Target market/customer type

Target markets or more broadly the type of customer being targeted will affect the choice of the promotional mix. For the industrial customer it is more likely that personal selling will predominate in the promotional mix. This is because personal selling techniques are usually much more effective for industrial buyers as the products are often technical and the message can be tailored to the needs of the buyer.

In addition, because there are likely to be fewer numbers of buyers in the market, mass advertising is rarely appropriate. What advertising is done will probably be only a small amount conducted in the trade press. Also useful in the promotional mix to industrial buyers will be sales promotions, and particularly techniques such as discounts for bulk purchase, free trials, etc. Personal selling also helps in this type of market because there are different members of the decision-making unit (DMU). Finally, often the industrial marketer has a smaller promotional budget, which restricts the use of some of the more expensive promotional tools.

In the consumer market on the other hand, advertising is likely to predominate in the promotional mix. Personal selling will normally be confined only to more expensive consumer products. Sales promotion and direct mail, however, will also be useful in this market, especially for encouraging brand switching, initial purchasing and in the case of direct mail, enquiries.

Characteristics and cost effectiveness of the promotional tools

As implied in the discussion of the promotional mix in industrial versus consumer markets above, each of the promotional tools has its own characteristics and relative advantages and disadvantages compared to the other methods. This means that some tools are much more appropriate and hence cost-effective in achieving certain objectives or reaching certain target customers. So, for example, advertising is much more appropriate where there are large numbers of geographically dispersed customers. It is, however, an impersonal form of promotion and therefore is inappropriate where customers require a high degree of personal contact and/or source credibility.

On the other hand, personal selling, although expensive from the point of view of the cost

of each sales person, can be a very cost-effective way of communicating with customers. This is especially the case where products are technical or complex, and therefore the customer may require clarification. Sales promotion is particularly useful for encouraging one-off purchasing and short-term interest in a product or service. If used excessively however, sales promotion can cheapen the image of a product or company.

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The Internet as a promotional tool

The Internet is a promotional tool, which is increasingly being used by marketers throughout the world. Some of the major reasons for the growth of the Internet for advertising and promotion include the following:

- Dependent on the nature of the web site and the advertising, the customer may often respond to the advertising immediately by placing an order.

- Carefully designed web sites can be used to encourage an element of two-way communication with a target audience with, for example, questions being used to prompt responses from the customer and/or being used to respond to customers' enquiries.

- Compared to print and even television advertising, Internet advertising has a more insistent presence. Conventional advertisers are increasingly worried for example, about customers simply 'turning off' literally or mentally when confronted with advertising. The Internet still has an element of novelty for many users.

- Nominal costs for advertising on the Internet are substantially lower than when using conventional media channels. For many companies the cost of, say television advertising, on a national, let alone an international scale, has become prohibitive.

- Finally, much more information both in extent and detail can be provided through an Internet site, and again, the customer can to some extent pick and choose which elements of the information he or she wishes to receive.

Clearly then the Internet has much to recommend it as a promotional tool, but as with its use as a channel, its use as a promotional tool is still primarily determined by access to and use of the Internet by customers. We have seen that this access is variable throughout the world with the highest incidence of access to, and use of, being in countries like the United States, Japan, and the United Kingdom. In some other parts of the world Internet access, particularly for home shopping use is still in its infancy. At the moment therefore, the international marketer in particular is restricted to some extent. However, this restriction is to some extent offset by the fact that by definition at least in principle the World Wide Web is global.

Advertising and promoting via the Internet involves the same key considerations as in developing promotional and advertising campaigns through conventional channels. So, for example, the marketer still has to determine campaign objectives, identify the target audience, create the promotional message, develop budgets, implement the campaign and measure and evaluate performance.

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Activity 6.4

Examine closely your company's web site. How effectively does it promote products /services to customers and what aspects of the promotional mix are included?

Summary

This final section of the unit has:

- Identified the key components of the promotional mix.
- Identified and explained the key steps and considerations in planning marketing communications.
- Acknowledged the evidence that developments in technology, particularly the Internet, are having a significant impact on promotion in marketing.

References

Kotler P and Armstrong G, (1999), *Principles of Marketing*, 8th Ed, Prentice Hall

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Potiential Product

Augmented Product

Expected Product

Actual/Basic Product

Core Product

Figure 3.5 the product adoption process