ESSENTIALS OF MARKETING

JIM BLYTHE AND JANE MARTIN

Seventh Edition

Pearson

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PREFACE TO THE SEVENTH EDITION

Back in 1996, when the first edition of this book was being written, the Internet was in its infancy. Mobile phones were the possessions of the wealthy, and smartphones were only able to send faxes and act as diaries – connecting to the Internet was still a dream. The quickest way of contacting customers directly was a mailshot, and most people did not have private email addresses at all.

In the intervening 23 years, the communications revolution has transformed marketing. Yet the basics remain the same – marketers are still responsible for managing the exchange process, they are still using whichever communication methods are the most appropriate, and they still monitor the needs and wants of potential customers. At the same time, there is greater emphasis on ethics, the physical environment, and on fair trade.

In this edition we have tried to reflect these shifts in the business environment: we have added some features to the book, we have rewritten much of the communications chapter, and we have revisited the consumer behaviour chapter. We have written entirely new case studies to reflect these changes, and to show how marketing theory is applied by real companies, in the real world.

Of course, this book is not solely the product of its authors. We would like to thank our friends and colleagues at Pearson for their support and advice, our colleagues in our respective universities, and of course our students, who continue to challenge us, give us new ideas and keep us in contact with our own market.

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What do marketers do?

Objectives

After reading this chapter you should be able to:

- Describe the key roles marketers undertake
- Explain the responsibilities of various types of marketing manager
- Explain the core concepts of marketing
- Explain how marketing activities fit in with other business disciplines
- Describe the development of the marketing concept.

Introduction

This chapter is an introduction to the basic concepts of marketing, seen in terms of the roles that marketers carry out in their day-to-day jobs. Although marketers have many different job titles, what they have in common is the same orientation towards running the organisation; marketing is concerned with ensuring the closest possible fit between what the organisation does and what its customers need and want.

About marketing

Marketing is the term given to those activities that occur at the interface between the organisation and its customers. It comes from the original concept of a marketplace, where buyers and sellers would come together to conduct transactions (or exchanges) for their mutual benefit. The aim of marketing as a discipline is to ensure that customers will conduct exchanges with the marketer's organisation rather than with the other 'stallholders' or key competitors. To do this effectively, marketers must provide those customers with what they want to buy, at prices that represent value for money in the most convenient way possible.

This basic concept of managing exchange leads us on to the most important concept in marketing, that of customer centrality. Marketing, above all else, uses the customer (who is often also the consumer) and his or her needs as the starting point for all decisions. Of all the building blocks of marketing, in both theory and practice, this is far and away the most important: it is also often difficult to do because it involves thinking like someone else.

One of the most widely used definitions of marketing is:

> **Marketing is the management process which identifies, anticipates, and supplies customer requirements efficiently and profitably.** (The UK Chartered Institute of Marketing)

This definition from the Chartered Institute of Marketing (CIM) has been criticised because it takes profit as being the only outcome of marketing, whereas marketing approaches and techniques are widely used by organisations such as charities and government departments that do not have profit as their goal. It also fails to take account of the increasing role of marketing in a broader social context, and for appearing to regard consumers as being passive in the process.

The American Marketing Association (AMA) definition was also criticised for this failing, so the organisation chose to update their definition in 2013.

This definition goes some way to developing the widening role of marketing, but the notion of the consumer having a more proactive role in the process has still not been fully addressed.

Interestingly, neither definition includes the word 'consumer'. This may be because there are many customers who buy the product, but do not themselves consume it (for example, a grocery supermarket buyer might buy thousands of cans of beans, but dislike beans himself). Equally, someone can be a consumer without actually making the buying decision – an example would be a child whose parents make most of the decisions about food, clothing, entertainment and so forth on behalf of the child.

To the non-marketer, marketing often carries negative connotations; there is a popular view that marketing is about persuading people to buy things they do not want, or about cheating people. In fact, marketing practitioners have the responsibility for ensuring that the customer comes first in the firm's thinking, whereas other professionals might be more concerned with getting the balance sheet to look right or getting the production line running smoothly. Marketers are well aware that the average customer will not keep coming back to a firm that does not provide good products and services at an acceptable price, and without customers there is no business.

Competition in many markets is fierce. If there is room for four companies in a given market, there will be five companies, each trying to maximise their market share; the customer is king in that situation, and firms that ignore the customer's needs will go out of business. Marketers therefore focus their attention entirely on the customer, and put the customer at the centre of the business.

The development of the marketing concept

The marketing concept is a fairly recent one, and has been preceded by other business philosophies. These philosophies have not necessarily come about in the straight progression implied by the following section. Although at different times there may have been a general way in which business was conducted, there have certainly been considerable overlaps between the different philosophies or orientations, and many firms have not been part of this general trend.

Production orientation

During the nineteenth century it was often thought that people would buy anything, provided it was cheap enough. This belief had some truth in it, since the invention of the steam engine allowed very much cheaper mass-produced items to be made. If an item was on sale at around one-tenth the price of the hand-made equivalent, most customers were prepared to accept poorer quality or an article that didn't exactly fit their needs. The prevailing attitude among manufacturers was that getting production right was all that mattered; this is called **production orientation**. This paradigm usually prevails in market conditions under which demand greatly exceeds supply, and is therefore somewhat rare in the twenty-first century (although it does exist in some markets, for example in some Communist countries).

With rising affluence, rapidly developing emerging markets and continuous technological change, people are no longer prepared to accept standardised products. Global markets allow manufacturers to reap the benefits of mass production despite providing more specialised products; therefore the extra cost of having something that fits one's needs more exactly is not high enough to make much difference.

Product orientation

Because different people have different needs, some manufacturers thought that an ideal product could be made, one that all (or most) customers would want. Engineers and designers developed comprehensively equipped products, with more and 'better' features, in an attempt to please everybody. This philosophy is known as product orientation.

Product orientation tends to lead to ever-more complex products at ever-increasing prices; customers are being asked to pay for features that they may not need, or that may even be regarded as drawbacks.

Sales orientation

As manufacturing capacity increases, supply will tend to outstrip demand. In this scenario, some manufacturers take the view that a 'born salesperson' can sell anything to anybody and therefore enough salespeople could get rid of the surplus products, provided they are determined enough and don't take no for an answer. This is called **sales orientation**, and relies on the premise that the customer can be fooled, the customer will not mind being fooled and will let you do it again later, and that if there are problems with the product these can be glossed over by a fast-talking sales representative. Up until the early 1950s, therefore, personal selling and advertising were regarded as the most important (often the only) marketing activities.

Sales orientation takes the view that customers will not ordinarily buy enough of the firm's products to meet the firm's needs, and therefore they will need to be persuaded to buy more. Sales orientation is therefore concerned with the needs of the seller, not with the needs of the buyer (Levitt 1960). Essentially, what these businesses try to do is to produce a product with given characteristics, then change the consumers to fit it. This is, of course, extremely difficult to do in practice.

Selling orientation and the practice of selling are two different things – today, salespeople are usually concerned with developing a range of relationship-building activities with their customers in order to create trust (Rowe *et al.* 2016), and ultimately encourage them to come back and buy more. This is an important distinction that is often missed by marketing theorists; there is more on this later in the book (Chapter 9). In the meantime, though, selling skills are a necessary factor in successful marketing (Wachner *et al.* 2009; Troilo *et al.* 2009; Le Meunier-Fitzhugh & Piercy 2010).

Customer orientation

Today's marketers take the view that customers are intelligent enough to know what they need, can recognise value for money when they see it, and will not buy again from the firm if they do not get value for money. This is the basis of the *marketing concept*.

Putting the customer at the centre of all the organisation's activities is more easily said than done. The marketing concept affects all areas of the business, from production (where the engineers and designers have to produce items that meet customers' needs) through to after-sales services (where customer complaints need to be taken seriously). The marketing concept is hard to implement because, unlike the sales orientation approach which seeks to change the customers' behaviour to fit the organisation's aims, the marketing concept seeks to change the organisation's behaviour to fit one or more groups of customers who have similar needs. This means that marketers often meet resistance from within their own organisations.

At this point, it may be useful to remind ourselves of the distinction between customers and consumers. Customers are the people who buy the product; consumers are those who consume it. Customers could therefore be professional buyers who are purchasing supplies for a company, or possibly a parent buying toys for a child. The customer might also be the consumer, of course, but the consumer could equally be the recipient of a gift or the user of a service which is paid for by others.

Critical thinking

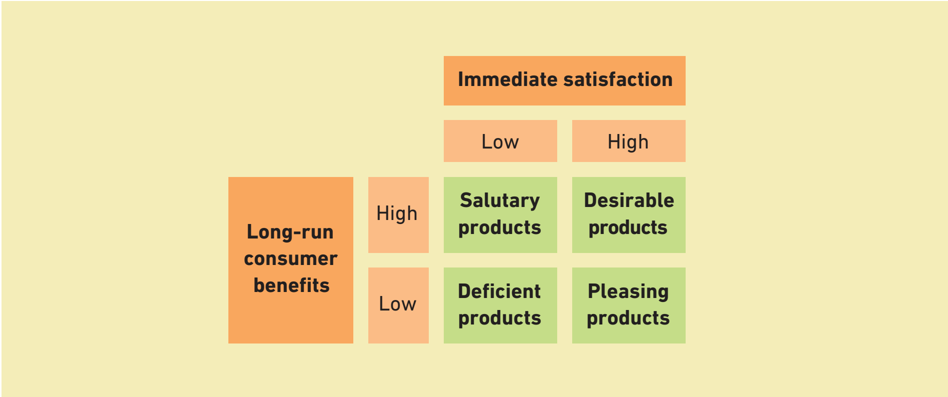
Many companies say that they are customer (or consumer) orientated, but how true is this? Do companies seriously expect us to believe that the customer comes first when they reserve the best parking space for the managing director? Or that the customer comes first when they raise their prices? Or that the customer comes first when the call centre closes at weekends?

In fact, would it be fairer to say that we always consider the customer's needs, since this is the best way of getting their money off them?

Societal marketing

Societal marketing holds that marketers should take some responsibility for the needs of society at large, and for the sustainability of their production activities. This orientation moves the focus away from the immediate exchanges between an organisation and its customers, and even away from the relationship between

Figure 1.1 Societal classification of new products



Source: Kotler, P., Armstrong, G., Saunders, J. and Wong, V., 2001, *Principles of Marketing.* Pearson Education Limited.

the organisation and its consumers, and towards the long-term effects on society at large. This need not conflict with the immediate needs of the organisation's consumers: for example, the Body Shop operates a highly successful consumer-orientated business while still promising (and delivering) low environmental impact.

Kotler *et al.* (2001) say that products can be classified according to their immediate satisfaction and their long-run consumer benefits. Figure 1.1 illustrates this. In the diagram, a product which has high long-term benefits and is also highly satisfying is classified as a desirable product. For example, a natural fruit juice which is high in vitamins and also tastes good might fit this category. A product which has long-term benefits but which is not immediately satisfying, for example a household smoke alarm, is a salutary product. Products that are bad for consumers in the long run, but that are immediately satisfying (such as alcohol or confectionery) are called pleasing products: research shows that people believe that 'unhealthy' foods taste better (Raghunathan *et al.* 2006; Anderson & Mirosa 2014; Petit *et al.* 2016). Finally, products which are neither good for consumers nor satisfying are called deficient products; examples might include ineffective slimming products, or exercise equipment which is poorly designed and causes injury. In theory, firms should aim to produce desirable products – but consumers often choose the pleasing products instead; for example, eating unhealthy foods when they feel unhappy or stressed (Garg *et al.* 2006; Gamble *et al.* 2010; Huang *et al.* 2017).

The societal marketing concept includes the marketing concept in that it recognises the needs of individual consumers, but it goes further in that it aims to improve the well-being of the wider society in which the firm operates. This means that the organisation takes on responsibility for good citizenship, rather than expecting consumers to understand or take account of the wider implications of their consumption behaviour. The problem is that firms need to balance three factors: customer needs, company profits (or other objectives) and the needs of society as a whole. Since competing companies may not be so concerned about society at large, it is not clear how societal marketing will contribute to creating competitive advantage; it is very clear how customer orientation helps firms to compete, however.

Ultimately, consumer orientation and societal marketing both seek to ensure that the organisation (whether a business or a non-profit organisation) should be looking to create greater value for customers, and thus meet the competition better (or even create competition in new markets).

Relationship marketing

During the 1990s, marketing thinking moved towards the **relationship marketing** concept. Traditional marketing has tended to concentrate on the single transaction with a short-term focus. Relationship marketing focuses on the 'lifetime' value of the customer. For example, a motor manufacturer might have one model aimed at young drivers, another aimed at families with children, and another aimed at middle-aged motorists. Each segment might be treated as a separate and unique entity. Under a relationship marketing paradigm, the organisation recognises that the young motorist will pass through each lifestyle stage in turn, and is then a customer for a different model each time. Relationship marketing aims to determine who will be (or could be) the most loyal customer throughout his or her life: marketers are responsible for establishing and maintaining these relationships.

In practice, relationship marketing has met with its greatest success in the business-to-business world. Companies which sell to other companies have generally been most proactive in establishing long-term cooperative relationships; for example, aircraft engine manufacturers such as Rolls-Royce and Pratt & Whitney need to establish close relationships with aircraft manufacturers such as Airbus and Boeing, since the designs of airframes and engines need to be coordinated. The ability to adapt the designs to meet the needs of the other company has obvious advantages in terms of cost savings and (eventually) greater profits, but it also has an advantage from the supplier's viewpoint in that close cooperation makes it harder for competitors to enter the market. Customers that have committed to a shared design process are unlikely to want to start the process all over again with another supplier. Creating this kind of loyalty has a significant effect on future revenues (Andreassen 1995).

It is a commonly held belief that it costs five times more to attract a new customer than to keep an existing one. Therefore the creation of customer loyalty is a key element in relationship marketing (Ravald & Gronroos 1996; Tahmasbizadeh *et al.* 2016) as is the establishment of a mutually rewarding connection, and a willingness to adapt behaviour to maintain the relationship (Takala & Uusitalo 1996).

There is more on relationship marketing throughout the text: it has become, like the Internet, central to marketing practice in recent years.

Critical thinking

Do we really want to have a relationship with the companies which supply our needs? Of course, politeness is one thing – but we aren't going to go on a long walking holiday with our bank, are we? Maybe the relationship is a bit one-sided: the company wants to lock us in to a long-term deal, and offers us all kinds of incentives to do so, whereas actually we would rather be free to choose between firms. We soon learn that threatening to leave means we get freebies, so the more they try to hang on to us, the more we take advantage!

Hardly the basis for a long-term relationship, is it?

Marketing and other business disciplines

As the marketing concept has evolved from production orientation through to customer orientation, the role marketing occupies relative to other business functions has also evolved. Under a production-orientated regime, marketing usually occupies a departmental role; the marketing role is contained within a marketing department which carries out the communications functions of the firm.

If customers are central to the organisation's thinking, marketers act as the moderating group. Marketing can be seen in several ways, as follows:

- As a moderating force in the exchange process.
- As the driving philosophy of the business. Looked at in this way, everyone in the organisation becomes concerned primarily with adding value for the customer.
- As a managerial function. This aspect of marketing means that marketers manage resources to obtain the most positive responses from customers.
- As a dynamic operation, requiring analysis, planning and action. Because customers' needs, tastes and requirements change rapidly, marketing needs to change also. A product-orientated firm does not have this difficulty, since it seeks to change its customer base (either by persuading customers to buy, or by seeking out new customers) rather than change the product or the overall offer.
- As a catalyst for change. Market-orientated firms need to change to meet customer need: marketers are at the forefront of these changes because they represent the customer.

Integration of different functions will almost always improve performance (Lyus *et al.* 2011), and in a customer-orientated firm it is the marketing people who are best placed to coordinate activities to maximise customer satisfaction. Bringing colleagues from other disciplines on board in developing a marketing orientation is as essential to this process as communicating with customers (Korhonen-Sande 2010; Gonzalez-Zapatero *et al.* 2016).

Marketing on a day-to-day basis

Marketers deal with the **marketing mix**, which was described by McCarthy (1987[1960]) as the four Ps of marketing. These are:

- *Product*. The product should fit the task the target consumers want it for, it should work and it should be what the consumers expected to get.
- *Place*. The product should be easily available from wherever the firm's target group of customers feel it most convenient to purchase. This may be an online store, a high-street shop, it may be mail order through a catalogue or from a magazine coupon, or it may even be doorstep delivery.
- *Promotion*. Advertising, public relations, sales promotion, personal selling and all the other communications tools should put across the organisation's message in a way that fits what the particular group of consumers and customers would like to hear, whether it be informative or appealing to the emotions and through the media channels that they prefer to receive messages through (Internet, mobile messaging, social media, TV, etc.).
- *Price*. The product should always be seen as representing good value for money. This does not necessarily mean that it should be the cheapest available; one of the main tenets of the marketing concept is that customers are usually prepared to pay a little more for something that really works well for them.

The 4-P model has been useful when applied to the manufacture and marketing of physical products, but with the increase in services provision the model does not provide a full enough picture. In 1981 Booms and Bitner proposed a 7-P framework to include the following additional factors:

- **People**. Virtually all services are reliant on people to perform them, very often dealing directly with the consumer: for example, the waiters in restaurants form a crucial part of the total experience for the consumers. In effect, the waiter is part of the product the consumer is buying.
- *Process*. Since services are usually carried out with the consumer present, the process by which the service is delivered is, again, part of what the consumer is paying for. For example, there is a great deal of difference between a silver-service meal in an upmarket restaurant and a hamburger bought from a fast-food outlet. A consumer seeking a fast process will prefer the fast-food place, whereas a consumer seeking an evening out might prefer the slower process of the restaurant.
- *Physical evidence*. Almost all services contain some physical elements: for example, a restaurant meal is a physical thing, even if the bulk of the bill goes towards providing the intangible elements of the service (the decor, the atmosphere, the waiters, even the dishwashers). Likewise, a hairdressing salon provides a completed hairdo, and even an insurance company provides glossy documentation for the policies it issues.

In fact, virtually all products combine a physical product with a service element. In some cases, the service element is the main factor in distinguishing one product from another, especially in business-to-business markets (Raddats & Easingwood 2010).

Each of the above elements of the marketing mix will be dealt with in greater detail throughout the text, but it is important to recognise that the elements need to be combined as a mix. Like a recipe, one ingredient of the mix will not substitute for another, and each ingredient must be added in the right quantities at the right time if the mix is to prove successful in achieving consumer satisfaction. Each organisation will tend to have its own approach to the mix, and therefore no two firms will follow exactly the same marketing approach. This is one of the features that distinguishes marketing from the other business disciplines such as accountancy or company law. The marketing mix concept is also useful as a way of thinking about marketing, but in practice many marketing activities do not fall neatly within the boxes: there is considerable overlap. For example, a money-off special offer overlaps between pricing and sales promotion.

To illustrate how the marketing concept is implemented in practice, the next section looks at some of the jobs that marketers have.

Marketing jobs

In a sense, everybody in the organisation is responsible to some extent for ensuring that the consumers' needs are met. Clearly, though, some individuals will have greater responsibility than others for this; some of the job titles that marketers hold are shown in Table 1.1.

In market-orientated companies it is the customer who has the major say in what happens, and it is the marketing team that works within the company to ensure that everything is geared to the customer's (and consumer's) needs. Not all companies are market-orientated in the sense of putting customer satisfaction at the core of everything the business does; even some marketing managers see marketing as purely a departmental responsibility rather than an organisational one (Hooley *et al.* 1990). In fact, everyone within the firm has some responsibility for ensuring customer satisfaction; those who have direct contact with the firm's customers have a particular role to play (for example, secretaries, delivery drivers, receptionists, telephonists and credit controllers).

The **marketing orientation** is adopted because it works better than any other orientation; customers are more likely to spend money on goods and services that meet their needs than on those that do not. In other words, looking after customers is good for business, and organisations that adopt a customer orientation are more likely to meet their objectives than those that do not. This applies even in non-profit

Table 1.1 Marketing job titles and descriptions

Job title	Job description
Brand manager	Responsible for all the decisions concerning a particular brand. This concept was originally introduced at Mars; brand managers compete with each other as well as with other firms for market share in the chocolate bar market, even though they are all working for the same firm. This tends to result in greater efforts and greater corporate share all round.
Digital marketing manager	Responsible for devising, implementing and developing a digital marketing strategy. They must drive, innovate and explore all new digital marketing opportunities in order to communicate effectively with the consumer.
Product manager	Responsible for all the decisions around a group of similar products within a firm. For example, a biscuit manufacturer might have one product manager in charge of chocolate-covered snack biscuits, and another in charge of savoury biscuits for cheese.
Sales manager	Responsible for controlling, training and motivating the salesforce and the sales back-up team. Sales managers often also have a role in credit control, since they are in the best position to know the individual customers and can give an opinion on the customer's creditworthiness or (as a last resort) on the least damaging way to get the customer to pay up.
Content manager	Among many other roles, typically they create/edit copy and imagery for online promotions as well as managing blogs, undertaking webinar programme planning and production. Also responsible for ensuring that all content fits with the brand (is 'on-message') and is consistent in terms of style, quality, tone of voice, etc.
Salesperson	Finds out what each customer needs, and tries to arrange for it to be delivered. Salespeople do this by selecting from the range of products that the company has on offer, and explaining those products in terms of how they will meet the client's needs.
Advertising manager	Controls media purchases, deals with advertising agencies, generally handles the flow of information to the company's customers and consumers.
Public relations manager	Monitors the company's public image and applies corrective measures if the company is acquiring a bad reputation. Organises events and activities that will put the company in a good light, and tries to ensure that the company behaves responsibly towards its wider publics.
Market research manager	Collects evidence about what it is that consumers really need, and what they would really like to buy. Sometimes this also includes monitoring competitors' activity so that the company can take action early to counteract it.
Webmaster	Controls the design and maintenance of the corporate website, including regular updates to reflect changes in the product range, and arranges the design of new promotions (for example, online games and viral marketing activities).

organisations; charities, government departments and other organisations that offer benefits to 'customers' also function more effectively if they put their customers at the centre of everything they do (Modi & Mishra 2010).

Key concepts in marketing

Apart from customer centrality, there are several more key concepts which are the running themes of any marketing course or career. These will be dealt with in more detail later in the text, but they are as follows:

- *Managing exchange*. This goes further than promoting exchange through clever advertising and sales techniques; it also means ensuring that goods are where they should be when they should be, and ensuring that the products themselves are worthy of exchange. Viewing marketing as the management of the exchange process gives clear guidance to people working within the firm.
- *Segmentation and targeting*. This is the idea that people can be grouped according to their needs (i.e. there are groups of potential customers who are looking for the same type of product) and that we can, and should, devote our limited resources to meeting the needs of a few groups rather than trying to please everybody.
- *Positioning*. As marketers, we often seek to create an appropriate attitude towards our brands, and the firms for whom we work. This perception needs to be accurate, at least for our target customers, otherwise they will be disappointed and will not do business with us again. The position our brand occupies in the minds of the target group is therefore critical, and in this context the brand is the focusing device for all our planning – it is the lens through which our customers see us.

Definitions of some marketing terms

Customers are the people or firms who buy products; *consumers* actually use the product, or consume it. Frequently customers are also consumers, so the terms might be used interchangeably, but often the person who buys a product is not the one who ultimately consumes it.

A **need** is a perceived lack of something. This implies that the individual not only does not have a particular item, but also is aware of not having it. This definition has nothing to do with necessity; human beings are complex, and have needs which go far beyond mere survival. In wealthy Western countries, for example, most people eat for pleasure rather than from a fear that they might die without eating – the need for enjoyment comes long before there is a necessity for food.

A **want**, on the other hand, is a specific satisfier for a need. An individual might need food (hunger being awareness of the lack of food) and want (for example) a curry rather than a sandwich.

Wants become **demands** when the potential customer also has the means to pay for the product. Some marketers have made their fortunes from finding ways for people to pay for the products, rather than from merely producing the product. The demand for a given product is therefore a function of need, want and ability to pay.

A **product** is a bundle of benefits. This is a consumer-orientated view, because consumers will buy a product only if they feel it will be of benefit. Diners in a restaurant are not merely buying a full stomach; they are buying a pleasant evening out. Customers in a bar are not buying fizzy water with alcohol and flavourings in it; they are buying a social life. Here a distinction should be made between *physical goods* and *services*. For marketers, both of these are products, since they may well offer the same benefits to the consumer. An afternoon at a football match or a case of beer might serve the same morale-raising function for some people. Services and physical goods are difficult to distinguish between, because most services have a physical good attached to them and most physical goods have a service element attached to them. The usual definition of services says that they are mainly intangible, that production usually happens at the same time as consumption, that they are highly perishable, and that services cannot be owned (in the sense that there is no second-hand market for them).

Publics are any organisations or individuals that have actual or potential influence on the marketing organisation. This is an important definition for public relations practitioners, because they have the task of monitoring and adjusting the firm's activities relative to all the firm's publics, which can include government departments, competitors, outside pressure groups, employees, the local community and so forth.

Markets are all the actual and potential buyers of the firm's products. Few firms can capture 100 per cent of the market for their products; marketers more commonly aim for whichever portions of the market the firm can best serve. The remainder of the customers would go to the competition, or just be people who never hear of the product and therefore do not buy it. Even giant firms such as Coca-Cola have less than half of the market for their product category. For this reason, marketers usually break down the overall market into *segments* (groups of customers with similar needs and characteristics) or even *niches* (very specific need and product categories).

Price is the amount of money for which a product is sold. *Value* is what the product is worth to the customer or consumer. The value is always higher than the price, or no business would result, but individual customers will make a judgement as to whether the product is good value or poor value. If the product is poor value, the customer will try to find alternatives; if the product is good value, the customer will remain loyal. The decision about value for money is, of course, subjective; what one customer considers a great bargain, another customer might see as a waste of good money.

Meeting marketing resistance

Most organisations still tend to see marketing as one function of the business, rather than seeing it as the whole purpose of the business. Marketing departments are frequently seen as vehicles for selling the company's products by whatever means present themselves, and marketers are often seen as wizards who can manipulate consumers into buying things they do not really want or need. This means that many marketers find that they meet resistance from within the firm when they try to introduce marketing thinking.

This is at least in part due to the fact that the practice of marketing is difficult. Adopting a marketing stance means trying to think like somebody else, and to anticipate somebody else's needs. It means trying to find out what people really need, and develop products that they will actually want. It means bending all the company's activities towards the customer. Inevitably there will be people within the firm who would rather not have to deal with these issues, and would have a quieter life if it were not for customers.

Table 1.2 shows some typical arguments encountered within firms, together with responses that the marketer could use.

Overcoming this type of resistance is not always easy because of the following factors:

- Lack of a leadership which is committed to the marketing concept.
- Lack of a suitable organisational infrastructure. For example, information about customers and consumers is a great deal more difficult to communicate throughout the firm if the firm's information technology systems are inadequate.
- Autocratic leadership style from senior management. In companies where the top managers believe that only their own ideas are right, the idea of changing the corporate direction to meet customer need better is less likely to take root.
- Inherent mistrust of marketing by some individuals in positions of power.
- A preference for a production or sales focus (as seen in Table 1.2).
- A transactional approach to business, in which making each sale is seen as the appropriate focus rather than thinking in terms of encouraging customers to return.

In an ideal corporate situation, marketing would be seen as the coordinating function for every department. The marketing function would be supplying information about the customer base, there would be common control systems in place to ensure

Table 1.2 Reasons not to adopt a marketing philosophy

Source	Argument	Response
Production people	This is what we make efficiently. It's a good, well-made product, and it's up to you to find people to sell it to.	You might like the product, but the customers may have other ideas. What we need to do is not just 'keep the punters happy' but *delight* our customers and ensure their loyalty in future.
Accountants and financial directors	The only sensible way to price is allocate all the costs, then add on our profit margin. That way we know for sure we can't lose money. Also, how about cutting out the middleman by selling direct to the retailers?	If you use cost-plus pricing, you will almost certainly either price the product lower than the consumers are prepared to pay, in which case you are giving away some of your profit, or you'll price it too high and nobody will buy the product. And that way you'll *really* lose some money. And cutting out the wholesalers means we'd have to deliver odd little amounts to every corner shop in the country, which would make our transport costs shoot up. Not to mention that the retailers won't take us seriously – we need the wholesalers' contacts.
Legal department	We have no legal obligation to do more than return people's money if things go wrong. Why go to the expense of sending somebody round to apologise?	With no customers, we have no business. We have all our eggs in one basket; we can't afford to upset any of them.
Board of directors	Business is not so good, so everybody's budgets are being cut, including the marketing department. Sorry, you'll just have to manage with less.	If you cut the marketing budget, you cut the amount of business coming in. Our competition will seize the advantage, and we'll lose our customer base and market share – and we won't have the money coming in to get it back again, either.
Front-line staff	I'm paid to drive a truck, not chat up the customers. They're getting the stuff they've paid for, what more do they want?	Giving the customer good service means they're pleased to see you next time you call. It pays dividends directly to you because your job is more pleasant, but also it helps the business and keeps you in a job.
Salesforce	You're paying me commission to get the sale, so getting the sale is all I'm interested in.	You can get sales once by deceit, but what happens when you go back? How much more could you sell if your customers know you're a good guy to do business with? And apart from all that, if you're doing your best for the customers, you can sleep at nights. Collaboration between sales and marketing is known to improve overall business performance (Le Meunier-Fitzhugh & Piercy 2007).

that each department contributes primarily to customer satisfaction, the business strategy would be based around customer need, and goals for the organisation would be realistic and aimed at customer satisfaction. In practice, most firms have some way to go in reaching this ideal.

Quotations about marketing

For companies to be successful, the management must put the customer first. Here are some quotations that illustrate this.

> **Probably the most important management fundamental that is being ignored today is staying close to the customer to satisfy his needs and anticipate his wants. In too many companies the customer has become a bloody nuisance whose unpredictable behaviour damages carefully-made strategic plans, whose activities mess up computer operations, and who stubbornly insists that purchased products should work.**
>
> (Lew Young, Editor-in-Chief of Business Week)

> **Marketing is so basic that it cannot be considered a separate function . . . It is the whole business seen from the point of view of its final result, that is, from the customer's point of view** (Peter F. Drucker, 1973)

> **There is only one boss – the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.**
>
> (Sam Walton, American founder of Wal-Mart stores, the largest retail chain in the world)

And finally, Tom Watson of IBM was once at a meeting where customer complaints were being discussed. The complaints were categorised as engineering complaints, delivery complaints, servicing complaints, etc., perhaps ten categories in all. Finally Watson went to the front of the room, swept all the paper into one heap, and said 'There aren't any categories of problem here. There's just one problem. Some of us aren't paying enough attention to our customers.' And with that he swept out, leaving the executives wondering whether they would still have jobs in the morning. IBM salespeople are told to act at all times as if they were on the customer's payroll – which, of course, they are.

CASE STUDY 1 Lush

Lush Cosmetics is a manufacturer of ethically sourced, environmentally friendly cosmetics. Based in Poole, Dorset, the company has manufacturing facilities (or 'kitchens' as the company calls them) in Canada, Germany and Croatia.

The company's founders, Mark Constantine and Liz Weir, have worked together for almost 40 years. Mark is a trichologist, Liz is a beauty therapist; they met in a salon in Poole in the early 1980s and began producing their own range of products under the name Constantine and Weir. Initially, they sold the products to the Body Shop, another cosmetics firm famous for its ethical stance, and eventually sold their formulae to the Body Shop for a reputed £11 million. The sale agreement had a no-competition clause which forbade them from opening another retail shop for five years, so they started a mail-order business instead. This business went bankrupt – taking most of their money with it.

Undaunted, Mark and Liz started up again, in rooms above Poole Market; inspired by the fresh fruit and vegetables on offer below them, they began hand-making products using vegetable essences. They ran a competition among their customers for a new brand name, and this resulted in the name Lush, which denotes freshness and verdant growth.

All Lush products are vegan – no animal products are used at all, and the company does not deal with any suppliers that do not conform to the same high ethical standard. Products are tested on human volunteers rather than animals, and the company does not use palm oil (which is often the culprit in the destruction of wildlife habitats). Lush also supports many charitable initiatives, and has a regular 'Charity Pot' feature in which a specific hand lotion is sold for charity. The entire sale price of the Charity Pot is contributed, usually to small charities working for environmental or animal welfare causes. So far Lush has contributed over £10 million via this initiative.

As a private company, Lush is not accountable to shareholders (apart from the very small group who are directly involved). This means the company can act in unusual ways – it can support causes as it wishes, and has sometimes been criticised for some of its initiatives. The retail stores themselves are colourful, fun places to shop, and staff are encouraged to use the products themselves, and to know about them. The firm is strongly committed to gender equality and pay equality and also to encouraging staff to have fun and enjoy the working day. All staff get the day off if their birthday happens to fall on a working day, and the company pays above the usual going rates for retail staff.

Even the products themselves are designed to be fun. Lush's signature bath bombs are made from sodium bicarbonate perfumed with essential oils, so that they fizz in the bath and create a lot of bubbles. They are given names such as 'Madame President' and 'Cheer Up, Buttercup!' to emphasise that they are for fun. While other cosmetic companies have brand names such as 'Autumn Mist' or 'Wild Daffodils', Lush has a bath bomb called 'Cyanide Pill' and another called 'Incredible Mum'.

This somewhat quirky approach has certainly proved successful for the company and its founders. The company has over 1,000 stores worldwide, and has a turnover of around £500 million per annum. Despite this wealth, Mark Constantine remains absolutely true to his environmental beliefs – he doesn't own a car, but instead uses his bicycle and public transport. Saving the planet has certainly proved to work out well for Lush and its founders.

Case study questions

1 Why would the company effectively give away revenue through the Charity Pot scheme?
2 Why are the brand names for the various products so important?
3 How are customer needs addressed by the company's ethical stance?
4 Why encourage staff to use the products themselves?
5 What is the benefit of remaining a private company?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

Marketing has often been criticised for forcing people to buy things that they don't need or want, or can't afford.

- Is this true? Why might marketers be thought of in this way?
- Think about both sides. Why is the marketer's role important?
- How can marketing be undertaken in an ethical way?
- Can marketers be ethical?
- Think about ways in which marketers act ethically.

Summary

This chapter has been about the terms and concepts of marketing. Here are some key points from the chapter:

- Marketing is about understanding what the consumer needs and wants, and seeing that the company provides it.
- A need is a perceived lack; a want is a specific satisfier.
- Customers buy things; consumers use them.
- Price is what something costs; value is what it is worth.
- A product is a bundle of benefits; it is only worth what it will do for the consumer.
- Consumer (or customer) orientation is used because it is the most profitable in the long run.

Chapter questions

Understanding the basics

1 In a situation where supply exceeds demand, which orientation would you expect most firms to have?

2 Why might a consumer feel that paying £150 for a pair of designer jeans represents good value for money?

3 What needs are met by buying fashionable clothes?

4 What needs might a parent meet by buying a child sweets?

5 Why should marketers always refer back to the consumer when making decisions?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1 'Marketing is a crucial part of every business.' Evaluate this notion.

2 It is often thought that marketing has evolved over the years, through a number of orientations (production, product, sales, etc.). To what extent are these orientations valid and what might be the next evolutionary step in marketing?

Action learning

Visit the website of one of your favourite brands. Think about who their target segment(s) is and explain why you think this. Then try to outline the company's marketing mix. Don't forget about the 7 Ps.

Further reading

***Marketing: an introduction*, 4th edn, by Rosalind Masterson, Nicola Phillips and David Pickton** (Sage, 2017) contains a useful section on the strategic orientations in marketing.

Marketing, 4th edn, by Paul Baines, Chris Fill and Sara Rosengren (Oxford, 2017) has a good overview of what marketers do in Chapter 1.

E. Constantinides, 'The marketing mix revisited: Towards the 21st century marketing', *Journal of Marketing Management*, 22 (3–4) (2006), pp. 407–38. While this journal article was written a number of years ago now, it offers a good overview of the development of marketing and reviews a number of academic viewpoints.

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2

The marketing environment

Objectives

After reading this chapter you should be able to:

- Recognise the main environmental factors affecting marketing decisions
- Formulate ways of coping with the marketing environment
- Recognise ways to exploit opportunities in the environment
- Understand the principles of marketing strategy
- Explain the strategic issues behind the formulation of marketing plans.

Introduction

No business operates in a vacuum; any organisation is surrounded by laws and liabilities, pressure groups and public bodies, customers and competitors. These are part of the marketing environment within which the organisation works, and since marketing is at the interface between the organisation and the outside world, dealing with this environment is a major part of the marketer's work.

This means that the marketing policy of a firm (or any organisation) should be viewed as operating within a complex and rapidly changing environment. These external factors must be monitored and responded to if the organisation is to meet its goals, and an understanding of the environment is (ultimately) the basis for all marketing strategy.

The marketing environment

A crucial task for marketers is to monitor any environmental factors that may impact on their organisation, largely so that they can look for ways to adapt the marketing mix to address any changes (Jackson & Wood 2013).

The marketing environment represents a complex array of threats and opportunities for the organisation, and can sometimes seem difficult to categorise. Generally speaking, the marketing environment can be divided into two areas: the **external environment** and the **internal environment**. The external environment is concerned with everything that happens outside the organisation, and the internal environment is concerned with those marketing factors that happen within the organisation. Often organisations concentrate far more attention on the external environment than on the internal environment, but both are of great importance.

There are two basic approaches to dealing with environmental forces: reactive and proactive. **Reactive management** regards environmental factors as being uncontrollable, and will therefore tend to adjust marketing plans to fit environmental changes. **Proactive management** looks for ways to change the organisation's environment in the belief that many, even most, environmental factors can be controlled, or at least influenced in some way (Kotler 1986).

The external environment

The external environment consists of two further divisions: factors close to the organisation (called the **micro-environment**) and those factors common to society as a whole (the **macro-environment**). Micro-environmental factors might include such things as the customer base, the location of the company's warehouses, or the existence of a local pressure group that is unsympathetic to the business. Some micro-environmental factors (for example, availability of skilled employees) overlap with the internal environment. The macro-environment might include such factors as government legislation, foreign competition, exchange rate fluctuations or even climatic changes.

The external environment is often not susceptible to direct control; the best that marketers can do is to influence some elements of it, and to react in the most appropriate ways to avoid the threats and exploit the opportunities it presents. Therefore it is vital that an organisation is aware of what is happening around it in order to respond effectively.

Situational analysis

Managers need to know where they are now if they are to be able to decide where they are going. This analysis will involve examining the internal state of health of the organisation, and the external environment within which the organisation operates.

At the simplest level, managers can use SWOT analysis to take stock of the firm's internal position: SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Strengths and weaknesses are factors that are specific to the firm; opportunities and threats arise from the external environment. These factors can be broken down further, as shown in Table 2.1.

The list in Table 2.1 is not, of course, comprehensive. Equally, a threat might be turned into an opportunity: a competitor's new technological breakthrough might lead us to consider a takeover bid, for example, or new legislation might provide a loophole which we can exploit while our competitors have to abide by the new rules.

STEP (Socio-cultural, Technological, Economic and Political) analysis is a useful way of looking at the external environment (it is also sometimes written as PEST). Table 2.2 shows some of the main changes that are occurring under each of those headings.

Table 2.1 SWOT analysis

	Internal factors	External factors
Positive factors	***Strengths*** What are we best at? What intellectual property do we own? What specific skills does the workforce have? What financial resources do we have? What connections and alliances do we have? What is our bargaining power with both suppliers and intermediaries? What technological capabilities do we have?	***Opportunities*** What changes in the external environment can we exploit? What weaknesses in our competitors can we attack? What new technology might become available to us? What new markets might be opening up to us?
Negative factors	***Weaknesses*** What are we worst at doing? Is our intellectual property outdated? What training does our workforce lack? What is our financial position? What connections and alliances should we have, but don't?	***Threats*** What might our competitors be able to do to hurt us? What new legislation might damage our interests? What social changes might threaten us? How will the economic (boom-and-bust) cycle affect us? How will political change impact on what we do?

Table 2.2 Current environmental changes

	Example	Implications
Socio-cultural	Lifestyle expectations	As people have become wealthier, they have come to expect more. In twenty-first-century Britain, few people would consider living without a mobile phone, computer, television, refrigerator, car, bank account or credit cards. In 1960, mobile phones and computers were not available and the other products are examples of things that were owned by only a minority of the population.
	Post-industrial society (Bell 1974)	As automation of manufacturing increases, more people work in service industries (the service sector accounted for nearly 80 per cent of GDP in the UK in 2017, according to ONS 2018). Traditional class divisions are disappearing, with new ones rising to take their place; the growth of lifestyle analysis affects the way marketers portray their target consumers.
	Demography	A report prepared for the United Nations in 2015 suggested that virtually every country in the world is experiencing population growth in the number of older people. It has been estimated that by 2030 those aged 60 years and over will account for one in six people globally and between 2015 and 2030 the number of people in the world who are aged 60 years and above will grow by 56 per cent from 901 million to 1.45 billion. This has very important implications for marketers, who may need to move from providing goods and services for children and young families towards providing for a much older group of people.
Technological	Information technology	No serious marketer would consider not having a corporate website, yet until relatively recently such websites were rare, and were often merely 'presence' sites which directed visitors to a telephone number or address.
	Mobile technology	Rapid growth in mobile technology means that brands must have a mobile presence in order to survive. Kulunk (2018) cites a study which suggests that the number of mobile phone users is 4.6 billion, or 66 per cent of the world's total population and it is estimated that over 6 billion consumers will be connected to the Internet via a mobile device by 2020. So it is vital that companies develop their mobile apps and advertising in order to keep up with the continuous change in mobile technology.
Economics	Boom-and-bust cycle	At approximately eight-year intervals most national economies go into recession. This means that the production of goods and services shrinks, jobs are lost and businesses become bankrupt. Purchase of major capital items such as new kitchens, houses, cars and washing machines slows down, and consumers become less willing to buy on credit as job security reduces. Occasionally, as in the 1930s, a full-scale depression is triggered when the economy enters a long-term downward trend. Triggers for recessions vary: the 2008–9 recession was caused by problems in the banking system, but others have been triggered by punitive increases in commodity prices, over-rapid expansion of small businesses and even crop failures.
	Micro-economics	Micro-economics is concerned with exchanges and competition. Competitive activities are very much the domain of the marketer.

(*continued*)

Table 2.2 continued

	Example	Implications
Politics	Influence of political parties	Governments usually have policies concerning trade and industry: in part this is to ensure a growing economy and increased prosperity, in part it is to increase the number of jobs and thus improve the government's finances. Changes of government will often cause shifts in emphasis which might lead to disruption for individual firms.
	Legislation	Laws arise in two ways: government legislation (laws created by politicians) and case law, which is the law as interpreted by judges. Politicians can be influenced by petitions and by reasoned argument: this is called lobbying. Case law can be appealed by the parties to it, but is harder to influence. International law can sometimes have powerful influences on businesses, depending on where the firm is located.
	GDPR	General Data Protection Regulation (**GDPR**) is the EU General Data Protection Regulation which replaces the Data Protection Act 1998 in the UK and the equivalent legislation across the EU Member States. It was introduced in the UK in May 2018. This is a crucial piece of legislation for marketers to understand. It impacts on the collection, storage and use of customer data, so it is particularly important when considering online marketing campaigns, direct mail marketing and any other form of marketing that involves direct contact with a customer. Those not complying with the regulations may receive heavy fines and damage to the organisation's reputation.
	Brexit	For many businesses, a major cause of concern is the impact of the UK's decision to leave the EU. Clearly this has a number of implications for companies in terms of legislation, trade and the general state of the economy.

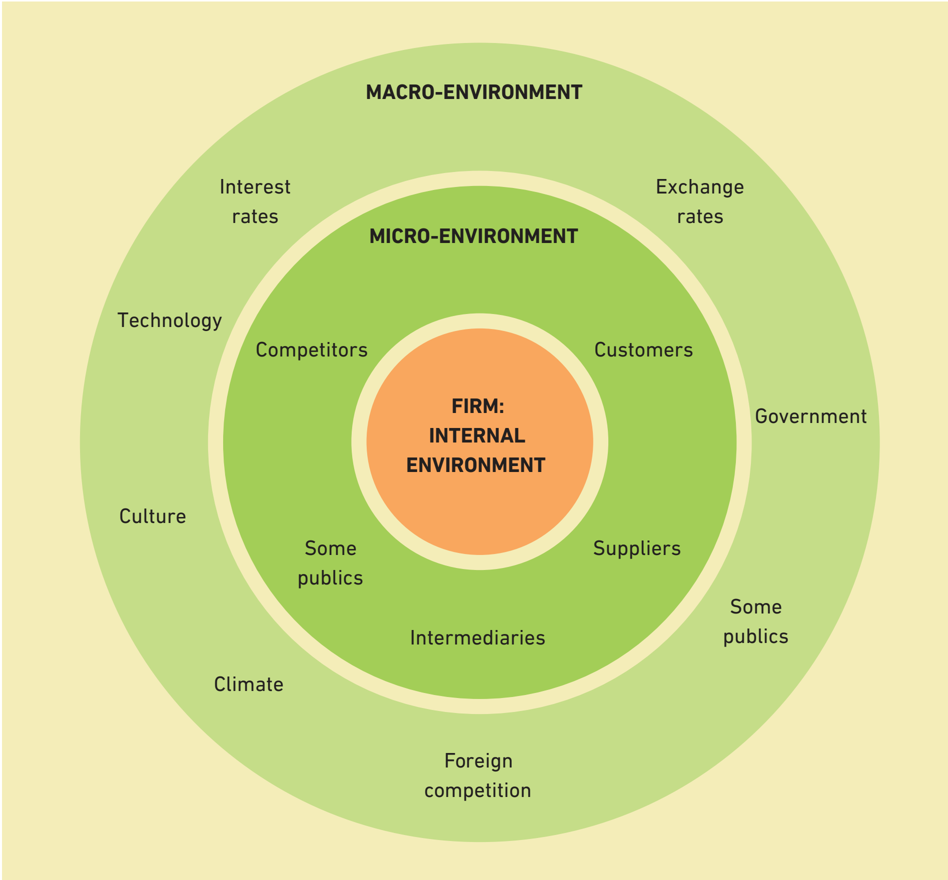
STEP and SWOT analyses are simply different ways of looking at the environment and at the firm's place in it. The external marketing environment is itself subdivided into micro- and macro-environments, as shown in Figure 2.1.

The micro-environment

The micro-environment is made up of those factors that impact closely on the organisation, and typically consists of the following elements:

- Competitors
- Customers
- Suppliers
- Intermediaries
- Micro-environment publics.

Figure 2.1 Micro- and macro-environment forces



Competitors

Frequently firms fail to recognise who their *competitors* are. It is not at all unusual for firms to define competition too narrowly, simply because they define their business too narrowly. For instance, if a bus company defines itself solely as being in the bus business, the management might reasonably define the competitors as being other bus companies. If, on the other hand, the company defines itself as being in the transportation business, the management will recognise the competition from railways, taxis and even bicycles.

In the early days of the Internet, many retailers did not recognise that online retailing represented competition. Now, most if not all bricks-and-mortar retailers have their own websites so that customers can order directly; although the Internet is, for various reasons, unlikely to replace bricks-and-mortar retailers entirely, it does represent a threat. In recent years, a number of long-established retailers such as British Home Stores and Woolworths have disappeared from the high street.

When assessing competitive threat, marketing managers need to decide which competitors offer the closest substitutes *in terms of meeting the consumers' needs.* Grouping consumers with similar needs and characteristics is called **segmentation** (see Chapter 4). Since each segment has different needs, the threat from competition will come from different sources in each case.

At the extreme, all businesses compete with all others for consumers' money; consumers have only a fixed amount to spend, and therefore a consumer who chooses to buy a more expensive house may at the same time be choosing not to have expensive holidays for the next few years. For most marketers this type of competition is not important, since there are usually far more immediate competitors to deal with. This would become an issue only if the company were in a monopolistic (or at least a dominant) position and could afford to encourage the overall market to increase.

Competitors can therefore be either firms supplying similar products or firms competing for the consumer's hard-earned money, but either way marketers need to provide a product that meets consumers' needs better than the products offered by the competition.

Table 2.3 shows the different types of competitive structure. In practice, most marketers are faced with **monopolistic competition**, where each company is trying to establish a big enough market share to control the market, but has no real prospect of becoming the sole supplier for the product category. The largest firm in such a market may find it more worthwhile to seek to increase the total market for the product category than to try for a bigger share of the existing market. This approach has the added advantage that it will not attract the attention of the government monopoly regulators.

Michael Porter's Five Forces model offers a useful approach to competitor analysis (Porter 1990). The five forces are as follows:

1. *The bargaining power of suppliers:* the greater this is, the stronger the competitive pressures.
2. *The bargaining power of customers:* again, the stronger this is, the more competitive the environment.
3. *The threat of new entrants:* if it is easy to enter a market, or if there is a likelihood that the market is becoming attractive to new players, the market will become competitive.

Critical thinking

Wow! That's a lot of different competitors! If everybody is competing for customers' cash, how can we hope to identify who our customers and competitors are? Surely there has to be a point at which we say, 'These people are not our competitors, they are potentially our friends.' Which of course leads to another point – why do we keep on fighting with competitors instead of cooperating? After all, major motor manufacturers such as Ford and Volkswagen cooperate on designing new vehicles (the Ford Galaxy, SEAT Alhambra and the VW Sharan, for example, started out as the same vehicle), so why don't we all do that and save ourselves a lot of trouble?

4 *The threat of substitute products and services:* this threat is often not seen until it is too late. New products may come along which meet the same need as the existing product, but in a different way; it is sometimes difficult to see this threat until it is too late.
5 *The rivalry among current competitors:* in some markets, competitors are careful not to compete too strongly for fear of losing out in the long run – such markets are oligopolistic (see Table 2.3). In other markets, competition is fierce.

The main strength of Porter's model is that it broadens the concept of competition and enables marketers to look at the wider picture. Correct identification of competitors is essential; in simple terms, a firm's competitors are any firms that seek to meet a similar need. This definition may be hard to apply in practice.

Table 2.3 Competitive structures

Type of competitive structure	Explanation	Examples
Perfect competition	There is a large number of suppliers, no one of which is powerful enough to influence the supply level overall. Products are homogeneous – that is to say, they are virtually identical. Entry to the market is easy. Everybody in the market (both suppliers and consumers) has full knowledge of what everybody else is doing. There are few examples, and although economists sometimes use the perfect competition model for purposes of discussion, marketers will be very unlikely to be operating within this environment.	Unregulated agricultural markets The international money markets
Monopolistic competition	A situation where one major supplier has obtained a large share of the market by the use of a differentiated marketing approach, but competitors can still enter and try to carve out their own share of the market.	Coca-Cola and PepsiCo have a major share of the soft drinks industry, but other firms are not prevented from entering the market.
Oligopoly	A few companies control the market almost entirely. Typically this happens when costs of entry to the market are high; very often the size of the market is not great enough to repay the capital cost of entry for a new firm. Oligopolies are often investigated by government monopoly regulators, who exist to ensure that large firms do not abuse their power.	Commercial aircraft manufacture The detergent industry Oil extraction and refining
Monopoly	Monopolies exist when a single firm has a product with no close substitutes. In practice, this situation is almost as rare as perfect competition; the few examples still permitted are the so-called 'natural monopolies' which would clearly not be efficient if effort were duplicated.	Electricity supply grids Some countries' national rail networks

Customers

Customers may change their needs, or may even disappear altogether. Some years ago, the American company Johnson & Johnson became aware that much larger quantities of its baby shampoo and talcum powder were being sold than could possibly be accounted for by the number of babies in the country. Research discovered that many adults were using the products on themselves, so the company launched a promotion campaign based around the slogan, 'Are you still a Johnson's baby?'. A new category of customer had become apparent, and the company was able to respond to this and capitalise on the changed environment. Clearly, customers' needs are of paramount importance to marketers, and it is essential that new segments can be identified easily and accurately; however, it is also important to recognise that some segments may be disappearing, and to know when to switch the marketing effort to more lucrative segments.

Suppliers

Suppliers also form part of the micro-environment since they impact closely on the company. At first sight, suppliers would appear to be outside the scope of the marketing department, but in fact the firm relies heavily on the goodwill of its suppliers, and a good public relations exercise will always try to involve suppliers. A supplier can easily cause an adverse effect within a firm by supplying shoddy goods, or failing to meet delivery dates, and this will inevitably impact on the firm's customers. This is of greater importance for some firms than for others (retailers will be more concerned about suppliers than will government offices, for example) but most organisations need to monitor their suppliers and ensure that they are providing appropriate goods.

Current thinking in purchasing and supply is that the relationship between suppliers and their customers should be a close one, with frequent visits to each other's premises and a high level of information exchange. This is encompassed within the **logistics** approach to supply, in which the firm is seen as a link in a system for providing the right goods and services in the right place at the right time; the system as a whole takes raw materials and moves and transforms them into goods that consumers need. This philosophy relies on the supplier and purchaser integrating their activities and developing a mutual understanding of each other's problems. It is also (from the supplier's viewpoint) an example of good relationship marketing – establishing a close, long-term relationship is likely to prove more efficient in the long run than continually seeking new customers as existing customers go elsewhere for their supplies.

Intermediaries

Intermediaries are the retailers, wholesalers, agents and others who distribute the firm's goods. Relationships with these intermediaries need to be good if the firm is to succeed in getting its goods to the final consumer successfully (this is part of the logistics approach). Intermediaries may also include marketing services providers such as research agencies, advertising agencies, distribution companies providing transport and warehousing, and exhibition organisers – in fact, any individuals or organisations that stand between the company and the consumer and help in getting the goods out. These relationships are, of course, of great importance to marketers, but intermediaries have their own businesses to run and are working to their own agendas. As with suppliers, it pays dividends to establish good relationships with intermediaries, mainly by sharing information and by maintaining good communication links (see Chapter 8).

Micro-environment publics

Finally, some of the firm's publics form part of the micro-environment. ‘Publics’ is a generic term encompassing all the groups that have actual or potential impact on the company. The range of publics can include financial publics, local publics, governmental publics, media publics, citizen action publics and many others. The marketing activity concerned with these publics is called (not surprisingly) public relations; there is more on this in Chapter 9.

Financial publics might include the banks and shareholders that control the firm's finances, and who can pressure the firm to behave in particular ways. These pressures can be strong, and can even threaten the firm's existence; firms are often compelled by their financial publics to do things they would otherwise prefer not to. It is to address this problem that glossy company reports are produced for shareholders, and positive information about the company is issued to banks and others.

Local publics consist mainly of the firm's neighbours. These local organisations and individuals may well pressure the company to take local actions, for example clean up pollution or sponsor local charities. Obtaining the goodwill of the local public will, of course, make it much easier for the company to live harmoniously with its neighbours and will reduce short-term local difficulties. For example, Tesco actively encourages its staff to get involved with the local community. It has over 500 Community Champions, who are Tesco employees who act as ambassadors for Tesco within their area. They work with the local neighbourhoods and play an active role in local causes and community initiatives. Employees participate in these projects on company time; the activities improve the image of the company and generate positive feelings about the store among local residents. There is also a spin-off for the firm's staff, who feel that they are working for a caring company.

Each of the elements in the micro-environment is small enough that the organisation at the centre should have influence over most of them, and be able to react effectively to the remainder.

The macro-environment

The macro-environment includes the major forces that act not only on the firm itself, but also on its competitors and on elements in the micro-environment. The macro-environment tends to be harder to influence than does the micro-environment, but this does not mean that firms must simply remain passive; the inability to control does not imply an inability to influence. Often the macro-environment can be influenced by good public relations activities (see Chapter 9).

The main elements of the macro-environment are:

- Demographic factors
- Economic factors
- Political factors
- Legal factors
- Socio-cultural factors
- Ecological and geographical factors
- Technological factors
- Macro-environment publics.

Demographic factors

Demographics is the study of population factors such as the proportion of the population who are of a given race, gender, age or occupation, and also of such general factors as population density, size of population and location. Demographic changes can have major effects on companies: the declining birth rate in most Western countries has an obvious effect on sales of baby products. It also means that, without immigration, the working population would be shrinking and consequently there would be a shortage of people to become employees (Cruijsen *et al.* 2002). This could be particularly problematic in the UK in light of the Brexit vote. Occupations such as nursing, which have relied heavily on nurses from the EU, may face a shortage. A report in the *Telegraph* in June 2017 suggested that the number of EU nurses registering to work in the UK had fallen by 96 per cent in less than a year (Donnelly 2017). Likewise, changes in the ethnic composition of cities, or in the population concentration (for example, fewer people living in the centres of large cities) cause changes in the demand for local services and retailers, and (more subtly) changes in the type of goods and services demanded. There is more on this in Chapter 3.

Economic factors

Economic factors encompass such areas as the boom-and-bust cycle, and the growth in unemployment in some parts of the country as a result of the closing of traditional industries. Macro-economic factors deal with the management of demand in the economy; the main mechanisms that governments use for this are interest rate controls, taxation policy and government expenditure. If the government increases expenditure (or reduces taxation), there will be more money in the economy and demand will rise; if taxation is increased (or expenditure cut), there will be less money for consumers to spend, so demand will shrink. Rises in interest rates tend to reduce demand, as home loans become more expensive and credit card charges rise.

Micro-economic factors are to do with the way in which people spend their incomes. As incomes have risen over the past 40 years or so, the average standard of living has risen, and spending patterns have altered drastically. The proportion of income spent on food and housing has risen and the amount spent on entertainment and clothing has significantly increased (Office for National Statistics 2017). Information on the economy is widely publicised, and marketers make use of this information to predict what is likely to happen to their customers and to demand for their products.

Political factors

Political factors often impact on business: a recent example being the Brexit vote. Firms need to be able to respond to the prevailing political climate and adjust their marketing policy accordingly. For example a number of companies are looking at moving their head offices to other locations in a bid to continue to reap the benefits of being part of the EU.

Legal factors

Legal factors follow on from political factors in that governments often pass laws which affect business. For example, Table 2.4 shows some of the legislation on marketing issues currently in force in various countries.

Sometimes judges decide cases in ways that reinterpret legislation, however, and this in itself can affect the business position. A further complication within Europe arises as a result of EU legislation, which takes precedence over national law and which can seriously affect the way firms do business in Europe.

Table 2.4 Examples of legislation affecting marketing

Country	Legislation
France	Food advertisers must include one of four 'healthy eating' messages (for example, 'for your health, avoid eating snacks between meals'). Food firms are also pledging to advertise more responsibly and use fewer stereotypes (Michail 2018).
UK	Consumers can opt out of receiving mailings and cold telephone calls: firms that contact people who have opted out can be fined.
Sweden	Advertising of alcoholic drinks is forbidden on TV, except for low-alcohol beers. Companies have got round this by using the same branding for low-alcohol as for full-strength beers.
Germany	Advertising games of chance are forbidden. Advertising aimed at children is severely restricted.
Japan	All rooftop and flashing-light advertisements have been banned in Kyoto, in an attempt to preserve the city's unique heritage of ancient buildings. There are very strict restrictions on advertising medical and dental practices, hospitals and clinics. Characters and celebrities that might appeal to a younger audience may not be used in alcohol advertisements.

Case law and EU law are not dependent on the politics of the national governments, and are therefore less easy to predict. Clearly, businesses must stay within the law, but it is increasingly difficult to be sure what the law says, and to know what changes in the law might be imminent.

For companies operating in global markets, legal issues can become a minefield: the fact that a product is legal in one country does not mean that it is, or even should be, in another. Product modifications required in different countries often mean that even a 'world' product has to be virtually reinvented each time it crosses borders, but the problem goes further for marketers, since some marketing techniques which are perfectly normal and acceptable in some cultures are regarded as unacceptable or manipulative in others. For example, a home improvement salesman calling at someone's home in the United States of America would be likely to bring a small gift such as flowers or a cake, as one would if calling to visit a friend. In the UK, this would be regarded with some suspicion, and the Office of Fair Trading have ruled that it is an unfair practice.

Socio-cultural factors

Socio-cultural factors are those areas that involve the shared beliefs and attitudes of the population. People learn to behave in particular ways as a result of feedback from the rest of society; behaviour and attitudes that are regarded as inappropriate or rude are quickly modified, and also people develop expectations about how other people should behave. In the marketing context, people come to believe (for example) that shop assistants should be polite and helpful, that fast-food restaurants should be brightly lit and clean and that shops should have advertised items in stock. These beliefs are not laws of nature, but merely a consensus view of what *should* happen. There have certainly been many times (and many countries) where these standards have not applied.

These prevailing beliefs and attitudes change over a period of time owing to changes in the world environment, changes in ethnic mix and changes in technology. These changes usually happen over fairly long periods of time. Since 1970, in most Western countries there has been a development towards a more diverse, individualistic society: a large increase in the number of couples living together without being married; and a marked increase in the acceptance (and frequency) of single-parent families (Corselli-Nordblad & Gereoffy 2015).

Very few cultural changes come about as the result of marketing activities: the popularity of social networking sites has created an entirely new way of making friends and relating to them, for example. In turn, these sites have opened up new opportunities for marketers: many firms have Facebook pages, and products can be promoted using 'word of mouse' facilitated by such sites; additionally, firms can use such sites as sources of information about customer attitudes and needs (Woodcock *et al.* 2011).

Ecological and geographical factors

Ecological and geographical factors have come to the forefront of thinking in the past 30 years or so. The increasing scarcity of raw materials, the problems of disposing of waste materials and the difficulty of finding appropriate locations for industrial complexes (particularly those with a major environmental impact) are all factors that are seriously affecting the business decision-making framework (see Chapter 12). In a marketing context, firms are having to take account of public views on these issues and are often subjected to pressure from organised groups as well as individuals, who often define themselves as 'green' consumers (Autio *et al.* 2009). Often the most effective way to deal with these issues is to begin by consulting the pressure groups concerned, so that disagreements can be resolved before the company has committed too many resources (see Chapter 9); firms adopting the societal marketing concept (see Chapter 1) would do this as a matter of course.

Technological factors

Technological advances in the past 50 years have been rapid, and have affected almost all areas of life. Whole new industries have appeared – for example, satellite TV stations, cable networks, the Internet, mobile networks and virtual reality. All of these industries were unknown even 30 years ago. It seems likely that technological change will continue to increase, and that more new industries will appear in future. The corollary, of course, is that some old industries will disappear, or at the very least will face competition from entirely unexpected directions. Identifying these trends in advance is extremely difficult, but not impossible.

Clearly the Internet has had a tremendous impact on marketing. Nobody owns the Internet; it is a communications medium spread across more than 2 billion computers worldwide and more than 1.1 billion tablets (Statista.com). The Internet therefore operates under its own rules; there is little or no international law to govern its use or abuse. From a marketing viewpoint, one major impact of the Internet is that it has placed market power even more firmly in the hands of consumers. People are able to compare prices and suppliers much more quickly, can comment to each other much more quickly about exceptionally good or exceptionally bad service, and can make themselves much better informed about products than before.

The rapid growth in virtual shopping (accessing catalogues on the Internet) means that consumers can buy goods anywhere in the world and have them shipped – or, in the case of computer software and apps, simply downloaded – which means that global competition will reach unprecedented levels. Virtual shoppers are able to access high-quality pictures of products, holiday destinations and even pictures of restaurant food before committing to a purchase.

There is more on Internet marketing throughout the book (see particularly Chapter 12).

Macro-environment publics

The macro-environment also contains the remainder of the organisation's publics.

- *Governmental publics* are the local, national and international agencies that restrict the company's activities by passing legislation, setting interest rates and fixing exchange rates. Governmental publics can be influenced by lobbying and by trade associations.

Critical thinking

Why do we worry about citizen action publics? If people want to complain about us, why not let them? After all, nobody really pays much attention to a few soreheads complaining – they usually don't have much credibility, and they certainly don't have much of a budget.

In fact there may even be some advantages. If we look at the websites concerned, we might be able to gain some ideas for improving what we do, and meeting customer needs better – which, for marketers, is the name of the game. We could even go a step further, and invite such pressure groups to advise us in future, so that we can tailor what we do to meet their needs better.

- *Media publics*. Press, television and radio services carry news, features and advertising that can aid the firm's marketing, or conversely can damage a firm's reputation. Public relations departments go to great lengths to ensure that positive images of the firm are conveyed to (and by) the media publics. For example, a company might issue a press release to publicise its sponsorship of a major sporting event. This could generate positive responses from the public, and a positive image of the company when the sporting event is broadcast.
- *Citizen action publics* are the pressure groups, such as Greenpeace or consumer rights groups, who lobby manufacturers and others to improve life for the public at large. Some pressure groups are informally organised; recent years have seen an upsurge in local pressure groups and protesters, and there has been a surge in the number of websites that protest about company or government activities. Most major companies' websites are shadowed by anonymous counter-culture sites which carry derogatory stories about the companies. Such sites are difficult to stop since the Internet is largely unregulated and the people posting stories on the sites can remain anonymous.

The international environment

As business becomes increasingly global, marketers find themselves increasingly in the position of doing business across cultural divides and across national boundaries. International marketing differs from domestic marketing in the following ways:

- Cultural differences mean that communications tools will need to be adapted, and sometimes changed radically.
- Market segmentation issues are likely to be more geographically based.
- Remoteness of the markets makes monitoring and control more difficult.
- Both physical distribution (logistics) and place decisions will be affected by infrastructure differences in some overseas markets.

International marketing is important because of the economic theory of **comparative advantage**. This theory states that each country has natural advantages over others in the production of certain goods, and therefore specialisation and the trading of surpluses will benefit everybody. For example, although it is possible to grow tomatoes under glass in the Netherlands, they can be grown more easily and cheaply in Spain, so it makes economic sense for the Dutch to buy Spanish tomatoes and sell Spain chemical products that are produced more readily in the Netherlands.

Comparative advantage does not explain all of the thrust behind internationalisation: Japanese, US and UK multinationals have all made major impacts in overseas markets without having an apparent natural advantage over their overseas competitors. In some cases this can be explained by economies of scale; in others by the development of expertise within the firms; in others the reasons are historical.

World trade initiatives

Marketing to an international audience will usually bring **economies of scale** in manufacture, research and development and marketing costs. Most governments encourage firms to market internationally because it brings in foreign exchange, which enables the country to buy in essential imports (for example, aluminium ore or oil), which are needed to support the national economy.

The downside of world trade is that it sometimes results in the export of cultural values as well as goods and services, so that traditional cultures become eroded.

In general, though, the accepted view is that world trade results in greater wealth and higher standards of living for most of the world's population; trade is therefore regarded as beneficial in terms of its economic benefits, and governments worldwide try to encourage it, within the limits of getting the best deal for their own countries. Table 2.5 shows some of the major initiatives undertaken in recent years to encourage world trade.

The thrust behind much government thinking worldwide is to reduce tariffs and increase trade, while at the same time establishing trading blocs which can stand up to each other.

Most governments are in favour of **exporting** their own manufacturers' goods, but would prefer to restrict **importing** if possible: this is to protect the **balance of payments**. Having more foreign currency coming in than going out (a positive balance of payments) allows the government to keep interest rates down and also helps keep inflation down (a fuller explanation of the mechanisms by which this happens is beyond the scope of this book; further reading is given at the end of the chapter). This means that negotiations about reducing tariff barriers tend to be long and drawn out as each government seeks to open up markets abroad while keeping out foreign competition.

Developing countries frequently impose tariff barriers on importers to protect their fledgling industries; unfortunately, this often results in these industries becoming

Table 2.5 World trade initiatives

Name	Description
World Trade Organization	An ongoing set of international negotiations to reduce customs duties which act as a barrier to trade. Approximately 164 members are involved in the talks, which were initiated after the Second World War under the title General Agreement on Tariffs and Trade. Tariffs among industrialised nations have fallen from an average 40 per cent in 1947 to approximately 5 per cent at present.
European Union	This is a trading group of 28 (27 on the departure of the UK) countries that have eliminated customs duties between the Member States. Border controls are minimal (and in some cases non-existent), and 19 of the Member States use the same currency (the euro). There are still many problems to be overcome in achieving greater unity, but the EU remains a major trading bloc.
North American Free Trade Agreement (NAFTA)	This came into being in 1994. It became one of the world's largest free trade zones, creating a **customs union** between the USA, Canada and Mexico. This agreement cancelled most tariffs between the Member States, except for some agricultural products, and claims to increase wealth, competitiveness and real benefits to families, farmers, workers, manufacturers and consumers (naftanow.org).
Mercosur	A customs union between several nations of South America, Mercosur's main purpose is to promote free trade and the fluid movement of people, goods and currency. Its full members are Argentina, Brazil, Paraguay and Uruguay; there are also a number of associate members such as Bolivia, Chile, Peru, Colombia, Ecuador and Suriname.
Association of South-East Asian Nations (ASEAN)	ASEAN now has ten Member States. It is a collaborative association which aims to accelerate economic growth, social progress and cultural development (asean.org). In 2009, a free trade agreement (FTA) with the ASEAN regional bloc of ten countries and Australia, and its close partner New Zealand, was signed.
International Monetary Fund (IMF)	The IMF acts as a stabilising influence on the world economy by injecting funds into national economies, on a loan basis, subject to special conditions regarding government economic policies. The IMF exists to turn round ailing economies.
World Bank	The World Bank exists to fund projects which reduce poverty in the Third World. It is owned and funded by major economies: the United States has the biggest share, followed by Japan, Germany, the UK, France.

inefficient since they do not need to compete with more efficient overseas manufacturers (Preston 1993). For example, in 2012 Brazil, supported by Argentina, insisted on raising the common external tariff of Mercosur (the South American free-trade zone) to 35 per cent in order to protect its own industries. Uruguay, a much smaller country reliant on imports of raw materials and components for its own manufacturing industries, protested that such a high tariff barrier would prevent it from bringing in the goods it needed in order to survive. Unfortunately, the failure of Latin American and African countries to agree to reduce tariffs with other countries meant that their exports became priced out of the market; while other countries developed effective international trading systems, the Third World was left behind (Preston 1993).

Governments also influence or control **exchange rates**; this means that exporters lose some control over prices, as the government controls the rate at which one currency is exchanged for another. Having a low-value currency will encourage exports in the short run, but also raises the price of imports; this can result in increased costs, which raise the prices anyway. Having a strong currency, on the other hand, may make exporting difficult and will probably suck in imports as the imported goods become cheaper than home-produced ones.

Culture

Cultural differences encompass religion, language, institutions, beliefs and behaviours that are shared by the members of a society. It is as well for marketers to take the advice of natives of the countries in which they hope to do business, since other people's cultural differences are not always obvious.

Classic examples of errors arising from language differences abound. The General Motors Nova brand name translates as 'no go' in Spanish; Gerber means 'to throw up' in colloquial French, creating problems for the baby food manufacturer of the same name; and Irish Mist liqueur had to be renamed for the German market since 'mist' means 'excrement' in German. Many cultural problems are more subtle, and have to do with the way things are said rather than the actual words used. In Japanese, 'yes' can mean 'yes, I understand' but not necessarily 'yes, I agree'. Portuguese has a total of seven different words for 'you', depending on the status and number of people being addressed.

Body language is also not universal. The American sign for 'OK', with the thumb and forefinger making a circle, is a rude gesture in Brazil (equivalent to sticking up the index and middle finger in Britain, or the extended middle finger in the USA and most of Europe). Showing the soles of the feet is considered insulting in Thailand, and while Americans are usually very happy to hear about an individual's personal wealth and success, Australians are less likely to take kindly to somebody acting like a 'tall poppy' in this way.

Sometimes local superstitions affect buying behaviour. American high-rise hotels do not have a thirteenth floor – the floor numbers go directly from twelve to fourteen. In China, consumers do not like to buy products where the price ends in a four, because four is a number associated with death. Chinese people prefer to buy products whose prices end in eight, which is considered lucky and is associated with financial prosperity (Simmons & Schindler 2003).

In general, marketers need to be wary of **ethnocentrism**, which is the tendency to believe that one's own culture is the 'right' one and that everybody else's is at best a poor imitation (Shimp & Sharma 1987). This is not an easy task for managers: most tend to underestimate the differences between the overseas market and the home market (Pedersen & Petersen 2004). This can be due to the fact that we tend to judge other cultures from the perspective of our own culture – this is called self-referencing, and is clearly difficult to avoid.

It can be easier to aim for countries where there is some **psychological proximity**. These are countries with some cultural aspects in common. For example, English-speaking countries have psychological proximity with each other; Spain has psychological proximity with most of Latin America; and the former Communist countries of Eastern Europe are close. Within countries with large migrant populations there may be subcultures that give insights into overseas markets: Australia is well placed to take advantage of Far Eastern markets and Greek markets as well as other English-speaking markets, and Brazil has good links with Germany as well as with Portugal, Angola and Mozambique. In an interesting reversal, Ireland also has good contacts in many countries owing to the Irish diaspora of the past 200 years.

In most West African countries tribal loyalties cross national borders, so that people from the same tribe might inhabit different countries. In a sense, this is parallelled in the Basque country of France and Spain, and in the language divide in Belgium, where Flemish speakers feel closer to their Dutch neighbours than to their Walloon compatriots, and Walloons feel closer to the French than to their Flemish neighbours.

From a marketer's viewpoint, cultural differences are reducing a little, particularly among younger consumers as they become more globally minded: foreign travel, the widespread globalisation of the entertainment media, and existing availability of foreign products in most economies have all served to erode the world's cultural differences (Ohmae 1989).

Political factors

The *political environment* of the target country will also affect the entry decision. Table 2.6 shows some of the issues.

Table 2.6 Political factors in international marketing

Political factor	Explanation and implications
Level of protectionism	Some governments need to protect their own industries from foreign competition, either because the country is trying to industrialise and fledgling companies cannot compete (as in some developing nations) or because lack of investment has resulted in a run-down of industry (as in parts of Eastern Europe). Sometimes this can be overcome by offering inward investment (to create jobs) or by agreeing to limit exports to the country until the new industries have caught up.
Degree of instability	Some countries are less politically stable than others, and may be subject to military takeover or civil war. Usually the exporter's government diplomatic service can advise on the level of risk attached to doing business in a particular country.
Relationship between the marketer's government and the foreign government	Sometimes disputes between governments can result in trade embargoes or other restrictions. Obviously this is particularly prevalent in the arms trade, but trade restrictions can be applied across the board to unfriendly countries. For example, the USA still has a trade ban with Cuba for many items, despite some easing of restrictions in 2016, and Greece and Turkey have restrictions on travel and trade.

Economic influences

The *economic environment* of the target country is determined by more than the issue of whether the residents can afford to buy our goods. In some cases the level of **wealth concentration** is such that, although the average **per capita income** of the country is low, there is a large number of millionaires. India is an example of this, as is Brazil. Economic issues also encompass the public prosperity of the country. Is there a well-developed road system, for example? Are INTERNET facilities adequate? Is the population sufficiently well-educated to be able to use the products effectively?

A crucial economic issue is that of foreign exchange availability. If the target country does not have a substantial export market for its own products, it will not be able to import foreign products because potential importers will not be able to pay for the goods in the appropriate currency. This has been a problem in some countries in the Third World and in some Communist countries, and there has, as a result, been a return to **barter** and **countertrading**. Countertrading is the export of goods on the condition that the firm will import an equal value of other goods from the same market, and in the international context can be complex: for example, a firm may export mining machinery to China, be paid in coal, and then need to sell the coal on the commodities market to obtain cash (a **buy-back** deal). These complex arrangements are becoming much rarer as the world moves towards freely exchangeable currencies: barter and countertrade are inherently inefficient.

The *demographic environment* includes such factors as family size, degree to which the country has a rural as opposed to an urban population, and the migration patterns that shape the population. Migration patterns can make marked changes to the structure of a country's consumption: consumption of Indonesian food in the Netherlands, of Thai food in Australia, of Indian food in the United Kingdom, and of Algerian food in France are all much greater than can be accounted for by the respective ethnic minorities in those countries (Paulson-Box 1994). Marketers have played a part in this culture-swapping process to the extent that segmentation by ethnicity is no longer possible for many products (Jamal 2003).

The internal environment

Internal publics are the employees of the company. Although employees are part of the internal environment rather than the external environment, activities directed at the external environment will often impinge on employee attitudes; likewise, employee attitudes frequently impinge on external publics. Sometimes employees convey a negative image of the organisation they work for, and this is bound to have an effect on the perceptions of the wider public.

The organisation's internal environment is a microcosm of the external environment. All organisations have employees; they will develop a corporate culture with its own language, customs, traditions and hierarchy. Subgroups and individuals within the firm will have political agendas; pressure groups form; and the organisation has its own laws and regulations.

From the viewpoint of a marketer, the internal environment is as important as the external one, since the organisational culture, rules, hierarchy and traditions will inevitably be a major component of the organisation's public face. The members of the organisation can give a positive or negative image of the firm after they leave work for the day and interact with their families and friends, and even while in work they will usually come into contact with some of the firm's external publics. Since the members of those external publics will regard such communications as authoritative, the effect is likely to be stronger than anything the marketing department can produce in terms of paid communications. In other words, if the company's staff speak badly about the company to outsiders, the outsiders are far more likely to believe those comments than to believe the company's promotional campaigns.

The days are long gone when the loyalty of staff could be commanded, and giving orders was all that was necessary to ensure obedience. Employees expect to have a degree of autonomy in their daily tasks, and do not feel any particular obligation towards an employer simply by reason of being employed. The employees of the organisation therefore constitute a market in their own right; the firm needs their loyalty and commitment, in exchange for which the staff are offered pay and security. Internal marketing is the process of ensuring (as far as possible) that employees know and understand the firm's strategic policies, and should feel that putting these policies into practice will be in their own best interests.

As we saw in Chapter 1, marketing can be a unifying force within the firm, giving the lead to each separate organisational function and providing staff with a single direction. Equally, it can be seen as a manipulative force, seeking to persuade people to act in ways that do not come naturally.

There is more on handling internal relationships (together with some techniques for communicating with the internal environments) in Chapter 9.

CASE STUDY 2 Samsung

Samsung was founded in 1938 in what is now South Korea. The company, whose name means 'Three Stars', was originally a simple trading company, dealing in dried fish, groceries and noodles. During the Korean War the company was forced to relocate to Seoul, the Korean capital, where it expanded to the point where the company and its employee housing complex have become a fully-fledged suburb of the city – Samsung Town.

It was not until the late 1960s that Samsung entered the electronics market, manufacturing a basic black-and-white television set. In 1980, Samsung bought out a company which manufactured telephone switchboards and other telecom equipment: this was to be the start of the company's meteoric success in the mobile phone market.

Prior to the 1980s, electronics theory held that mobile phones would be impossible to build. The theory was that they would require an impossibly large power source, and would also take up an impossibly large bandwidth in the electromagnetic spectrum – in other words, mobile phones violated the laws of physics. However, engineers being engineers, a solution was found: each phone would operate in a small, local area defined as a 'cell', connecting via local stations and using extremely high radio frequencies. Phones could switch between cells instantly if the user was in a vehicle, or even walking.

This shift in technology opened up a huge opportunity for Samsung, and the company seized upon it (as did many others). Samsung began to invest heavily in research and development, designing silicon chips (the basic components in computer processors and memory), and LCD displays, which are a Samsung invention. Samsung is now the world's largest chip manufacturer, and was approached by Sony for help in designing and producing LCD screens. Samsung has been awarded more US patents than any other company in the world, and its facility in Texas is one of the USA's biggest foreign investments.

Demand for mobile phones continued to grow through the early part of the twenty-first century. Nowadays, landlines are rapidly becoming obsolete since virtually everyone has a mobile phone. Mobile phones in the 1990s would make telephone calls and nothing else, but technology moved ahead, in particular chip technology. More features could be crammed into smaller spaces, and more memory could be added. LED technology allowed not only better screens to be added to the phones, but also allowed the inclusion of miniature cameras. Gradually, manufacturers have added more features to the phones – second cameras, better screens, touch screens, video capability and finally the fully-integrated smartphone came into being in the early part of the twenty-first century.

The smartphone acts as a complete communication device on which the user can take and send photographs and videos, conduct a video-enabled conversation, send short text messages and access the Internet. It can also act as a GPS device, a personal organiser, a clock, and has many other functions – all as a result of improved technology.

The smartphone, as pioneered by Samsung, has in turn caused a revolution in the way people communicate. It is as easy to have a face-to-face conversation using the phone's internal camera and screen as it would be to make an ordinary telephone call, so physical presence is no longer needed in order to observe the other person's facial expressions. For small businesses, the smartphone has made it unnecessary to have someone manning a telephone in an office – plumbers, builders, consultants and even flying instructors can simply carry their office with them in a coat pocket.

In 2017 Samsung released the Galaxy Note8, a mobile telephone device with up to 256 GB of internal memory. This is considerably more computer power than the NASA computers used for the first Moon landings, so there should be enough there for the average person to record baby's first steps or a night out on the town.

New products have to be launched very frequently if Samsung is to remain ahead of competition from other countries. Although the company is now the world's largest manufacturer of mobile phones, technology keeps moving ahead. Samsung not only keeps moving with it, but is actively driving it: a very different business from selling dried fish and noodles.

Case study questions

1 What is Samsung's relationship to the technological environment?

2 Why do people want to buy the latest phones?

3 What were the driving forces behind the adoption of smartphones?

4 What effect have mobile phones had on the social environment?

5 What might be the limiting factors on further development of the smartphone market?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

In recent years there has been increasing concern about the use and storage of customer data. As technology rapidly and continuously develops, customer data is being collected in a vast range of different ways from tracking using cookies, location tracking via mobile devices right through to harvesting information from social media sites.

A number of well-publicised scandals have occurred such as the Facebook and Cambridge Analytica dispute which came to a head in early 2018. Facebook harvested data and sold it to Cambridge Analytica. Cambridge Analytica allegedly used this information to influence key global events such as the US presidential election in 2016 and the UK Brexit referendum.

While this was strenuously denied by both parties involved, it still begs the question as to how safe our data is and whether it being used correctly. Is it ethical to use the huge amounts of collected data to target actual and potential customers? Do customers actually know how much personal data they have given away?

Some are happy for their data to be used while others find it an intrusion of privacy and have grown tired of the targeted advertising and promotion they are receiving. What do you think? Is the use of your data inevitable or should more be done to keep your private data private?

Summary

The environment within which the marketing department is operating consists of both internal and external factors. Internal factors are what happens within the organisation; external factors are those operating outside the firm, and consist of the micro-environment and the macro-environment. Macro-environmental factors are largely uncontrollable by individual firms; in fact, it is difficult for marketers to have any influence on them, except in the case of very large firms or powerful trade organisations.

While it may be possible for the largest firms to influence the macro-environment by lobbying Parliament, or even by affecting the national culture directly, small and medium-sized firms cannot alone hope to make sufficient impact on the external environment to make any major changes. Therefore these marketers need to learn to work with, or around, the macro-environmental factors they find, rather than seek to make changes.

Since the marketing environment has profound effects on the organisation, marketing strategy begins with two main activities: analysis of the environment (perhaps by STEP analysis) to see what threats and opportunities exist, and analysis of the firm's position within that environment and within itself (perhaps by SWOT analysis).

Here are the key points from this chapter:

- Businesses and other organisations do not operate in a vacuum.
- The micro-environment is easier to influence than the macro-environment, but both are impossible to control.

- The business should be defined from the customer's viewpoint; this will help to identify a broader range of competitors.
- Customers should be grouped into segments so that scarce resources can be targeted to the most profitable areas (see Chapter 4).
- Close relationships with suppliers and intermediaries will be helpful in influencing the environment.
- Public relations is about creating favourable impressions with all the company's publics.
- Case law and EU law can both affect businesses, and are harder to predict since they are independent of national government.
- The socio-cultural environment changes, but slowly.
- Technology changes rapidly and will continue to do so; this both creates and destroys opportunities for marketers.
- Internal publics need special attention, since they are the 'front line' of the company's relationships with its environment.

Chapter questions

Understanding the basics

1. Why is the external environment impossible to control?
2. What can SWOT analysis tell a firm about its environment?
3. Given that businesses are made up of people, how is it that the same people are included as part of the firm's internal environment?
4. What are the most important factors making up the micro-environment?
5. What are the main problems faced when dealing with the macro-environment?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1. Critically evaluate the importance of understanding the external environment when developing a marketing campaign.
2. Socio-cultural change is of no importance to marketers. Evaluate this statement.
3. The exponential growth and development of technology has been instrumental in changing culture. Critically assess this notion.
4. Chic is a small company making mid-range leather bags for both men and women. It is based in a small town in the north-west of England. It is run by a husband and wife team. Business is doing well, so they have not been too worried about how the business will progress in the future. Neither believe that they need to worry about international

aspects of the business environment, as they are happy to continue to do business locally. Their son has just joined the business after completing his Business and Marketing degree. He feels that they are ignoring the international environment at their peril. Take on the role of the son and develop an argument explaining why they should not ignore the international marketing environment.

Action learning

Have a look at the report produced in 2016 by the Government Office for Science, *The Future of an Ageing Population*. This is available online. In particular, look at the key findings and consider the following:

1. What are the implications for marketers?
2. Think about some of the different industries this information might impact upon. List some and think about what they might need to change in order to respond to the changes in population.
3. How might they need to change their marketing campaigns in response to the key findings?
4. Select one industry/company of your choice and make recommendations as to how they should respond to the information in the report. How might they need to change their marketing campaigns?

Further reading

This is a somewhat narrow area, with few books dedicated solely to the marketing environment. Most marketing strategy books will go into greater detail than is the case here, and a number of business environment texts such as ***The Business Environment*, 7th edn, by Ian Worthington and Chris Britton** (Pearson, 2014), offer an overview of the general environment.

The ***World Population Ageing Report***, published by **the United Nations** in 2015, is an excellent resource. It is a very interesting, comprehensive study looking at global population trends with predictions looking ahead to 2050. Also worth reading is ***Future of an Ageing Population.*** This is a report produced by the **Government Office for Science** in 2016 and focuses on the implications of an ageing population for the UK.

Another useful document is **The Guide to the General Data Protection Regulation (GDPR)** produced by the **Information Commissioner's Office.** This is a live document which is available online. It outlines the legal obligations of organisations when collecting, using and storing customer data.

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3

Consumer and buyer behaviour

Objectives

After reading this chapter you should be able to:

- Explain how consumers make purchasing decisions
- Describe the differences between the ways in which professional buyers work and the ways consumers make decisions
- Explain how consumers develop a perceptual map of the product alternatives
- Develop ways of dealing with customer complaints.

Introduction

This chapter is about how buyers think and behave when making purchasing decisions. Buyers fall into two categories: *consumers*, who are buying for their own and for their family's consumption, and *industrial buyers*, who are buying for business use. In each case, the marketer is concerned with both the practical needs of the buyer or the buyer's organisation, and the emotional or personal needs of the individual.

Consumer behaviour

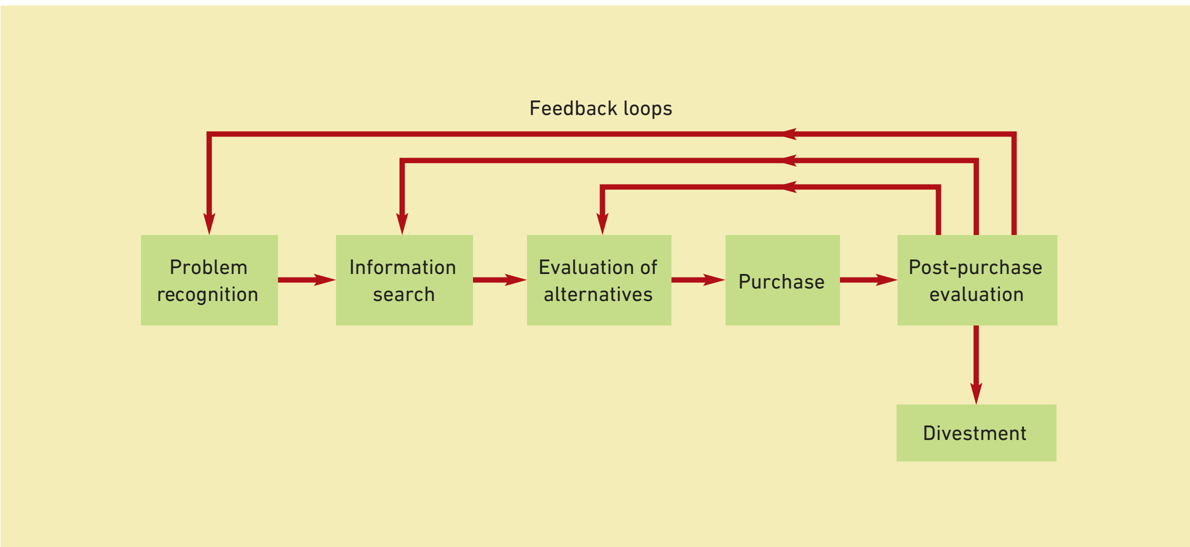
The consumer decision-making process follows the stages shown in Figure 3.1.

Problem recognition

Problem recognition arises when the consumer realises that there is a need for some item. This can come about through **assortment depletion** (where the consumer's stock of goods has been used up or worn out) or **assortment extension** (which is where the consumer feels the need to add some new item to the assortment of possessions). At this point the consumer has only decided to seek a solution to a problem, perhaps by buying a category of product. There are various ways to define needs. Typically, needs felt can be categorised as either **utilitarian** (concerned with the functional attributes of the product) or **hedonic** (concerned with the pleasurable or aesthetic aspects of the product) (Hoyer *et al.* 2012; Solomon *et al.* 2010; Holbrook & Hirschmann 1982). While consumers may have a need which is purely hedonic or utilitarian, it is more likely that there will be a balance between the two when making decisions.

An internal stimulus, or **drive**, comes about because there is a gap between the **actual** and **desired states**. For example, becoming hungry leads to a drive to find food; the hungrier the individual becomes, the greater the drive becomes, but once the hunger has been satisfied the individual can move on to satisfying other needs. For marketers, the actual state of the individual is usually not susceptible to influence, so much marketing activity is directed at influencing the desired state (e.g. 'Don't you deserve a better car?' or 'Don't you really need a holiday?'). Thus drives are generated by encouraging a revision of the desired state. The higher the drive level (i.e. the greater the gap between actual and desired states), the more open

Figure 3.1 Consumer decision-making



the individual is to considering new ways of satisfying the need – in simple terms, a starving man will try almost any kind of food.

It is, of course, stimulating and enjoyable to allow gaps to develop between the desired and actual states: working up a thirst before going for a drink makes the experience more pleasurable, for example. Each individual has an **optimum stimulation level** (OSL), which is the point at which the drive is enjoyable and challenging, without being uncomfortable. OSL is subjective; research shows that those with high OSLs like novelty and risk-taking, they may respond well to products, services and promotional campaigns that emphasise risk and excitement (Schiffman *et al.* 2013), whereas those with low OSLs prefer the tried and tested. Those with high OSLs also tend to be younger as OSL tends to decrease with age (Geetu & Kiran 2012; Benedict *et al.* 2002).

Drives lead on to **motivation**, which is the reason why people take action. The level of motivation will depend on the desirability of the end goal, and the ease of achieving the end goal; motivations are subjective, so it is difficult to infer motivation from behaviour. Few actions take place as a result of a single motivation, and sometimes a motivation may not even be apparent to the individual experiencing it; in other words, some motivations operate below the conscious level.

Information search

Having become motivated to seek a solution to the need problem, consumers engage in two forms of information search.

- The **internal search** involves remembering previous experiences of the product category and thinking about what he/she has heard about the product category.
- The **external search** involves shopping around, searching online, reading online reviews, reading manufacturers' literature and advertisements, and perhaps talking to friends about the proposed purchase.

For most purchases, the internal search is probably sufficient. For example, a consumer who needs to buy biscuits will easily remember what his or her favourite brand tastes like, and will also remember where they are on the supermarket shelf. When buying a new car, on the other hand, a fairly extensive information search might be carried out, reading manufacturers' brochures, visiting showrooms, test-driving the vehicles, and looking online at reviews and experts' websites. The purpose of this exercise is to reduce risk; buying the wrong brand of biscuits involves very little risk since the financial commitment is low, but buying the wrong car could prove to be an expensive mistake. For this reason many retailers offer a no-quibble return policy, cooling-off periods and warranties/guarantees since this helps to reduce the level of risk and make purchase more likely.

Evaluation of alternatives

Having found out about several competing brands, the consumer will *evaluate* the alternatives, based on the information collected or remembered. Some research suggests that too much choice can make people uncomfortable and unhappy, thus making it difficult for a person to choose (Scheibehenne *et al.* 2009; Shankar *et al.* 2006), so in the first instance the individual will select a **consideration set**, which is the group of products that would most closely meet the need.

Typically a consumer will use **cut-offs** to establish a consideration set: these are the minimum and maximum acceptable values for the product characteristics. For example, a consumer will typically have a clear idea of the acceptable price range for the product. (This price range might have a minimum as well as a maximum; the individual may not want something that is perceived as being cheap and nasty.) **Signals** are important when making choices; a particular price tag, a brand name, even the retailer will have some effect on the consumer's perception of the product. Price is frequently used as an indicator of quality, for example, but this can be reduced in the presence of other signals. The purpose is to reduce confusion, which comes from three sources: similarity, information overload and ambiguity. Confusion and information overload lead to consumers creating coping strategies such as decision postponement, and also to loyalty behaviour – sticking with the tried and tested rather than risking a mistake with something new (Stanton & Paolo 2012; Walsh *et al.* 2007; Wang 2006).

Occasionally the use of cut-offs eliminates all the possibilities from the consideration set, in which case the consumer will have to revise the rules. This can result in the creation of a hierarchy of rules. For marketers, the challenge is often to ensure that the product becomes a 'member' of the consideration set.

The decision-making process appears lengthy and complex as stated here, yet most of us make several purchasing decisions in a day without going through a lengthy decision-making process. This is because most of us use **heuristics**, or decision-making rules, for most purchases. These are simple 'if . . . then' rules that reduce risk by using previous experience as a guide. For example, an international traveller in a strange city might have a heuristic of eating only in restaurants that are full of local people, on the grounds that the inhabitants of the city would know which are the best restaurants. Heuristics divide into three categories:

- *Search heuristics,* which are concerned with rules for finding out information
- *Evaluation heuristics,* which are about judging product offerings
- *Choice heuristics,* which are about evaluation of alternatives.

The decision-making process may contain a number of **interrupts** – points at which the search is temporarily suspended. Interrupts come in four categories:

- **Environmental stimuli**, which include in-store promotions (perhaps eye-catching posters for other products or aromas and sounds that may attract your attention)
- **Affective states**, which include physiological needs (the sudden need to go to the toilet or to have a coffee)
- *Unexpected information*: for example, a change of layout in the shop or some change in the product attributes
- *Conflicts,* which occur when the consumer realises that the original decision-making plan cannot be followed, or an alternative plan appears that is not consistent with the original plan, for example the product you want is out of stock.

For example, an approach–approach conflict occurs when a second product is presented that would probably do the job just as well. This means that the consumer has to make a comparison, and the search pattern is temporarily suspended. An approach–avoidance conflict might arise when the consumer finds out that the product is much more expensive than expected; an avoidance–avoidance conflict might arise when the two alternatives are equally distasteful (an example might be the reluctance to spend money on new shoes while at the same time not wanting to be embarrassed by wearing old ones).

The effect of the interrupt will depend on the consumer's interpretation of the event. Sometimes the interrupt activates a new end goal (for example, a long shopping trip might be transformed into a search for somewhere to sit down and have a coffee), or perhaps a new choice heuristic might be activated (for example, meeting a friend who recommends a brand). Sometimes the interrupt is serious enough for the search to be abandoned altogether; here the strength of the interrupt is important. Clearly a sudden desire for a cup of tea will not permanently interrupt a search process, but the news that one has lost one's job very well might.

In most cases, consumers will resume the interrupted problem-solving process once the stimulus has been absorbed and accepted or rejected.

Purchase

The actual *purchase* comes next; the consumer will locate the required brand, and perhaps choose a retailer he or she has faith in, and will also select an appropriate payment method.

Post-purchase evaluation

Post-purchase evaluation refers to the way the consumer decides whether the product purchase has been a success or not. This process usually involves a comparison between what the consumer was expecting to get and what was actually purchased, although sometimes new information obtained after the purchase will also colour the consumer's thinking (Oliver 1980). In some cases, particularly in the virtual environment, the value obtained from the product can be manipulated by consumers after purchase; this means that the interpretation of value is subject to change (Harwood & Garry 2010).

Before the purchase, the consumer will have formed expectations of the product's capabilities in terms of:

- **Equitable performance** (what can be reasonably expected, given the cost and effort of obtaining the product)
- **Ideal performance** (what the consumer hopes the product will do)
- **Expected performance** (which is what the product probably will do).

Sometimes this evaluation leads to **post-purchase dissonance**, when the product has not lived up to expectations, and sometimes to **post-purchase consonance**, when the product is as expected or better. In either event, the consumer will feed back this information into memory to inform the internal search for next time.

One of the more interesting aspects of dissonance is that there is evidence to show that a small discrepancy between expectation and outcome may provoke a bigger change in attitude than a large discrepancy. This is because a small discrepancy may force the consumer to confront the purchase behaviour without offering a ready explanation for it: for example, a general feeling of being unhappy with a new car might crystallise around its poor acceleration (a major problem), and the consumer might simply shrug and accept this as part of the deal. On the other hand, if the only immediately identifiable problem is that the car's cupholder is poorly positioned, this may lead the owner to look for other faults with the car (and, of course, find them).

Consumers will usually act to reduce post-purchase dissonance. There are four general approaches to doing this:

1. Ignore the dissonant information and concentrate on the positive aspects of the product.
2. Distort the dissonant information (perhaps by telling oneself that the product was, after all, the cheap version).
3. Play down the importance of the issue.
4. Change one's behaviour.

From a marketing viewpoint, it is generally better to ensure that the consumer has accurate information about the product beforehand so as to avoid post-purchase dissonance, but if it occurs then marketers need to reduce it in some way. People differ in their propensity to complain – the Silent Generation (people born 1925–45) and the Baby Boomers (people born 1946–64) are generally less inclined to complain, whereas research shows that Generation Y (those born 1981–1997) are much more likely to complain but are also much more likely to repurchase should they receive a satisfactory outcome to that complaint (Soares *et al.* 2017). Consumers express dissatisfaction in one of three ways:

- **Voice responses**, in which the customer comes back and complains. Older people in particular are often reluctant to take this route, which may mean that the supplier is unaware of dissatisfaction among customers (Soares *et al.* 2017; Nimako & Mensah 2012; Grougiou & Pettigrew 2009). The possibility of a repeated violation of trust appears to be more important in voice responses than the magnitude of the violation (Sijun & Huff 2007), which has implications for complaint-handling.
- **Private responses**, in which the consumer complains to friends. In some cultures this is more likely than voice responses (Blodgett *et al.* 2015; Swanson *et al.* 2011; Ngai *et al.* 2007).
- This can be problematic for an organisation, as it is thought that 75 per cent of the dissatisfied do not complain directly to the organisation (Cook 2012). If customers do not complain, then how can an organisation respond and rectify the matter?

- Furthermore, Cook (2012) also suggests that dissatisfied customers are likely to tell at least ten other people if they have had a poor experience but only three others about a good experience. So, it is important for organisations to encourage voice responses and discourage private responses where possible.
- **Third-party responses**, which may include complaints to consumer organisations, trade associations and TV consumer programmes, or even legal action (Singh 1988).

The most effective way of reducing post-purchase dissonance is to provide a product that meets the customer's expectations. This is partly a function for the manufacturer, but is also a problem for the retailer to address since it should be possible to ensure that the consumer's needs are fully understood before a recommendation about a product is made. As a fall-back position, though, every effort should be made to encourage the consumer to complain if things do not come up to expectations. This is why waiters always ask if the meal is all right, and why shops frequently have no-quibble money-back guarantees. Airlines provide customer comment slips, instant surveys pop up on websites and some marketers even make follow-up telephone calls to consumers to check that the product is meeting expectations. There is more on these techniques in Chapter 5.

In business-to-business markets, where buyer–seller relationships are often long term, negative incidents can give rise to shifts in the relationship. Analysing these negative events can be very useful in assessing the relationship and making adjustments where necessary, so complaint handling serves an extremely useful function in relationship marketing (Strandvik & Holmlund 2008).

Research shows that a strong service climate, where employees share a sense of organisational values with regard to service policies, procedures and behaviours, is reflected in the way in which they deal with customer complaints (Jerger & Wirtz 2017; Yilmaz *et al.* 2016). This in turn will be reflected in the ways in which customers perceive the complaint-handling process.

It is important that dissatisfied customers are allowed to voice their complaint fully, and that the appropriate compensation is negotiated in the light of:

- The strength of the complaint
- The degree of blame attaching to the supplier, from the consumer's viewpoint
- The legal and moral relationship between the supplier and the consumer.

It is important that the customer is taken seriously and that they are offered a solution to the problem (Gruber *et al.* 2009).

A consistent failure to solve problems raised by post-purchase dissonance will, ultimately, lead to irreparable damage to the firm's reputation. In the last analysis, it is almost always cheaper to keep an existing customer than it is to attract a new one, and therefore it makes sense for suppliers to give customers every chance to express problems with the service or product provision. Customer retention is, according to one research exercise, associated with complaint-handling procedures – and nothing else (Ang & Buttle 2006).

Critical thinking

It sounds as if we are going back to the idea that the customer is always right. What about people who deliberately find fault with everything, in the hope of winning some concession from the company? What about simple misunderstandings, where someone has bought a product and then decided it wasn't what they wanted after all? And what about the people who buy a new item of clothing, wear it to go out for the evening, then bring it back the next day?

Surely we aren't expected to put up with fraud, lies and stupidity. Or is that a small price to pay for looking after the genuine cases – after all, the customers may not always be right, but they are always the customers!

Divestment

Finally, the **divestment** stage refers to the way the individual disposes of the product after use. This could be as simple as throwing an empty food container into the bin, or it could be as complex as the trade-in of a second-hand car. This stage is of increasing importance to marketers, both in terms of green marketing (the environmental issues raised) and in terms of the possibility of making sales of new products (for example, on trade-in deals). There is more on divestment in Chapter 12, in relation to the environmental impact of the disposal of packaging and used products.

This model of the decision-making process appears somewhat long and involved, but in practice most purchasing decisions are habitual, and the process is carried out quickly and virtually automatically. Table 3.1 shows a comparison of a non-habitual purchase and a habitual purchase, showing how each stage in the decision-making model is carried out.

Perception

Human senses constantly feed information into the brain; the amount of stimulation this involves would seriously overload the individual's system if the information were not filtered in some way. People therefore quickly learn to abstract information from the environment; the noise from a busy road or railway line near a friend's home might seem obvious to you, but your host is probably unaware of it. In effect, the brain is automatically selecting what is relevant and what is not, and for this reason the information being used by the brain does not provide a complete view of the world.

The gaps in the world-view thus created are filled in by the individual's imagination and experience. The cognitive map of the world is affected by the following factors:

- *Subjectivity*: the existing world-view of the individual.
- *Categorisation:* the pigeon-holing of information. This usually happens through a 'chunking' process, whereby information is grouped into associated items.

Table 3.1 Habitual versus non-habitual purchase behaviour

Stage in the process	New mobile phone	Can of tuna
Problem recognition	The battery on the old mobile phone runs down very quickly and there is not enough capacity for data storage, so I can't store enough music. Also, the screen is cracked and it's quite expensive to replace. My old contract is about to run out.	We used the last can yesterday, and we're going to the supermarket tonight.
Information search	Ask a few friends, see what they've got. Go online to a comparison site. Read review websites. Visit some local mobile phone stores.	Remember the brand that we like (predominantly an internal search).
Evaluation of alternatives	Discuss the options with one's partner. Perhaps ask a knowledgeable friend for advice.	Find the right can on the shelves. Perhaps look at a premium brand and compare it with the store's own brand.
Purchase	Return to the store or the website and make the purchase. Sign up to a new contract or pay up front for the new phone, perhaps using a credit card to spread the cost.	Put the can in the basket and run it through the checkout with everything else. Possibly (if we're desperate for tuna) buy it from the corner shop.
Post-purchase evaluation	Try using the camera or the Internet. Play music through the phone to listen to sound quality. Judge the ease of use. Decide on aspects such as reliability, battery length etc. as time goes on. File the information away, or pass it on to friends as necessary.	Eat the tuna. Was it up to the usual standard? If so, no further action. If not, perhaps go back to the shop and complain, or perhaps buy a different brand in future.
Divestment	When the mobile phone becomes obsolete, sell it on eBay, give it to a friend or simply throw it away.	Throw the empty can into the bin or take it for recycling.

For example, a particular tune might make someone recall a special evening out from some years ago.

- *Selectivity:* the degree to which the individual's brain has selected from the environment. This is also a subjective phenomenon; some people are more selective than others.
- *Expectation:* the process of interpreting later information in a specific way. For example, look at this series of letters and numbers:

10 11 12 13 14 15 16

- In fact, the number 13 appears in both series, but would be interpreted as a B in the series of letters because that is what the brain is being led to expect.
- *Past experience:* this leads us to interpret information in the light of existing knowledge. This is also known as the **law of primacy**. The sound of sea birds might make us think of a day at the beach, but could in fact be part of an advertisement's soundtrack.

In practice, people develop a model of how the world works and make decisions based on the model. Since each individual's model differs slightly from every other individual's model, it is sometimes difficult for marketers to know how to approach a given person.

One of the problems for marketers is that the perception the consumers have of marketing communications may not be what was intended. For example, fast-paced advertisements on television attract people's attention involuntarily, but have little effect on people's voluntary attention, so the message is often lost. Furthermore, a fast pace focuses attention on the style of the advertisement at the expense of its message (Bolls *et al.* 2003). Likewise, people will often interpret a message from an advert or TV show in a different way, if the intended message makes them uncomfortable – in other words, they reinterpret the imagery to find a different explanation (Borgerson *et al.* 2006).

Influences on the buying decision

The main influences on the buying decision are of three types:

- *Personal factors* are features of the consumer that affect the decision process.
- *Psychological factors* are elements of the consumer's mental processes.
- *Social factors* are those influences from friends and family that affect decision-making.

Personal factors are shown in Table 3.2.

Involvement can be a major factor in consumer decision-making. Consumers often form emotional attachments to products, and most people would be familiar with the feeling of having fallen in love with a product – even when the product itself is hopelessly impractical. Involvement can also operate at a cognitive level, though: the outcome of the purchase may have important practical consequences for the consumer.

Table 3.2 Personal factors in the buying decision

Personal factor	Explanation
Demographic factors	Individual characteristics such as age, gender, ethnic origin, income, family life cycle and occupation. These are often used as the bases for segmentation (see Chapter 4).
Situational factors	Changes in the consumer's circumstances. For example, a pay rise might lead the consumer to think about buying a new car; conversely, being made redundant might cause the consumer to cancel an order for a new kitchen.
Level of involvement	Involvement concerns the degree of importance the consumer attaches to the product and purchasing decision. For example, one consumer may feel that buying the right brand of coffee is absolutely essential to the success of a dinner party, whereas another consumer might not feel that this matters at all. Involvement is about the emotional attachment the consumer has to the product.

For example, a rock climber may feel highly involved in the purchase of a climbing rope, since the consequences of an error could be fatal. Whether this is a manifestation of a logical thought process regarding the risk to life and limb or whether it is an emotional process regarding a feeling of confidence about the product would be hard to determine. People also become involved with companies and become champions for them (Gong 2017; Bhattacharya & Sen 2003). Research undertaken by Blasberg *et al.* (2008) suggested that approximately 70 per cent of promoters (loyal customers) would recommend a brand to their friends or colleagues. So, organisations are putting more and more effort into building relationships with their customers and actively encouraging positive word of mouth, so that customers are promoting the brand for them.

Involvement can be extremely complex: a study carried out with members of a major art gallery in the UK found six characteristics of involvement in total. These were: (1) centrality and pleasure, (2) desire to learn, (3) escapism, both spiritual and creative, (4) sense of belonging and prestige, (5) physical involvement and (6) drivers of involvement (Slater & Armstrong 2010). Obviously, people who have joined an art gallery, as opposed to simply visiting one, will have much higher involvement than most.

Psychological factors in the decision-making process are as shown in Table 3.3. Consumers' attitudes to products can be complex. They vary according to:

- **Valence** – whether the attitude is positive, negative or neutral
- **Extremity** – the strength of the attitude
- **Resistance** – the degree to which the attitude can be changed by outside influences
- **Persistence** – the degree to which the attitude erodes over time
- **Confidence** – the level at which the consumer believes the attitude is correct.

People who are particularly knowledgeable ('savvy' consumers) are usually competent in the use of technology, good at interpersonal networking both in person and online, marketing-literate, empowered by their own consumer effectiveness and know what to expect from firms (Macdonald & Uncles 2007). These personal characteristics make them efficient and effective at getting what they want from firms.

It should be noted that the **conation** component of attitude (see Table 3.3) is not necessarily consistent with subsequent behaviour; a consumer's intentions about future behaviour do not always materialise, if only because of the existence of interrupts. For example, an individual with a grievance against a bank may intend to move his/her account to a different bank, but find that the difficulties of switching the account would take up too much time and effort to be worthwhile.

The traditional view of attitude is that affect towards an object is mediated by **cognition**; Zajonc and Markus (1985) challenged this view and asserted that affect can arise without prior cognition. In other words, it is possible to develop a 'gut feeling' about something without conscious evaluation.

Attitude contains elements of belief (knowledge of attributes) and opinion (statements about a product), but is neither. Belief is neutral, in that it does not imply attraction or repulsion, whereas attitude has direction; and, unlike opinion, attitudes do not need to be stated.

Table 3.3 Psychological factors in the buying decision

Psychological factor	Explanation
Perception	This is the way people build up a view of the world. Essentially, this process of selection or analysis means that each person has an incomplete picture of the world; the brain therefore fills in the gaps by a process of synthesis using hearsay, previous experience, imagination, etc. Marketers are able to fill some of the gaps through the communication process, but will come up against the problem of breaking through the selection and analysis process.
Motives	The internal force that encourages someone towards a particular course of action. Motivation is a vector; it has both intensity and direction.
Ability and knowledge	A consumer who is, for example, a beginner at playing the violin is unlikely to spend thousands of pounds on a Stradivarius. Ability therefore affects some buying decisions. Likewise, pre-existing knowledge of a product category or brand will also affect the way the consumer approaches the decision. Pre-existing knowledge is difficult for a marketer to break down; it is much better to try to add to the consumer's knowledge wherever possible.
Attitude	Attitude has three components: cognition, which is to do with conscious thought processes; **affect**, which is about the consumer's emotional attachment to the product; and conation, which is about planned courses of behaviour. For example, 'I love my Volkswagen (affect) because it's never let me down (cognition). I'll definitely buy another (conation)'. Conations are only intended actions – they do not always lead to action, since other factors might interrupt the process.
Personality	The traits and behaviours that make each person unique. Personalities change very slowly, if at all, and can be regarded as constant for the purposes of marketing. Typically marketers aim for specific personality types, such as the gregarious, the competitive, the outgoing or the sporty.

From the marketer's viewpoint, attitudes are important since they often precede behaviour. Clearly a positive attitude towards a firm and its products is more likely to lead to purchase of the firm's products than a negative attitude. There is, however, some evidence to show that people often behave first, then form attitudes afterwards (Fishbein 1972) and therefore some car manufacturers find that it is worthwhile to give special deals to car rental companies and driving schools so that consumers can try the vehicles before forming their attitudes. Trial is considerably more powerful than advertising in forming attitudes (Smith & Swinyard 1983).

Social factors

Social factors influence consumers through:

- **Normative compliance** – the pressure exerted on the individual to conform and comply
- **Value-expressive influence** – the need for psychological association with a particular group
- **Informational influence** – the need to seek information from a group about the product category being considered.

Of the three, normative compliance is probably the most powerful; this works because the individual finds that acting in one way leads to the approval of friends or family, whereas acting in a different way leads to the disapproval of friends and family. This process favours a particular type of behaviour as a result. Good moral behaviour is probably the result of normative compliance.

Peer-group pressure is an example of normative compliance. The individual's peer group (a group of equals) will expect a particular type of behaviour, including (probably) some purchase behaviour. For example, most cigarette smokers began to smoke as a result of pressure from their friends when they were young teenagers. The desire to be a fully accepted member of the group was far stronger than any health warnings.

The main source of these pressures is **reference groups**. These are the groups of friends, colleagues, relatives and others whose opinions the individual values. Table 3.4 gives a list of types of reference group. The groups are not mutually

Table 3.4 Reference group influences

Reference group	Explanation
Primary groups	The people we see most often – family, friends, close colleagues. A primary group is small enough to allow face-to-face contact on a regular, perhaps daily, basis. These groups have the strongest influence.
Secondary groups	People we see occasionally and with whom we have a shared interest – for example, the members of a golf club or a trade association. These groups sometimes have formal rules that members must adhere to in their business dealings or hobbies, and may also have informal traditions (e.g. particular clothing or equipment) that influence buying decisions.
Aspirational groups	The groups to which we wish we belonged. These groups can be very powerful in influencing behaviour because the individual has a strong drive towards joining; this is the source of value-expressive influences. These groups can be particularly influential in fashion purchases.
Dissociative groups	The groups with which the individual does not want to be associated. This makes the individual behave in ways opposite to those of the group – for example, somebody who does not wish to be thought of as a football hooligan might avoid going to football matches altogether. From a marketing perspective somebody who does not wish to be associated with a particular football team may actively avoid using the brands that sponsor the team or the brands that the players promote.
Formal groups	Groups with a known, recorded membership list. Often these groups have fixed rules – a professional body will lay down a code of conduct, for example.
Informal groups	Less structured, and based on friendship. There are no formalities to joining; one merely has to fit in with the group's joint ideals.
Automatic groups	The groups we belong to by virtue of age, race, **culture** or education. These are groups that we do not join voluntarily, but they do influence our behaviour – for example, a woman of 55 might not choose clothes that make her look like a teenager. Likewise, expatriates often find that they miss food from home, or may seek out culture-specific goods of other types.

exclusive: a formal group can also be a secondary group, and so forth. Some researchers go so far as to identify reference groups as tribes, especially when the group focuses around a specific object such as a celebrity or a brand. Social media is one of the most conducive channels for tribal marketing, thus a large number of these tribes tend to be virtual groups. Often these have tribal characteristics, since the networking site may be established around a particular interest, issue, product or brand. Such tribes offer a number of social benefits for their participants and usually offer the members a strong feeling of belonging (Pathak & Pathak-Shelat 2017; Hamilton & Hewer 2010). Tribal marketing tends to be limited to a younger market, but this has massive implications for the use of social media when promoting tribal brands (Goulding *et al.* 2013).

Roles

The **roles** we play are also important in decision-making. Each of us plays many different roles in the course of our lives (in fact, in the course of a day) and we buy products to aid us accordingly (Goffman 1969). Somebody who is to be best man at a wedding will choose a suitable suit, either to buy or to hire, to avoid looking ridiculous or otherwise spoiling the day. In terms of longer-lasting roles, the role of father or mother might dictate purchasing behaviour on behalf of children; the role of lover may dictate buying flowers or wearing perfume; the role of friend might mean buying a gift or a round of drinks; the role of daughter might mean buying a Mother's Day present. In some immigrant families, parental roles involve negotiating cultural boundaries as well (Lindridge & Hogg 2006).

Family roles influence decision-making far beyond the normative compliance effects. Frequently, different members of the family take over the role of buyer for specific product categories; the husband may make the main decisions about the car and its accessories and servicing, while the wife makes the main decisions about the decor of the home. Research shows that some convenience foods can empower mothers to take control of their 'caretaker' role within the family, provided that marketers can remove the guilt feelings many women feel about using convenience foods (Carrigan & Szmigin 2006). Older children may decide on food, choosing the healthy or environmentally friendly alternatives, and often help their parents to learn about new products (Ekstrom 2007).

In terms of its functions as a reference group, the family differs from other groups in the following respects:

- Face-to-face contact on a daily basis
- *Shared consumption* of such items as food, housing, car, TV sets and other household durables
- *Subordination of individual needs* to the common welfare – there is never a solution that will suit everybody
- *Purchasing agents* will be designated to carry out the purchasing of some items. As the number of working parents grows, pre-teens and young teens are taking an ever-increasing role in family shopping.

Conflict resolution within the family decision-making unit is usually more important than it would be for an individual, since there are more people involved. Whereas an individual might have difficulty in choosing between two equally attractive holiday destinations, discussions about family holidays are inevitably much more difficult since each family member will have his or her own favourite idea on a holiday destination or activity. There is likely to be a degree of negotiation, and even small children quickly develop skills in negotiating, justifying the benefits of a particular choice, forming coalitions with other family members and compromising where necessary (Thomson *et al.* 2007). Furthermore, children are now very technologically savvy, more so than their parents in some cases, thus may use this knowledge during various stages of the buying process and in some circumstances parents will often consult their children about certain purchases (Aggarwal & Shefali 2016).

Decision-making stages also affect the roles of the family in the decision; problem recognition may come from any family member, whereas information search and product evaluation may be undertaken by different members. For example, the father may notice that the teenage son needs new football boots; the son might ask around for types; the mother might decide which type falls within the family's budget.

Four kinds of marital role specialisation have been identified:

- *Wife dominant,* where the wife has most say in the decision
- *Husband dominant,* where the husband plays the major role
- *Syncratic or democratic,* where the decision is arrived at jointly
- *Autonomic,* where the decision is made entirely independently of the partner (Davies & Rigaux 1974).

Marketers need to know which type of specialisation is most likely to occur in the target market, since this will affect the style and content of promotional messages: for example, some advertising in the UK has tended to portray men as being incompetent at household tasks, despite evidence that men are taking a more active role in housework (Murray 2005).

In most industrialised countries the family is undergoing considerable changes because of the rising divorce rate and the increasing propensity for couples to live together without marrying. In the above role specialisations, the terms 'husband' and 'wife' apply equally to unmarried partners.

Children have an increasing role in purchasing decisions: 'pester power' often results in increased family purchases of particular brands of chocolate, pizza, burgers and snack foods. Hobbs (2015) suggests that (according to a survey commissioned by Mothers' Union) 81 per cent of parents believe that the media encourages children to ask their parents to buy advertised goods.

Purchasing behaviour is also affected by people's identity – in other words, their view of themselves. The more closely the purchasing behaviour fits with the person's identity, the more likely it is to occur; this is particularly important in non-profit marketing such as charitable donations or participation in voluntary work, where the exchange involves individuals and is often based on social exchanges (Arnett *et al.* 2003). For some women, buying things for a new baby reinforces their role as mother; research shows that purchase of a pram carries a public signal meaning, a private signal meaning, an experiential meaning and a role embrace. Each of these aspects contributes to the mother's self-image (Thomsen & Sorensen 2006).

Interestingly, consumption behaviour has a role in binding families closer together. Apart from the obvious aspects of sharing some items, such as household equipment and family cars, older family members often pass down heirlooms to younger members. These goods are valued far beyond their usefulness or monetary value since they provide a link with older family members, helping to create and nurture a family identity (Curasi 2011).

Impulse buying

Impulse purchases are not based on any plan, and usually happen as the result of a sudden confrontation with a stimulus.

Pure impulse is based on the novelty of the product. Seeing something new may prompt the consumer to buy it just to try it. **Reminder impulse** acts when the consumer suddenly realises that something has been left off the shopping list. **Suggestion impulse** arises when confronted with a product that meets a previously unfelt need, and **planned impulse** occurs when the consumer has gone out to meet a specific need, but is prepared to be swayed by what is on special offer.

For example, someone may be on a shopping trip to buy a new dress for a night out. In the shop she notices a rack of summer hats, and buys one because she has never owned one before (pure impulse). Next she remembers that she has not got a suitable summer skirt, so she picks one up from the rail near the counter (reminder impulse), and near it she sees a rack of jeans which are on offer (suggestion impulse). Finally, she sees a lightweight jacket which, although it is not the style she was thinking of, is actually ideal for the job so she buys it (planned impulse). Most shoppers are familiar with these situations, and, indeed, they commonly occur when browsing in supermarkets.

The purchase process itself is an important part of the benefits that consumers get from consumption; research has shown that satisfaction with the process relates to the desire to participate in future purchases (Tanner 1996). Typically, impulse buyers are also variety seekers; impulse buying often results from the desire to do something stimulating and interesting as an antidote to boredom or negative emotions (Jung 2017; Sharma *et al.* 2010).

Impulse buying has perhaps been made easier by the Internet. There is certainly evidence that people often act on impulse when browsing the websites of charities (Bennett 2009), and it seems likely that the ease of purchase on the Internet will foster impulsive behaviour. The increase in mobile devices has compounded this. A survey completed by Rackspace suggests that almost 17 per cent of the respondents stated that their impulse purchases have been increased by the ownership of mobile devices (Moth 2012).

Industrial buyer behaviour

Industrial buyers differ from consumers in that they are (at least theoretically) more formalised in their buying behaviour. The major areas where organisational buying differs from consumer buying are as follows:

- Bigger order values in terms of finance and quantity
- Reciprocity; the firms may buy each other's products as part of a negotiated deal
- Fewer buyers, because there are fewer firms than there are individuals
- More people in the decision process
- Fewer sales in terms of the number of deals
- More complex techniques exist for buying and for negotiating.

Organisational buyers are buying to meet the organisation's needs, but it should also be remembered that they have personal needs. These might be a need for *prestige,* a need for *career security,* for *friendship and social needs,* and other personal factors such as the satisfaction of driving a hard bargain, or the buyer's personality, attitudes and beliefs (Powers 1991). The astute marketer, and particularly the astute salesperson, will not ignore these personal needs of the buyers.

Regarding the organisation's needs, however, the chief considerations of most buyers appear to revolve around quality, delivery, service and price (Green *et al.* 1968). This often means that buyers will be working to a set of *specifications* about the products, and will probably use some or all of the formal techniques shown in Table 3.5.

The industrial purchase task might be a *new task,* in which case the buyer will need to adopt extensive problem-solving behaviour. The vendor has the opportunity of establishing a relationship which might last for many years, however. New-task situations will often involve the greatest amount of negotiation, since there is little (if any) previous experience to draw on.

Critical thinking

Are professional buyers really so easily swayed by their personal needs? After all, they have their careers to think about – surely that implies a certain amount of care about how they behave, and showing favouritism to one supplier over another almost smacks of corruption!

Of course, we are all human – and we each bring our humanity to our working day, so maybe we shouldn't expect buyers to be any different from the rest of us.

Table 3.5 Industrial buyers' methods

Method	Explanation
Description	Managers within the organisation lay down exactly what is required and the buyer is given the brief of finding the best supplier. The buyer might, for example, be asked to find a supplier of steel bolts. He or she will then ask manufacturers to quote prices, and will make a judgement based on price and delivery reliability.
Inspection	This is commonly carried out for variable goods, such as second-hand plant and equipment. Car dealers will usually inspect the cars before buying, for example.
Sampling	Commonly used for agricultural products. A buyer might sample, say, wool from an Australian sheep-station and fix a price for it on the basis of its quality. Often these decisions will be made by reference to a very small sample, perhaps only a few strands of wool.
Negotiation	Typically used for one-off or greenfield purchase situations. This involves the greatest input in terms of both the buyer's skills and the salesperson's time, and it is likely that a number of people from the buying organisation will be involved.

Straight re-buy tasks are routine; the buyer is simply placing an order for the same products in the same quantities as last time. This requires very little thought or negotiation on the part of either buyer or seller. Often these deals are conducted over the telephone rather than spending time and money on a face-to-face meeting.

Modified re-buy involves some change in the purchase order: for example, a larger order value or a different delivery schedule. Sometimes the re-buy can be modified by the salesperson, for example by suggesting that the buyer orders a slightly larger value of goods than usual or by altering the delivery schedule in some way. In circumstances where the two firms have an ongoing relationship, buyers will often track the performance of their suppliers over a long period of time; buying firms that monitor their suppliers effectively can gain real competitive advantage, because they can control their supply of inputs much better (Bharadwaj 2004). Unfortunately, most firms appear reluctant to develop their suppliers (Wagner 2006).

Often the demand for **industrial products** will be dictated by factors outside the buying organisation's control. For example, **derived demand** occurs because the buyers are using the products either for resale or in making other products. The demand is therefore dictated by the demand for the end product. Frequently the demand for a component will be *inelastic* – for example, the price of wheel nuts will not affect the demand for them much, since they form only a tiny proportion of the price of a car, and also the car cannot be made without them. **Joint demand** occurs because the demand for one type of product dictates the demand for another. For instance, if the demand for guitars rises, so will the demand for guitar strings in the following months.

Fluctuating demand is more extreme in industrial markets because a small reduction in consumer demand for a product will lead to de-stocking by retailers and wholesalers, which causes a big reduction in demand from the manufacturers. A rise in consumer demand is likely to lead to re-stocking, which causes a bigger than expected rise in demand from the producers. In this way the fluctuations in demand for industrial products are more extreme than for consumer products.

Decision-making units

Industrial buying decisions are rarely made in isolation. Usually several people are involved in the process at different stages.

Gatekeepers such as secretaries and receptionists control the flow of information to the decision-makers. Often they will act as a barrier to salespeople, and see their role as being primarily to prevent interruptions to the decision-maker's work pattern.

Influencers are those individuals who 'have the ear' of the decision-makers. They could be people within the firm whom the decision-maker trusts, or they could be golf partners, spouses or even children.

Users are those who will actually use the product. For example, if the organisation is contemplating the purchase of a new computer system, the finance department and the IT department will clearly want to have some say in the decision.

Deciders are the ones who make the real decision. These are usually the hardest to influence, since they are usually the more senior people in the decision-making unit and are surrounded by gatekeepers. They are also sometimes hard to identify. They are not necessarily buyers, but they do hold the real power in the buying decision.

Buyers are the ones given the task of actually going through the process of buying. The buyers may be given a very specific brief by the decider, and may have very little room to negotiate except on areas such as price and delivery schedules. Sometimes they are merely there to handle the mechanical aspects of getting tenders from possible suppliers.

Each of these people has an independent existence outside the organisation; each will bring their own personal needs and aspirations to their role. In some cases this will be a job-related need (for example, career progression or the need to appear professional); in other cases the individual may have personal needs, such as a need to exercise power or the hedonic need to drive a hard bargain. The need to impress others within the firm can be extremely powerful.

From the viewpoint of the industrial marketer, it is essential to get to the deciders in some way rather than wait for the buyers to make the first contact by issuing a tender. The reason for this is that a tender will usually be very specific, and the buyers will then be deciding on the basis of price. The only way to get the order in those circumstances is to be the cheapest, and this inevitably results in reduced profits. If the seller has managed to approach the decision-maker beforehand, the seller can persuade the decision-maker to include certain essential aspects of the product in the tender, and thus ensure that the tender contains specifications that are difficult or impossible for the competition to meet.

Webster and Wind (1972) theorised that four main forces determine organisational buyer behaviour: environmental forces (such as the state of the economy), organisational forces (for example, the size of the organisation and therefore its buying power), group forces (internal politics and the relative power of group members) and individual forces (the personality and preferences of the decision-maker). These forces combine in complex ways to influence the final decision.

This means that the role of the salesperson is crucial in industrial markets. Salespeople are able to identify potential customers and approach them with a solution for their specific problem; even in cases where the buyer is going to invite tenders from other firms, the salesperson can often ensure that the tender is drawn up in a way that excludes the competition. Salespeople, and in particular key-account salespeople, are crucially important in relationship marketing, since they negotiate the terms of the relationship and are the human face of the supplying corporation.

In the end, organisations do not make purchases. Individuals make purchases on behalf of organisations, and therefore salespeople are always dealing with human beings who have their own needs, failings, attitudes and blind spots. Purchasing decisions are not made entirely rationally; often the personal relationship between the representatives of the buying and selling companies has the biggest role in the purchase. Buyers will naturally prefer to deal with someone they know and trust (see the section on personal selling in Chapter 9).

CASE STUDY 3 Armani

Giorgio Armani was born in 1934, in northern Italy. His parents were of Armenian–Italian descent, and at first Giorgio wanted to be a doctor. After three years of medical school, though, he dropped out and joined the Army. After he left military service, he found a job at La Rinascente department store in Milan, where he began as a window dresser and went on to become a sales assistant in the menswear department.

In the mid-1960s he went to work for the Nino Cerruti company, designing men's fashion. He also designed for other companies at this time, using his experience in retail to design clothes that were stylish, and which would display well in-store.

By the mid-1970s Armani was sufficiently confident to establish his own brand, in collaboration with Sergio Galeotti, an architectural draftsman. At first he produced mainly high-end products, but he always wanted to

design for a wider audience, and in the early 1980s he established Emporio Armani, a more youthful line of products with a much more accessible price-tag. He still retained his passion for good design, however, and as the range widened to include swimwear and underwear he decided that he would have to adopt a less conventional marketing approach.

Armani recognised that simply putting the clothes on display in department stores would not promote the essential brand values. He was aware of the power of the entertainment media, and began designing clothes for movies. His clothes were thrust into the spotlight in the movie *American Gigolo*, in which Richard Gere starred as the impeccably dressed gigolo of the title. Following this, Armani designed clothes for *The Untouchables* and more than 100 other films.

This ability to recognise new vehicles for promoting fashion wear led Armani to make heavy use of the Internet from an early stage. He also designed clothes for guitar legend Eric Clapton, and for Lady Gaga. David and Victoria Beckham have appeared in Armani advertising, as have Rihanna, footballer Cristiano Ronaldo and actress Megan Fox.

The Armani brand has been greatly extended to include leatherwear, jewellery, glasses, cosmetics, accessories, perfumes and even confectionery. Although brand extensions like this often result in diluting a brand's values, Armani seem to have avoided this problem: the brand remains as strong as ever, perhaps because Giorgio Armani continues to design many of the products himself, despite being in his eighties.

Part of the strength of the brand comes from the fact that it is only sold in Armani boutiques and some very carefully selected department stores. Becoming a distributor for Armani products is not simply a matter of placing an order for the goods: prospective resellers have to make an application, and by no means all are selected. This ensures that the brand is not devalued by association with down-market retailers.

Giorgio Armani continues to design clothing, and has proved to be a very astute businessman. No doubt his early years, on the front line of fashion in the department store where the customers actually buy the clothes, stood him in good stead for his future career. With an annual turnover of €2.9 billion, Armani has certainly come a long way from the village in northern Italy where he was born.

Case study questions

1 What are the social factors in choosing to buy Armani?

2 Why did Armani start designing for the movie industry?

3 What is the significance of using celebrities to promote the products?

4 How does Armani encourage potential customers to include the brand in the consideration set?

5 How might Armani's early experience of dealing with customers have influenced him later in life?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

For many years organisations have been encouraged to focus on sustainability and the impact they have on the environment. More recently a great deal of emphasis has been placed on the damage caused by the over-use of plastic packaging.

The term 'Blue Planet Effect' has become synonymous with such campaigns, largely brought about by the BBC series *Blue Planet II*, which highlighted the plight of sea life blighted by the vast amounts of plastic dumped in our oceans around the world. As a result many organisations, both large and small, have looked at ways to reduce plastic packaging.

In response to groups like the World Economic Forum, Ellen MacArthur Foundation and A Plastic Planet, which are urging the reduction in use of plastic, Iceland, the frozen food retailer, has promised to remove plastic packaging from its own label range by the end of 2018. Other retailers such as Tesco have started to use less packaging within their fresh fruit and veg range and Waitrose have stopped providing disposable cups for their customers when purchasing hot beverages, as well as promising to stop using black plastic for its fresh produce by the end of 2018.

There have also been a number of campaigns to stop the use of plastic straws used in coffee shops, restaurants and bars. Pizza Express phased out the use of plastic straws in summer 2018, Costa Coffee will only provide a straw on request by the end of 2018 and Starbucks will phase out the use of plastic straws by 2020. Bacardi have partnered with the non-profit organisation Lonely Whale to create a campaign called 'The future doesn't suck' in a bid to reduce the number of straws used worldwide by 1 billion by 2020.

Clearly this is fantastic news for the environment, but some are cynical about such actions and view this to be 'jumping on the band wagon' or using it simply as a PR exercise. What do you think?

Do these company responses to environmental concerns impact on your consumer behaviour? Do customers value ethics in organisations, or are they just interested in the cheapest price?

Summary

In this chapter we have looked at how people behave when faced with buying decisions. We have looked at the decision-making process both for consumers and for organisational buyers, and at the influences and pressures on each group.

Here are the key points from this chapter:

- Consumers buy because they recognise either assortment depletion or assortment extension needs.
- Complaints should be encouraged, because they give the opportunity to cure post-purchase dissonance and create loyal customers.
- Individuals belong to several reference groups and are also influenced by groups to which they do not belong such as aspirational groups and dissociative groups.
- Normative compliance is probably the most powerful factor in attitude formation and decision-making.

- The family is probably the most powerful reference group.
- Industrial buying is complex because of the number of people involved, and because of greater formality in the process.
- Gatekeepers, users, influencers, deciders and buyers are all involved in organisational decision-making. They each have personal agendas, and none of them should be ignored if the deal is to go through.
- The route to success in industrial marketing is to make sure the tender has something in it that the competition cannot match.

Chapter questions

Understanding the basics

1 How do family members influence each other's buying behaviour?

2 What are the main differences between industrial buyers and consumers?

3 What is the difference between assortment depletion and assortment extension?

4 How can the use of choice heuristics reduce post-purchase dissonance?

5 How can a marketer use interrupts to influence consumer behaviour?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1 Has the increased use of mobile devices impacted on the decision-making process? Develop a critical discussion.

2 Critically evaluate the importance of social media when considering reference groups.

3 Why might an understanding of the role of children in the family decision-making unit be useful for the marketer?

Action learning

1 Select a brand of your choice. Now have a look at the different methods of promotion that brand undertakes. See if you can identify which stages of the decision-making process that particular type of promotion might be influencing. Why do you think this?

2 Now imagine you are a marketing manager for a travel company.

   a How might you create problem recognition?

   b How then would you influence each stage of the decision-making process to get your customer to the point of purchase?

   c How would you ensure that your customer is satisfied and does not experience 'post-purchase dissonance'? How could you encourage 'post-purchase consonance'?

Further reading

***Consumer Behaviour: A European Perspective*, 6th edn, by Michael R. Solomon, Gary Bamossy, Soren Askegaard and Margaret K. Hogg** (Pearson, 2016). This is a very comprehensive text, covering all aspects of consumer behaviour.

***Business to Business Marketing Management: A Global Perspective*, 3rd edn, by Alan Zimmerman and Jim Blythe** (Routledge, 2017). This book provides an in-depth view of business-to-business marketing, taking a global perspective. It covers all aspects of marketing to other businesses, including buyer behaviour and strategic issues.

The following article offers a useful overview of the effect of online information-seeking activities on the type of information processing used by a consumer: **Etco, M., Senecal, S., Leger, P.-M. and Fredette, M.: 'the influence of online search behaviour on consumers' decision-making heuristics',** *The Journal of Computer Information Systems*, **57** (4) (2017), pp. 344–52.

Another interesting article has been produced by **Wang, Y. and Yu, C.: 'social interaction-based consumer decision-making module in social commerce: The role of word of mouth and observational learning',** *International Journal of Information Management*, **37** (3) (2017), pp. 179–89. This article offers some useful perspectives on decision-making in social commerce. It looks at WOM communication and observing other consumers' purchases. It examines their impact on consumer purchase intention and actual purchase behaviour.

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4

Segmentation, targeting and positioning

Objectives

After reading this chapter you should be able to:

- Describe the main methods of segmenting markets
- Explain how segmentation aids profitability
- Decide whether a given segment is sufficiently profitable to be worth targeting
- Explain the purpose of segmentation
- Develop ways of assessing the economic viability of segments
- Explain the growth of segmented markets
- Establish strategies for dealing with segmented markets
- Describe perceptual mapping
- Describe the main issues surrounding the positioning of brands.

Introduction

The segmentation concept was first developed by Smith (1957) and is concerned with grouping consumers in terms of their needs. The aim of segmentation is to identify a group of people who have a need or needs that can be met by a single product, in order to concentrate the marketing firm's efforts most effectively and economically. For example, if a manufacturer produces a standardised product by a mass production method, the firm would need to be sure that there are sufficient people with a need for the product to make the exercise worthwhile.

The assumptions underlying segmentation are:

- Not all buyers are alike.
- Sub-groups of people with similar behaviour, backgrounds, values and needs can be identified.
- The sub-groups will be smaller and more homogeneous than the market as a whole.
- It is far easier to identify and meet the needs of a small group of similar or like-minded customers than to try to satisfy large groups of dissimilar customers with no common needs or preferences.

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Targeting is concerned with choosing the segments the marketers think would be best to aim for in order to meet marketing objectives. Segmentation is essentially about dividing up the market; targeting is about the practicalities of doing business within the market. The two are clearly closely linked, since the segmentation process will usually provide information as to which segments are likely to prove most profitable or will help the firm to achieve its strategic objectives in other ways.

Positioning is concerned with the brand's relationship with other brands aimed at the same segment. Positioning is about the place the brand occupies in the minds of potential customers and their perceptions of that brand, relative to other brands in the market place.

Reasons for segmenting markets

Each consumer is an individual with individual needs and wants. On the face of it, this creates a major problem for marketers, since it would clearly be impossible to tailor-make or customise each product to the exact requirements of each individual.

Before the Industrial Revolution most products were individually made. This proved to be expensive and essentially inefficient once mass-production techniques had come into being. Unfortunately, mass production (taken to the extreme) means a reduction in the available choice of product, since the best way to keep production costs low is to have long production runs, which means standardising the product. Every adaptation costs money in terms of retooling and repackaging the product.

Mass marketing (or undifferentiated marketing) in which a standard product is produced for all consumers will only be effective if the consumers concerned have little choice and do not already own a product that meets the main need. For example, in 1930s Germany few families owned cars. Hitler promised the German people that every family would own a car, so Porsche was commissioned to develop the Volkswagen (literally ‘people's car’) as a basic vehicle which could be cheaply produced for the mass market. The car had few refinements: it even lacked a fuel gauge.

This approach is less effective in economies where most consumers already own the **core benefits** of the product. Once car ownership was widespread and the core benefit of personal transportation was owned by most families, consumers demanded choices in features and design of their vehicles. Segmentation deals with finding out how many people are likely to want each benefit, roughly how much they will be willing to pay for it and where they would like to buy it from. In this way, the firm approaching a segmented market is able to offer more functional benefits and more attention to *hedonic needs,* i.e. the products are more fun (see Chapter 3).

To make these adaptations worthwhile, marketers need to be reasonably sure that there is a large enough market for the product to be viable economically. On the other hand, concentrating on a smaller segment means that economies can be made in the supplier's communications activities; rather than advertise to a mass market, for example, the marketer would be better off concentrating resources on producing an advertisement that is tailored to the target segment – an ad, in other words, designed for the ideal customer and no other.

The reason for this is that we are surrounded by advertising messages. Consequently, people learn to avoid advertisements, and particularly to avoid ones that are clearly never going to be of any interest. At the same time, consumers will go out of their way to find out about products and services they have some interest in, often by reading special interest magazines or specific websites. Therefore an advertisement that is tailored to a specific group of consumers and that appears in a medium that those consumers use is likely to be far more effective than an untargeted advertisement in a general-interest medium.

Companies that aim for small segments usually have much greater credibility with consumers, and can learn to provide exactly what most pleases those consumers. In recent years, mass marketing has become less popular and less effective, so it has become increasingly important for businesses to market to customers as individuals in order to remain competitive and current (Moran 2014). Companies are now able to be incredibly specific and focused when selecting and communicating with their customers. Due to the Internet, social media, the vast number of databases available and the ability to undertake data-mining fairly simply and cheaply, marketers can focus on much smaller potential segments and are able to create much more specific, individualised messages. Thus greater opportunities have opened up for companies to relate to customers as individuals, and to be able to use interactive communications as a method of developing a ‘segment of one’ (Bailey *et al.* 2009).

Overall, the main purpose of segmenting is to enable the company to concentrate its efforts on pleasing one group of people with similar needs, rather than trying to please everybody and probably ending up pleasing nobody. Table 4.1 shows the advantages of segmenting the market.

Table 4.1 Advantages of segmentation

Advantage	Explanation
Customer analysis	By segmenting, the firm can get to understand its best customers better.
Competitor analysis	It is much easier to recognise and combat competition when concentrating on one small part of the overall market.
Competitive advantage	Companies may be able to gain a competitive advantage by focusing on specific target markets and serving their needs better than the competition.
Effective resource allocation	Companies' scarce resources can be concentrated more effectively on a few consumers, rather than spread thinly across the masses.
Strategic marketing planning	Planning becomes easier once the firm has a clear picture of its best customers.
Expanding the market	Good segmentation can increase the overall size of the market by bringing in new customers who fit the profile of the typical customer, but were previously unaware of the product.

It is useful to remember that segmentation is not only concerned with choosing the right customers – it also means deciding which customers cannot be served effectively. Sometimes this is because the firm lacks the resources and sometimes it is because some groups of customers are more trouble than they are worth. Rejecting some customers is called demarketing (Kotler & Levy 1971), and research conducted by Medway *et al.* (2011) shows that marketers responsible for managing places (for example, ancient monuments) use demarketing as a way of controlling sustainability of the place as well as controlling such factors as seasonality and crisis prevention.

Segmentation variables

A segment must fulfil the following requirements if it is to be successfully exploited:

- *It must be measurable, or definable.* In other words, there must be some way of identifying the members of the segment and knowing how many of them there are.
- *It must be accessible.* This means it must be possible to communicate with the segment as a group, and to get the product or service to them as a group.
- *It must be substantial,* i.e. big enough to be worth aiming for.
- *It must be congruent,* that is to say the members must have clear needs and a close agreement on what those needs are.
- *It must be stable.* The nature and membership of the segment must be reasonably constant.

The three key criteria are accessibility, substance and measurability (Kotler 1991), but it is important also to look at the causes underlying the segmentation (Engel *et al.* 1995). This enables the marketers to anticipate changes more easily and sometimes to verify that the segmentation base is correctly defined.

There are many bases for segmenting, but the following are the main ones:

- *Geographic.* Where the consumers live, the climate, the topology, etc. For example, cars in Brazil almost always have air conditioning but may not have heaters; cars in Sweden have headlights that stay on constantly because of the poor quality of the light for much of the year. Cars in the UK have the steering wheel on the right whereas in most other European countries it is on the left. Petrol and diesel cars will be banned in Norway by 2025, whereas the ban will not take place in the UK until 2040, so there are implications here for fuel usage and car production. Geographic segmentation is very commonly used in international marketing, but is equally useful within single nations.
- *Demographic.* Concerned with the structure of the population in terms of age, lifestyle and economic factors. For example, the housing market can be divided into first-time buyers, families with children, older retired people and elderly people in sheltered accommodation; equally, the market could be segmented

according to lifestyle, with some accommodation appealing to young professionals, some appealing to country lovers, and so forth.

- *Geo-demographic.* This combines both geographic and demographic information to create a more developed profile of the consumer. It is based on the premise that people who live on similar housing estates or streets may have similar incomes, lifestyles, etc. This has largely come about due to extensive database information about customers. ACORN (developed by CACI) and MOSAIC (developed by Experian) are two of the major segmentation tools associated with this type of segmentation.
- *Psychographic.* Based on the personality type of the individuals in the segment. For example, the home insurance market might segment into those who are afraid of crime, those who are afraid of natural disasters and those who are afraid of accidental damage to their property.
- *Behavioural.* This approach examines the benefits, usage situation, extent of use and loyalty. For example, the car market might segment into business users and private users. The private market might segment further to encompass those who use their cars primarily for commuting, those who use their cars for hobbies such as surfing or camping and those who use the car for domestic duties such as shopping or taking children to school. The business market might segment into 'prestige' users such as managing directors and senior executives and high mileage users such as salespeople.

Geographic segmentation

Geographic segmentation may be carried out for a number of reasons.

- The nature of the product may be such that it applies only to people living within a specific area or type of area. Clothing manufacturers know that they will sell more heavy-weather clothing in cold coastal areas than in warm inland areas.
- If the company's resources are limited, the firm may start out in a small area and later roll out the product nationally.
- It might be that the product itself does not travel well. This is true of sheet glass, celebration cakes and most personal services such as hairdressing.

Markets may be segmented geographically according to the type of housing in the area. Firms that supply products specifically aimed at elderly people may wish to locate (or at least concentrate their marketing efforts) in retirement areas. Products aimed at young people might be heavily marketed in university towns, and so forth.

Demographic segmentation

Demographic segmentation is the most commonly used method of segmenting markets, probably because it is easy to pick up the relevant information from government statistics. Demographics is the study of how people differ in terms of factors such as age, occupation, salary and lifestyle stage.

Typically, demographic segmentation revolves around age. While this is relevant in many cases, it is often difficult to see the difference between, say, a 20-year-old's buying pattern and a 30-year-old's buying pattern. Equally, it cannot be said with much reliability that all ten-year-olds share the same tastes. There are undoubtedly ten-year-olds who would not want to visit Disneyland or Legoland and ten-year-olds who would prefer duck á l'orange to a cheeseburger; many retirees still want to try out activities that would normally be associated with a younger age group such as bungee jumping and sky diving. Age is, of course, relevant but it should be included as part of a range of measures, not relied upon on its own.

As we saw in Chapter 2, demographic variables are shifting over time, as the birth rate falls and the average age of the population rises. In addition, the number of single-person households is increasing as people marry later, divorce rates rise and pensioners live longer. In 2017, there were 7.7 million single-person households representing around 28 per cent of UK households (Office for National Statistics 2017). The implications of this one change for marketers are far-reaching. Here are some of the possibilities:

- Increase in sales of individual packs of food
- Increase in sales of recipe products, ready meals and recipe boxes
- Decrease in sales of gardening equipment and children's items
- Decrease in sales of family-sized cars, packs of breakfast cereal, cleaning products, etc.

In Australia, immigration from South-East Asia has caused major changes in eating habits, religious observances and the linguistic structure of the country. In some cases, marketing activities have themselves contributed to a cross-fertilisation of cultural behaviour, so that individuals from one ethnic group behave in ways more usually associated with another group. This culture swapping means that ethnic and racial segmentation is no longer possible in most cases (Jamal 2003; Lindridge 2010).

Overall, demographic change means that new segments are emerging, some of which offer greater opportunities to marketers than do the segments they replace. Marketers need to monitor these changes in the demography if they are to remain able to segment the market effectively.

Geo-demographic segmentation

Geo-demographic segmentation classifies consumers according to demographic information and the areas in which they live. This segmentation method uses a statistical technique called cluster analysis which identifies segments, or clusters, which focus on small areas with similar demographic profiles (Nelson 2003; Smith 2017; Huerta-Munoz *et al.* 2017).

ACORN (A Classification of Residential Neighbourhoods) is one of the tools which use geo-demographics as a basis for segmentation. The organisation CACI developed ACORN over many years to help its clients understand the attributes of households and postcodes (www.caci.co.uk). The basic thinking behind ACORN is that people usually have a lot in common with their neighbours: in other words, where people live is a better predictor of their consumption behaviour than, for instance, their ages or incomes.

Psychographic segmentation

Psychographic segmentation classifies consumers according to their personalities. Psychographic segmentation remains problematical because of the difficulties of measuring consumers' psychological traits on a large scale. This type of segmentation can therefore fail on the grounds of accessibility. For example, researchers might find out that there is a group of people who relate the brand of coffee that they buy to their self-esteem. The problem then is that there is no obvious medium in which to advertise this feature of the coffee – if there were a magazine called *Coffee Makes Me Feel Good* there would be no problem.

More recently, the Internet and social media has increased the number of possibilities for allowing people to self-define into segments: our coffee-drinkers might have a website or social media page dedicated to them, at relatively little cost, where they might be able to exchange views and ideas. Segmentation can therefore be conducted in reverse by seeing who visits the website or joins, follows and/or likes the social media page.

Behavioural segmentation

Behavioural segmentation can be a useful and reliable way of segmenting. At its most obvious, if the firm is marketing to anglers they are not interested in how old the anglers are, what their views are on strong drink or where they live. All the firm cares about is that they go fishing and might therefore be customers for a new type of rod. Accessing the segment would be easily undertaken by advertising in angling magazines, by developing an attractive website (for example, one which offers useful tips on angling) or setting up a social media page. At a deeper level the firm might be interested in such issues as where they buy their fishing tackle, how much they usually spend on a rod, what kind of fish they are after, and so forth, but this information is easily obtained through questionnaire-type surveys, or by running an online forum. *Lifestyle* analysis has been widely used for the past 40 years or so, and seeks to segment markets according to how consumers spend their time, what their beliefs are about themselves and about specific issues, and the relative importance of their various possessions (e.g. cars, clothes, homes). The attraction of this approach is that it takes account of a wide range of characteristics of the segment, encompassing some psychographic features and some behavioural features (Plummer 1974).

Not all segmentation variables will be appropriate to all markets. A pizza company might segment a market geographically (locating in a town centre) but would not segment by religion; the situation would be reversed for a wholesale

Critical thinking

Can we really be pigeon-holed this easily? Surely our behaviour cannot be entirely governed by our age, or our gender, or our religious beliefs! As we grow older, or change our jobs, or have children, or become better educated, do our basic likes and dislikes really change?

If you like chips, you like chips, and no amount of lottery wins will make you suddenly like caviar instead. But then again – how are our tastes determined in the first place? By our upbringing, our friends, our experiences – and these are governed by our age, our gender, our religious beliefs, our education, etc.

Maybe we CAN be pigeon-holed that easily!

kosher butcher. This is despite the fact that both firms are in the food business. **Single-variable segmentation** is based on only one variable – for example, size of firm. This is the simplest way to segment, but is also the most inaccurate and would rarely be used in practice. To achieve **multivariable segmentation**, several characteristics are taken into account. The more characteristics that are used, the greater the accuracy and effectiveness, but the smaller the resulting markets.

In practice, segmentation is difficult to apply. Segmentation analysis does not always provide sufficient insights for managers, and many managers have difficulty in interpreting segmentation solutions presented to them by researchers; some even confess to a lack of understanding of segmentation theory (Dolnicar & Leisch 2017; Poenaru *et al.* 2014; Dolnicar & Lazarevski 2009).

Segmenting industrial markets

Industrial or organisational markets can be, and are, segmented by marketers according to the following criteria:

- *Geographic location.* Probably the commonest method, since most organisational markets are serviced by salespeople, and geographical segmentation enables the salesperson to make best use of drive time. Often firms in the same industry will locate near each other, perhaps because of availability of raw materials, or for traditional reasons to do with availability of local skilled workers.
- *Type of organisation.* IBM segments its market according to the industry the customer is in. This means that some IBM salespeople specialise in banking, others in insurance, others perhaps in local government applications of the equipment.
- *Client company size.* Many companies have separate salesforces to deal with large accounts, and often such salespeople need to use special techniques for dealing at this level.

- *Product use*. Oil companies have separate strategies (and sometimes separate subsidiaries) for marketing household central heating oil, for the plastics industry, for petrochemicals and for automotive sales.
- **Usage rate**. Customers who use large quantities of a given product will expect (and get) different treatment from customers who buy only in small quantities. This is partly because their needs are different, and partly because the supplier will tend to value the large buyer over the small buyer.

Bonoma and Shapiro (1984) suggest a nested approach to organisational market segmentation. This approach entails starting with broad characteristics such as the type of industry and the size of the organisations in it, then narrowing the segment by working through operating variables (processes, product types etc.), then looking at the purchasing approach of the organisations, followed by situational factors such as delivery lead times and order size, and finally looking at the individual types of buyer in each firm.

For example, a glass manufacturer might begin by segmenting according to type of industry (window glass for construction, toughened glass for cars, or bottles and jars for food packaging). Within the food packaging market the industry might break down further to pickles and sauces, wines and beers, and soft drinks. The wine and beer bottle market may further break down into major brewers and bottlers who buy in large quantities, and small privately owned vineyards who buy on a once-a-year basis. Some of the brewers may buy by tender, some may prefer to use a regular supplier and some may have special requirements in terms of bottle shape or design.

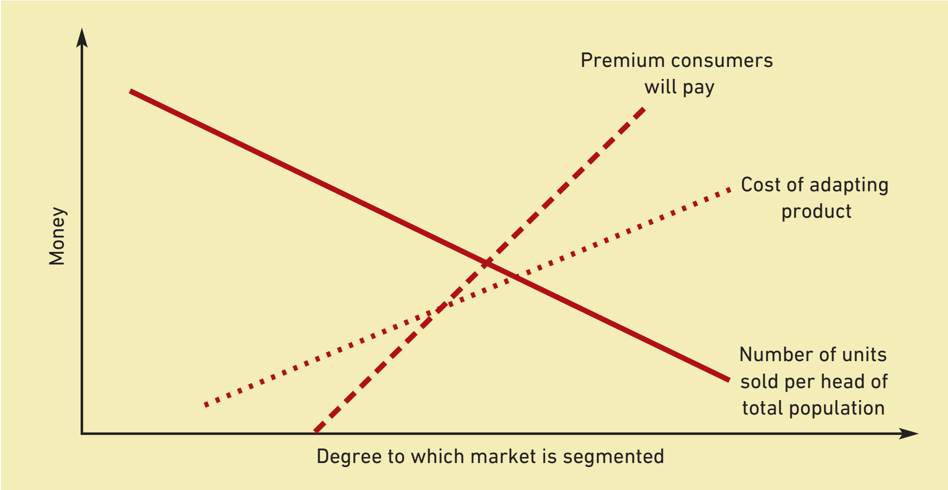
As in consumer markets, it is not necessarily the case that buyers act from wholly rational motives (see Chapter 3), so it would be unreasonable not to include the buyers' personal characteristics in the segmentation plan somewhere. This is likely to be the province of the salesforce since they are dealing with the buyers on a day-to-day basis.

Segmentation effectiveness

If a segment is correctly identified, it should be possible for the marketer to meet the needs of the segment members much more effectively than their competitors can. The firm will be able to provide specialist products that are more nearly right for the consumers in the segment, and will be able to communicate better with them. From the consumer's viewpoint, it is worth paying an extra premium for this. Rather than putting up with a product that does not quite fit the bill, the consumer will pay a little more for something that more closely approaches the ideal.

The segment will be profitable as long as the **premium** that the consumer will pay is greater than the cost to the manufacturer of making the modifications. There is therefore a trade-off; the finer-tuned the segmentation, the smaller the market but the greater the premium the target consumers will be prepared to pay. This is illustrated in Figure 4.1.

Figure 4.1 **Segmentation trade-offs**



As the segmentation becomes narrower, fewer units will be sold, so the number of items sold as compared with the population at large will drop. This is partly offset by higher prices, but the profitability of the segment will begin only where the premium line and the cost line diverge. Where the costs of adaptation are higher than the premium, it is not worthwhile to make the adaptations; where the premium is higher than the cost, it may be worthwhile but the firm must still take account of the reduction in unit sales overall.

Global segmentation

Although cultural variance (and differences in consumer behaviour) continue to be major issues for international marketers (De Mooij & Hofstede 2010; Hofstede 1994), transnational segments are still identifiable. The main bases for segmentation are:

- By country
- By individual characteristics (in much the same way as segmentation is handled within one's own country).

Countries can be grouped according to levels of economic development, by cultural variables or by a combination of factors, such as economic, political and technological factors. One of the best known studies is that of Hofstede (1980) in which countries were classified according to:

- Power distance (the degree to which power is centralised)
- Individualism (the degree to which people act independently of others) vs collectivism (the degree to which people in a society are integrated into familial and social groups)
- Uncertainty avoidance (the degree to which people are prepared to take risks)

- **Masculinity** (the degree to which male-dominated traits such as achievement, assertiveness and success prevail) vs **femininity** (the degree to which feminine traits such as caring, nurturing and modesty prevail)
- **Long-term orientation** (forward thinking and change is needed for future progression) vs **short-term orientation** (traditional values are honoured and maintained)
- **Indulgence** (freedom to enjoy life) vs **constraint** (duty is important and a number of factors dictate life and emotions).

The success rate of country classification as a practical route to segmentation is doubtful, however; variations between individuals within a country are usually much greater than those between countries.

Transnational consumer segmentation looks at lifestyles, behaviour and situation-specific behaviour. An example of lifestyle segmentation is the global youth market, whereby teenagers across the globe are sharing experiences through television, the Internet, world travel and international education (Kjeldgaard & Askegaard 2006).

In 1991 Hassan and Katsanis suggested that there was also evidence of an 'elite' market, an example of which can be seen today with the growing affluence of the Chinese market and its desire for high-end brands and luxury travel. It is often the wealthier members of a society who can travel abroad and be exposed to ideas from other cultures. Ruan (2017) suggests that 'Chinese jet-setters are looking for individually-tailored, exotic experiences from which they can take unique memories and local knowledge home'.

An example of situation-specific segmentation is attitudes to gift-giving, which is common across many cultures.

Other research found transnational segments for dairy products, although the researchers found that some of the marketing communications needed to be adapted to address some aspects of the product, even when the consumers showed similar characteristics (Moskowitz *et al.* 2008).

The main difficulty with seeking transnational consumer segments lies in generating adequate research within the target countries.

Targeting

Having divided the market into segments, managers must decide which segment will be the best to target, given the firm's overall objectives. Normally managers would choose the most profitable segment, but equally a firm may decide to aim for a particular segment of the market that is currently neglected, on the grounds that competitors are less likely to enter the market. The process of selecting a segment to aim for is called **targeting**. There are three basic strategic options open to marketers.

1. Concentrated marketing (single segment). This is also known as **niche marketing**; Purple Bricks (the online estate agent) and Saga (specialising in a range of products and services for the over-50s) follow this approach. The niche marketer concentrates on being the very best within a single, often tiny, segment.
2. **Differentiated marketing** (multisegmented) means concentrating on two or more segments, offering a differentiated marketing mix for each. Holiday Inn aims to attract business travellers during the week but aims for the leisure and family market at the weekend. At the weekend, the hotels often have events for children and special room rates for families.
3. **Undifferentiated marketing** is about using a 'scattergun' approach. The producers who do this are usually offering a basic product that would be used by almost all age groups and lifestyles. For example, the market for petrol is largely undifferentiated. Although oil producers occasionally try to differentiate their products by the use of various additives and detergents, the use of petrol is much the same for everybody, and there would not appear to be any relationship between segmentation variables and petrol use. It would be difficult to imagine any real adaptation to the product that would meet people's needs sufficiently well to merit a premium price. Such examples of undifferentiated products are increasingly rare; even the producers of such basic commodities as salt and flour have made great strides forward in differentiating their products (i.e. meeting consumers' needs better).

The decision regarding which strategy to adopt will rest on the following three factors:

- The company's *resources*
- The product's features and benefits
- The characteristics of the segment(s).

Clearly, if resources are limited the company will tend to adopt a concentrated marketing approach. This approach is taken by Titleist, the golf supply company. Titleist supplies everything the golfer needs, from clubs to golfing clothes, rather than diversifying into a general sporting products market. This enables the firm to become very close to its market, and to understand the needs of golfers (and intermediaries such as club professionals) better than any other firm.

A higher level of resourcing coupled with a range of segments to approach will lead to a differentiated approach, and a simple made-for-everybody type product will lead to an undifferentiated approach. Table 4.2 shows this in action.

Companies with a small resource base are often unable to make their voices heard in mass markets simply because they cannot afford the level of promotional spend. They therefore need to segment narrowly, perhaps by starting out in a small area of the country (geographical segmentation) and gradually spreading nationwide as resources become available.

Table 4.3 shows the decision matrix for choosing a segment to target. The marketing strategy should be tailored to fit the intended audience – this means that each of the seven Ps, and every element of the promotion mix, needs to be built around the segment.

Table 4.2 Resourcing and degree of differentiation

		Type of product	
		High-differentiation consumers	**Low-differentiation consumers**
High-resource company	**Mass market**	Differentiated	Undifferentiated
	Specialist market	Differentiated	Concentrated
Low-resource company	**Mass market**	Concentrated	Differentiated (perhaps geographically)
	Specialist market	Concentrated	Concentrated

Table 4.3 Targeting decisions

Segment size	Profit per unit sold	Number of competitors	Strategic decision rationale
Large	Large	Large	A large market with large profits will attract competitors; prices will fall rapidly, and so will profits.
Large	Small	Large	This is a mature market. A new entrant would have to have something special to dominate the market, perhaps a much reduced cost base or a unique or highly innovative product or service.
Small	Large	Large	A small segment with a high profit per unit and a large number of competitors can be captured entirely by a penetration pricing strategy.
Large	Large	Small	If the segment is both large and profitable, competitors will certainly enter the market. A skimming policy is best for this market; as competitors enter, it will be possible to reduce prices to compete effectively.
Large	Small	Small	This is a mature market, but should be low risk; the lack of competition means that it should be easy to capture a share, and the low profit margin will discourage others from entering.
Small	Small	Large	This is a dying market. Really not worth entering at all.
Small	Large	Small	This is a niche market. It should be possible to capture all of this market.
Small	Small	Small	This is clearly not a very profitable segment at all. Unless the firm has something very new to bring to the segment, this is probably not worth targeting.

Accurate targeting is best achieved by carrying out detailed market research into the needs and wants of the target group (see Chapter 5). In this way the company is able to decide what to offer the target audience to improve on the competitors' offerings. Note that three factors are being taken into account here. First, what do the consumers in the target segment need? Second, what is already available to them? Third, what can the firm offer that would be better than what is currently available? There is a danger in that companies can sometimes hinder their future targeting by placing too much emphasis on currently successful target market responses. This is especially prevalent in online and database marketing, where managers can end up focusing only on those people who were contacted in the first place; sometimes there are people in the target market who, for one reason or another, were not targeted in the particular mailing (Rhee & McIntyre 2009). This results in what is known as selection bias.

The five basic strategies of market coverage were outlined by Derek F. Abell in 1980. They are shown in Table 4.4.

Choosing the right market and then targeting it accurately are possibly the most important activities a marketer carries out. Choosing the wrong segment to target or, worse, not attempting to segment the market at all, leads to lost opportunities and wasted effort. Most firms find that Pareto's Law applies, and the firm obtains 80 per cent of its profits from 20 per cent of its customers – choosing the right group therefore becomes absolutely crucial to success.

Accessing the target market is another issue that deserves attention. For a segment to be viable, it needs to be accessible via some communications medium or another; the segment may comprise people who use a particular social media site, visit a particular website, read a particular magazine or watch a particular TV station.

Table 4.4 Market coverage strategies

Strategy	Explanation	Example
Product/market concentration	Niche marketing; the company takes over one small part of the market	Purple Bricks, Saga
Product specialisation	Firm produces a full line of a specific product type	Campbell's Soup
Market specialisation	Firm produces everything that a specific group of consumers needs	Titleist golf clubs, golf balls, tees, caddies
Selective specialisation	Capturing different segments of the market	Samsung make and sell televisions, but they also sell refrigerators and mobile phones. These are very different types of product developed to meet different market segments.
Full coverage	Firm enters every possible segment of its potential market	Mitsubishi Industries, which produces everything from musical instruments to supertankers

If there is no way to reach the segment, it cannot become a target market. In some cases the segment is defined by the medium – for example, *Cosmopolitan* readers represent a group of independently minded women with career aspirations, usually with high disposable incomes or aspirations in that direction, and interests that are more likely to run to business issues than to knitting patterns. These women represent a valuable market segment in their own right, but can probably only be easily identified as a group because they read *Cosmopolitan*.

Positioning

Positioning has been defined as: 'The place a product occupies in a given market, as perceived by the relevant group of customers; that group of customers is known as the 'target segment of the market' (Wind 1984). Usually positioning refers to the place the product occupies in the consumer's **perceptual map** of the market – for instance, as a high-quality item or as a reliable one or perhaps as a cheap version. The product is positioned in the perceptual map alongside similar offerings; this is a result of the categorisation and chunking processes (see Chapter 3).

Consumers build up a position for a product based on what they expect and believe to be the most pertinent features of the product class. Marketers therefore need to find out first what the pertinent features of the products are in the target consumers' **perceptions**. The marketer can then adjust the mix of features and benefits, and the communications mix, to give the product its most effective position relative to the other brands in the market. Sometimes the positioning process is led by consumers, sometimes by marketers.

Research shows that consumers use a relatively short list of factors in determining the position of a product (Blankson *et al.* 2017; Blankson & Kalafatis 2004). These are as follows.

- *Top-of-the-range.* This refers to the product which consumers believe to be the most expensive or 'the best'. In the UK, this is often called 'the Rolls-Royce of . . . ' whichever product type is under discussion.
- *Service.* The service levels which surround the product can be an important factor.
- *Value for money.* This is the degree to which the product's perceived benefits represent a fair exchange for the price being asked.
- *Reliability.* Products are often positioned as being more (or less) reliable than their competitors'.
- *Attractiveness.* This can refer to factors other than appearance, but implies factors other than the purely practical, performance-related factors.
- *Country of origin.* Some countries have a reputation for producing the best examples of some categories of product. For example, German engineering is highly regarded whereas the French are known for their food and wine. Some countries have a correspondingly poor reputation, of course, and this can be difficult

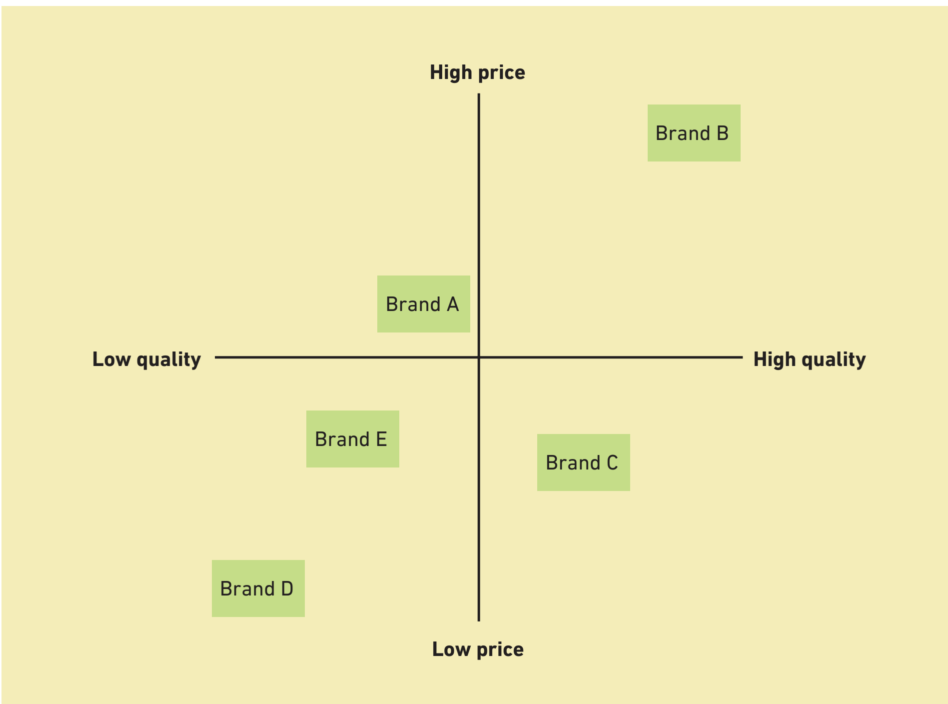
to overcome (Martin *et al.* 2011; Maheswaran *et al.* 2013). Firms can use self-focused mental imagery to develop a better image for these countries' products.

- *Brand name.* Branding is a key issue in positioning, as it identifies the product and conveys an impression of its quality (see Chapter 6).
- *Selectivity.* The degree to which the consumer can distinguish between brands and select from the range is a factor in positioning.

Ultimately, product positioning depends on the attitudes of the particular target market, so the marketer must either take these attitudes as they are and tailor the product to fit those attitudes or they must seek to change the attitudes of the market. Usually it is easier and cheaper to change the product than it is to change the consumers, but sometimes the market's attitudes to the product are so negative that the manufacturer feels constrained to reposition the product. For example, Skoda had to fight hard and invest vast sums of money to throw off the negative connotations of the vehicle's Eastern European origins. Not wishing to be classed with other poor-quality vehicles built in the region at the time and thus share the perception of poor workmanship and unreliability, Skoda made great efforts to emphasise Volkswagen's takeover of the company and to position the car next to VW in the consumer's mind. Skoda had to emphasise that, under the auspices of VW ownership, the company's quality control and engineering procedures had been greatly improved.

To determine the product's position, research is carried out with the target group of consumers, and a perceptual map such as the one in Figure 4.2 will be produced.

Figure 4.2 Perceptual mapping



From Figure 4.2 it can be seen that Brand B has the image of being both high price and high quality: this is probably the Rolls-Royce of the products (top-of-the-range factor). Brand D is perceived as being low price but low quality: this would be a cheap, everyday brand. Brand A has a problem: although tending towards a high price, this product is perceived as being below-average quality. Sales are likely to be low, or will take place only when the consumer has no other choice available. Brand C, on the other hand, enjoys a low price and good quality, so is probably the top-selling brand (value-for-money factor).

It should be noted that these positions are based on average responses from consumers in the target groups. They are not objective, nor are they based on the firm's view of the quality of its products. For this reason, they can sometimes be changed by promotional efforts. Far more commonly, though, the firm will need to do something more practical about adjusting the product or its price to make the necessary changes.

In Figure 4.2, the products have been mapped against only two dimensions, but it is perfectly possible (perhaps even advisable) to map the product against more dimensions. This can be done on a computer using multidimensional mapping software.

One of the most useful tactical aspects of positioning maps is that they can be used to identify gaps in the market. Using Figure 4.2 as an example, there is clearly a gap next to Brand A and below Brand B for a medium- to high-quality product at a medium to high price. Currently this market seems to be dominated by lower-priced brands; a brand entering this market would need to be perceived as higher quality than Brand C, but at a lower price than Brand B.

Sales forecasting

Having segmented the market, targeted the appropriate segments and decided on a positioning strategy, the firm is in a better position to forecast the expected sales of the product.

Two overall strategic approaches to sales forecasting exist: **break-down** and **build-up**.

The break-down approach begins with the overall market for the product category and seeks to predict what the firm's share of that market will be. For example, a bank may have access to government economic forecasts which can be used to calculate the total loans market for the following year. The bank forecasters will know what the bank's share of the market was in previous years and can use this information to make a reasonable estimate of what the bank's total lending will be in the ensuing year.

The build-up method, on the other hand, begins with the market segments (and even individual consumers) and builds up to a total market share. The bank in the above example might begin with an estimate of how many home loans it might make (based on market research) and how many business loans, how many car loans, and so forth. By adding these figures together, an overall estimate of the total sales for the following year is arrived at.

Sales forecasts help to determine the viability of a segment, and also help the firm to plan its budgets and indeed virtually all of its other activities. Forecasting the future is always difficult; many firms rely on **executive judgement**, using the skill and experience of its senior people in deciding whether a product is a winner or not. Unfortunately, this approach can fail because the executives may favour a product that they would buy as private consumers, rather than a product that the target market segment would buy.

Through a **customer survey** firms are able to ask potential customers how much of a given product they are likely to buy within the next twelve months or so. These intent-to-buy studies work best for existing product categories; for a radically new product it is much more difficult, since only the most innovative of consumers will be able to say with any certainty that they would be prepared to buy the product early in its launch. The main drawback with this method is that customers may intend to purchase, but change their minds during the course of the year, perhaps owing to a competitor's actions. On the other hand, some customers who say in the survey that they will not buy may well do so if their circumstances change.

Other firms may use a **salesforce survey**, asking the salesforce how much of a given product they might expect to sell over the next twelve months. This has the advantage in that the salespeople, unlike senior management, are usually close to the customer and are able to make judgements based on this. Also, salespeople will be wary about making rash forecasts that they might later be held to. On the other hand, salespeople generally like to be consulted about their own targets and quotas. A variation on the salesforce survey is the **distributor survey**, where the company's distributors are asked how much they expect to sell over a specific period. Since the distributors will be giving the total sales in the product category (e.g. supermarkets might be asked how much mineral water they expect to sell in the next twelve months), the company will then have to make a judgement regarding the amount of market share they might reasonably expect to capture.

The **Delphi technique** involves taking in the managers' and salespeople's forecasts, combining them centrally, then sending the aggregate forecast back to the individuals concerned for revision. This approach has proved popular with firms because it tends to produce a consensus of opinion to which all those concerned can adhere. A problem with using Delphi might be that individuals will only make forecasts that they are quite sure are achievable: in other words, they might underestimate the possible sales rather than risk being unable to hit targets.

Time-series analysis uses the company's past sales records to predict what will happen in the future. Although this can be quite accurate, it does not take account of the unexpected – a sudden entry by a competitor, a change in legislation or a change in the company's fortunes through takeover or merger. Few forecasting methods can take account of these factors, of course, and ultimately the company has to plan in some way. Time-series forecasters usually perform four types of analysis, as shown in Table 4.5 (Marino 1986). Having carried out each of these analyses, the forecaster is able to combine the results to develop the sales forecast.

Table 4.5 Time-series analysis

Type of analysis	Description
Trend analysis	Focuses on aggregate sales data collected over a long period to determine whether sales are rising, falling or staying level.
Cycle analysis	Here the forecaster examines the sales figures from a number of years to see whether there is a cyclical pattern – perhaps a response to the economic boom-and-bust cycle. This method has been largely discredited for most markets, since the cycles do not follow a regular pattern.
Seasonal analysis	Sales figures are analysed on a monthly or even weekly basis to see whether there is a seasonal cycle operating.
Random factor analysis	In any analysis there will be figures that do not fit the pattern; random factor analysis seeks to attribute explanations for these abnormal findings. For example, a spell of unseasonal weather might have affected one month's figures.

Time-series analysis works best for well-established products with fairly stable purchasing patterns. It is not suitable for new products or for products with erratic demand cycles.

For new products, a **test marketing** exercise might be carried out. This involves making the product available in one geographical area for a period of time, and monitoring the actual sales of the product in the area. The key to success with test marketing lies in ensuring that the area chosen is an accurate representation of the country as a whole; if not, the predicted sales on national roll-out will not be as expected. The major drawback of test marketing is that it allows the firm's competitors to see the product and possibly develop their own version before the product goes national. For this reason, test marketing exercises are usually short.

CASE STUDY 4 Apple

Apple was founded in 1976 by Steve Jobs, Steve Wozniak and Ronald Wayne. Wozniak was the electronics man: he designed and hand-built the first Apple computer, the Apple 1, which was first shown to the Homebrew Computer Club in that year. The Apple 1 was very basic, but was put on the market for $666.66, which would be well over $2000 at today's prices.

Ronald Wayne bailed out of the company early. He sold his shares to the other two directors for $800 a couple of weeks after the company was formed. History does not record whether he later regretted this decision.

In the years to follow, Apple went through a number of changes: Jobs became a victim of office politics and left for a while, starting his own software company. Later, Apple bought the company and Jobs was reinstated, at first as an advisor but later as CEO. The company adopted a 'top right' policy of aiming for high prices and high profit margins. Leading rivals IBM and Microsoft, meanwhile, adopted a mass-market approach, putting PC hardware technology into the public domain and going for a wide distribution of Windows software. Apple continued to retain possession of both hardware and software development, thus retaining control over their marketing. This also reassured customers that they could not be fobbed off with excuses. If a PC crashed, it would be easy for the manufacturer to blame the software, and the software producer to blame the hardware producer – this option did not exist for Apple, since it produced both.

Despite voices within the company expressing the fear that Apple would price itself out of the market, the firm continued with its high-price high-profit approach. Apple aimed to make a 55 per cent profit on all its products, and aimed to produce the best-engineered hardware and most user-friendly operating systems to justify this.

During the 1980s a technological breakthrough saw the introduction of relatively cheap high-resolution printers. Apple had introduced the Apple Macintosh, a computer which was perfectly suited to desktop publishing. With the availability of good-quality printers, sales of Apple machines rocketed among designers, writers, advertising agencies and so forth. This gave the company a lead in the professional design market. However, things move fast in the computer world – by 1990, PC clones were able to offer virtually the same features at much lower prices, and Apple began to slip backwards in sales. In response, the company introduced lower-priced models for the consumer market. The PowerBook laptop was introduced; an innovative design, it set the pattern for almost all current laptops, and was an instant success.

Unfortunately, the introduction of cheaper, mass-market models resulted in cannibalisation of sales of the higher-end products, which led Apple to rebrand some of those products. Since the features were almost identical, customers were simply confused by these changes. Meanwhile, Apple also introduced other consumer products, most of which failed dismally – a digital camera, portable CD players, video consoles, and so forth.

When Steve Jobs returned to Apple in 1997, he assumed the role of temporary CEO and immediately began revising the firm's product lines. He brought in Jonathan Ive, a talented designer, to redesign the company's products to create a cleaner, very distinctive look. Ive designed the iconic iMac, and later the iPod and the iPhone. The iPod launched in 2001, and was a phenomenal success, with over 100 million units sold in six years. Apple's iTunes store opened in 2003, and again proved to be a huge success – it was the first time people could buy music and download it directly to the iPod, and the convenience and flexibility of the store ensured its success among young people. Jobs also concluded an agreement with Microsoft to develop a Mac-friendly version of its highly successful Office software, to run alongside Apple's existing software.

Following Steve Jobs' death in 2011 the firm continued the policy of being innovative, and being at the cutting edge of design. The iPad, the new-generation iPhone, the introduction of intelligent software system Siri, the MacBook Pro, and the worldwide expansion of Apple stores rocketed the company to a world-record valuation of $624 billion, rather more than the gross national product of Belgium.

Today, Apple products are far from cheap. A MacBook Pro costs between three and four times the price of a basic PC clone, and the iPhone costs around double the price of an equivalent Android-based smartphone. However, Apple's after-sales service is impeccable. Customers can benefit from free courses on using the products and free access to 'Genius Bars' in Apple stores where they can discuss any problems they have with using the products. Moreover, the quality of the engineering is second to none. Problems are resolved quickly and efficiently, either face-to-face in an Apple store or online, and the products are built to last. Importantly, Apple computers are rarely subject to viruses: the company avoided the error made by Microsoft when it sold software that could be customised by users, and thus dodged the virus problem almost entirely. For many people, the fact that there are virtually no known viruses for Macs is extremely reassuring.

This approach of aiming for the high end of the market has certainly paid off. The reputation of the company is unassailable, the profit margins remain high and the products themselves are hugely popular. Other companies' products are seen as second best – and as long as Apple can retain its technological edge, that will continue to be so.

Case study questions

1 Why did Apple's introduction of cheaper computers fail?
2 How might you go about creating a sales forecast for a new iPhone model?
3 Why do Apple provide comprehensive after-sales service?
4 What role does design have in maintaining Apple's lead?
5 Why did Apple introduce Office for Mac?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

The Snowflake generation is a term that has been given to young adults who are under the age of 30 in the 2010s. It is has been suggested that this age group is less resilient than previous generations and is more prone to take offence at even the slightest criticism. It is a little more sheltered by parents and less self-reliant.

The Baby Boomers are the post-war generation. They are the most affluent group, having more assets, more home ownership and better financial stability, savings and pensions than any other group. Millennials (18–34-year-olds) who are in the 'Snowflake Generation' group and Generation X (35–50-year-olds) blame the Baby Boomers for 'ruining their lives' as they feel that it is the fault of the Baby Boomers that they cannot afford to buy their own homes, that student debt is so high and that there is such pressure on the NHS. This is despite the fact that Baby Boomers worked hard to buy their homes, paid exorbitant interest rates in the 1980s and had limited access to credit, so they could only buy what they could afford.

Marketers have a tendency to use these labels when segmenting their customers, but are these fair assumptions? Do the labels do more harm than good? It is has been suggested by some that the use of the term 'Snowflake Generation' has in fact caused mental health issues within this group. Many Baby Boomers feel unfairly blamed for something they feel wasn't their fault.

Is it ethical to use labels to group customers together?

Summary

This chapter has been about ways of dividing markets up into manageable portions. Here are the key points from this chapter:

- There are few, if any, mass markets left untouched.
- If most consumers already own the core benefits of a product, the market must be segmented if success is to follow, since there is otherwise no reason for consumers to switch brands.
- Segments must be measurable, accessible, substantial and congruent.
- The profitability of a segment is calculated as the number of people in the segment multiplied by the premium they are willing to pay.
- The narrower the segment the fewer the customers, but the greater the satisfaction and the greater the premium they are willing to pay (provided the segment has been correctly identified).
- There are many ways to segment a market – in fact, as many ways as there are groups with congruent needs.
- Targeting is concerned with selecting an appropriate segment or segments, and approaching it in a consistent and effective way.
- Some segments are defined by the media used to target them.
- Sales forecasting is difficult, but can most easily be accomplished where the product is a fairly standard item.
- Forecasting is likely to be self-fulfilling if all the interested parties are involved in the process.

Chapter questions

Understanding the basics

1. What might be the most useful segmentation bases for the mobile phone market?
2. What are the benefits of using geo-demographic segmentation?
3. What sales forecasting approaches would be most suitable for the launch of a new family car?
4. When should an industrial market be segmented geographically?
5. When should a consumer market be segmented geographically?
6. How might a TV company assess the viability of a new drama series?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1. Critically evaluate the notion that segmentation is crucial to the success of a marketing campaign.
2. Demographic segmentation is too simplistic and is no longer relevant in today's market place. Evaluate this statement.
3. Should we focus on global segments or are all segments the same regardless of which country you choose to enter? Develop a discussion in response to this argument.
4. You are the new marketing assistant for a small company which produces soaps and shower gels. The Director has little knowledge of marketing, but is interested to know a little more about segmentation. You are to prepare a report for him that identifies and describes three methods of segmentation, highlighting the benefits and limitations of each. Within your answer you should include examples of the circumstances in which these methods might be used.

Action learning

1. Select an overseas country of your choice and identify a product that you think you might be able to take into your chosen country.
   a. Undertake some research around the country. You may want to consider population statistics, demographic trends, cultural information. You may also wish to visit Hofstede's website https://www.hofstede-insights.com/product/compare-countries/ and apply the cultural tool to your chosen country.
   b. Once you have undertaken this research, create a short presentation for the Marketing Director of your chosen company. Your Director wants to know which segmentation methods might be the most suitable when entering this country and why. You should use your research to justify your choices.

Further reading

Unlike consumer behaviour or marketing communications, there are relatively few texts that cover segmentation in any great detail.

***Marketing Segmentation* by Malcolm McDonald (4th edition)** (John Wiley & Sons, 2012) offers a clear, comprehensive and practical approach to segmentation.

http://acorn.caci.co.uk/ is well worth a visit to look at the ways in which organisations such as CACI develop their segmentation for their clients.

***Demarketing* by Nigel Bradley and Jim Blythe (eds)** (Routledge 2013) contains articles about the various types of demarketing as well as case studies illustrating the practical implications of trying to reduce demand. The book aims to illuminate the reasons for, and problems with, demarketing and shows the importance of the other side of segmentation and targeting.

***Positioning: The Battle for Your Mind* by Jack Trout and Al Ries (2nd edition)** (McGraw-Hill Education, 2013) is a classic text which encourages the reader to think about a company's strengths and weaknesses and those of the competitor to help to develop a strong position in the mind of the consumer.

Obinna, O.O. and Alford, B.L.: 'Market segmentation via attitudinal functions: a multimethod approach', *Qualitative Market Research: An International Journal*, **21** (1) (2018), pp. 63–81 is an interesting article which considers segmentation methods within a physical fitness context and offers recommendations that may be applied in a variety of different situations.

There are a number of useful articles which Blankson and Kalafatis have collaborated on, around the factors determining product positioning one of which is **Blankson, C., Ketron, S. and Darmoe, J.: 'The role of positioning in the retail banking industry of Sub-Saharan Africa',** *International Journal of Bank Marketing*, **35** (4) (2017), pp. 685–713. This applies the factors (as mentioned in this chapter) within a practical context.

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5

Market research

Objectives

After reading this chapter you should be able to:

- Explain the difference between data and information
- Describe the research process
- Explain the difference between qualitative and quantitative research
- Explain the difference between primary and secondary research
- Develop a sampling frame for a given piece of research
- Design a suitable questionnaire
- Explain the importance of correct interview technique.

Introduction

There is considerable debate over the term ‘market research’. Many marketers believe that the term ‘marketing research’ is more appropriate. Market research is usually considered to be research into customer needs, wants and preferences; marketing research is sometimes used to describe all research carried out for the purpose of supporting marketing decisions. Whichever term is used, market research is concerned with the disciplined collection and evaluation of specific data in order to help suppliers understand their customers’ needs better (Chisnall 1992).

The need for market research

Market research is the process of collecting, analysing and presenting useful information about consumers. **Marketing research** also encompasses more general research into markets, which includes competitive activities and also environmental issues such as government activities and economic shifts. The ability to measure marketing performance has a significant positive impact on firm performance, profitability, stock market valuation and (of course) the status of marketing within the organisation (O'Sullivan & Abela 2007).

Furthermore, any marketer needs to ensure that their **brand awareness** is growing as a result of their marketing activity or that there is a quantifiable return on marketing investment (Wedgewood 2017).

As digital marketing is now the main focus of activity for many organisations, measurement has become even more important and the ROI (return on investment) is a crucial measure to identify digital strategy success.

The first question any marketer should ask before embarking on a research exercise is whether the information gained will be worth more than the cost of collecting it. Market research can represent a substantial investment in terms of both time and money; in some cases it is undoubtedly cheaper simply to go ahead with the project without carrying out any research at all. For example, if the total cost of sending out a mailing is less than £10,000, but research into finding out whether or not it would be effective would cost £12,000, it is obviously better not to do the research. More subtly, if the managers feel that the risk of the mailshot failing altogether is low, they may still not run the research even if it is much cheaper. If, for example, the management estimated the risk of failure at only 10 per cent, the value of the research would be only £1000. Therefore it might not be worthwhile carrying out research, even if the cost of it were, say, £3000.

In general, however, it is not wise to embark on a major commitment (such as launching a new product) without carrying out some market research beforehand. The vast majority of new products fail (see Chapter 6), and this is usually because consumers do not think that the product is worth the money. Good market research will reduce the risk of this happening, and it has been said (wisely) that those who find research expensive should think about the price of ignorance.

Types of research that are carried out by marketers are as follows:

- Customer research
- Promotion research
- Product research
- Distribution research
- Sales research
- Marketing environment research.

Customer research is intended to produce facts about markets and market segments; it provides information about where customers live, what they do with their time, what their motivations are, what they like to spend money on, what their spending power is and what the trends are in the market. A lot of this research may be readily available to a company through their sales records, databases and through their CRM (customer relationship management activities).

Promotion research measures the success of promotions in terms of their objectives. It relies on careful planning of objectives (see Chapter 9) but can provide information about the suitability of the approach used in reaching a target audience.

Research is also useful for determining which media should be used; since promotion in general, and advertising in particular, tends to be expensive it is important that the effort is not squandered on advertising in the wrong place.

Product research is used to identify new uses for existing products or to identify needs for new products. Product research is often used to refine the design of an existing product to produce an improved 'Mark 2' version.

Distribution research is concerned with finding the best channels of distribution for a product. It often overlaps with consumer research, since the location of retail outlets will depend on where the target consumers live and their habits. For example, many DIY products are distributed through edge-of-town outlets, which means that only those consumers with cars will be able to reach the store and buy the product. This will not matter if the product is an automotive one, but may matter if it is a product for elderly people, who may not own cars (or who may perhaps prefer not to drive).

Sales research is intended to help the sales management process by ensuring that territories are of equal size or value, that the techniques and approaches being used are effective, that the training of the salesforce is appropriate and sufficient and that salesforce motivation is appropriate (see Chapter 9).

Finally, **marketing environment research** examines aspects of the micro- and macro-environments (see Chapter 2). The purpose of the exercise is to ensure that the firm can anticipate environmental change and develop responses in advance.

Very often research can be carried out fairly quickly and cheaply, since much of the information needed will probably already exist, either in published form or within the company's own records. Often the company records contain a great deal of useful **data**, or raw facts; analysis of those facts will turn it into usable **information**. The data items themselves are worthless until there has been some kind of thoughtful analysis to convert them to information. Data mining is an important component of database marketing, in which the database drives everything the company does. Provided the entire company (from invoicing department to shipping) uses the same database, all the information about the customer can be collated to form a complete picture. This information might range from whether the customer is a good payer through to whether they prefer deliveries on Wednesdays – all the data on the customer is likely to prove useful to someone in the company at some time.

Marketing information systems are often set up to provide an automatic flow of data into the firm, with systems for regular analysis of the data. Often these systems can be set up to collect data from anywhere in the firm (for example, from salespeople's laptops) so that the firm's IT systems can collate information from several sources. There is always a trade-off involved between the value of information and the cost in time, effort and money of obtaining it; by reducing the cost element, computers have increased the possibilities for obtaining useful data and converting it into usable information. **Decision support systems** can be fully automated. An example is the electronic point-of-sale (EPOS) systems used by large retailers. These record every purchase made in the store so that the retailer can reorder stock in the correct amounts, can automatically analyse trends and can even (with the use of loyalty cards) track an individual customer's purchases over a period of time.

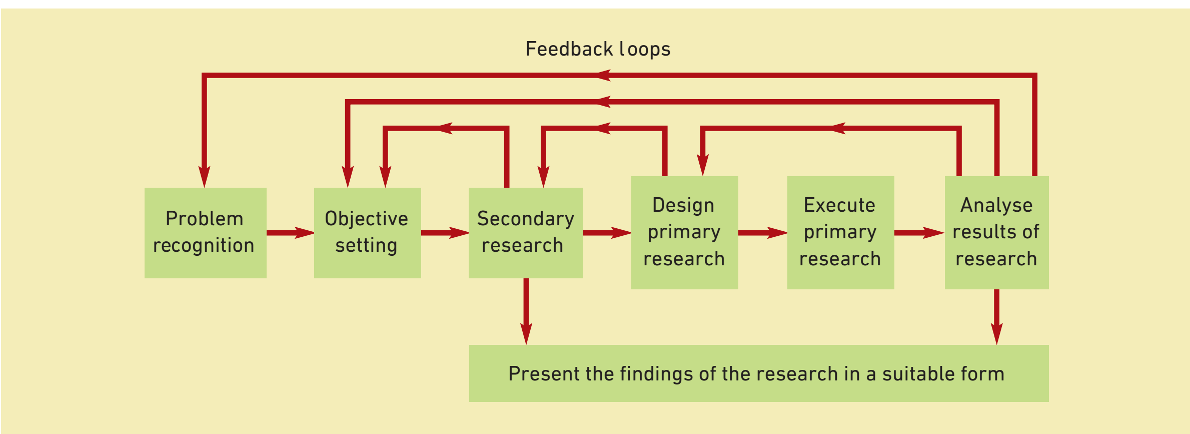
Decision support systems need to be user-friendly so that managers without training in data analysis can use them.

The research process

The purpose of research is to collect data (and sometimes information) and process it into usable information that can be used to make management decisions. The first stage in any research process is to define the problem and set objectives. Figure 5.1 shows the research process.

After setting the objectives, the process of collecting the data can begin. Data can be collected from either **primary research** sources or **secondary research** sources. Primary sources are original research: questionnaires, interviews, **experiments** or product tests with consumers. Secondary research (also called *desk research*) comes from already published information in journals, newspapers, commercially published market research, government statistics, directories, yearbooks, CRM databases, the Internet and other published materials. Secondary data are, in effect, second-hand data.

Figure 5.1 **The market research process**



Normally it is sensible to begin the research process by looking at secondary sources. The reasons for this are as follows:

- It is always cheaper.
- It is always quicker.
- Sometimes all the necessary information for making the decision has already been published and is available.
- Even when the published information is incomplete, the researchers will only have to fill in the gaps with primary research rather than gather all the information first-hand.

Secondary research will not necessarily tell the researchers everything they need to know. For example, if the company is planning to launch a new solar-powered mobile telephone, there is unlikely to be a great deal of research already available on solar-powered mobile telephones. There will be research on mobile telephone use and ownership, environment-friendly consumers, environmental policies and solar power, so all these sources should be examined first. This will, at the very least, help with the design of the primary research.

The other main drawbacks with secondary research are that it is often out of date and that it can be hard for the researcher to be confident of its accuracy since it is often published without giving details of the methods used in its collection. This is particularly the case with Internet sources, which are notoriously unreliable; there is nothing to stop anyone publishing anything on the Internet, whether it is true or false, and, in the absence of any kind of checking, there have certainly been some highly biased statements and faked 'research' published. Researchers therefore need to exercise some caution, but that certainly does not mean that secondary sources should be ignored.

Having completed the search for secondary data, it is possible to design the primary research. This will involve deciding: (a) what gaps there are in terms of the objectives and what is known from the secondary sources; (b) who we need to approach to get the information; and (c) the methods to be used.

Deciding what we need to find out from the primary research means comparing what the secondary research says with the objectives that were originally set. Where information is lacking, the researchers need to decide how to find it out and who would have the information.

Approaching respondents

Respondents are the subjects of research – the people whose behaviour and opinion are of interest to the researchers. The *methodology* will depend on what the researchers are hoping to discover. Methodology is not the same as method; methodology is actually the study of method and is concerned with the thinking behind the choice of a specific method.

Qualitative research

Qualitative research is to do with how people feel about the product, advertisement or company; the approach is usually much more probing (and thus time-consuming) than would be the case with quantitative research, and therefore the *sample size* (number of respondents) will be much smaller. Qualitative research will often tell researchers why people behave in the way they do, but since it usually consists of subjective opinions it can be difficult to quantify. Table 5.1 shows some of the methods used in qualitative research.

Table 5.1 Qualitative methods

Method	Explanation
Group depth interview or **focus group**	A group of six or eight people is recruited and invited to talk about the subject. This method tends to produce a wide range of opinions, because each member of the group will 'trigger' the other members to think of things to say. On the other hand, group pressure may mean that only the most talkative respondents' views are expressed.
Exploratory groups	A type of focus group used at the initial stages of market research to find the dimensions of the problem. Dimensions are the factors that are of interest to respondents about a particular marketing issue. Exploratory groups usually consist of a cross-section of potential consumers.
Clinical focus groups	On some issues, respondents' attitudes may be hidden below the conscious level. These groups are used in a clinical setting where the researcher can judge whether the person's true feelings are being expressed, so such groups are often video-recorded so that facial expressions and body language can be analysed.
Experiencing focus groups	These groups are homogeneous (i.e. composed of similar people), and allow the researcher to gauge the feelings of a group of actual customers for the product category under consideration. Such groups might be asked to interact with a product – for example, to feel samples of material. Experiments show that people respond better to such experiments if they are also given verbal information (D'Astous & Kamau 2010).
Teleconferencing	Teleconferencing involves a group discussion conducted over the telephone or using Skype. Similar to a focus group, this avoids the necessity of bringing people together physically and also can make people feel easier about expressing themselves. The technique is particularly useful for focus groups involving managers in industry.
Video-conferencing	Like teleconferencing, but with vision. This has the major advantage of allowing the researcher to see people's facial reactions, which often say more about a person's true feelings than do words. VOIP (Voice Over Internet Protocol) systems such as Skype have made this method very much easier.
Depth interviews	Usually carried out by highly trained interviewers or psychologists, the depth interview uses probing questions to uncover the respondent's deepest feelings.
Projective techniques	Subjects are presented with ambiguous, unstructured situations and invited to respond. Because the situation is unclear, the respondents must use their imaginations to respond, in the course of which their own true feelings will be revealed. Projective techniques are used when a direct response might be embarrassing for the respondent.

(*continued*)

Table 5.1 continued

Method	Explanation
Word association	A projective technique in which the respondent is asked to say the first thing that comes to mind when the researcher says a particular word. The theory is that the respondent does not have time to censor his or her response, so that the respondent's true feelings are revealed.
Cartoon tests	Another projective technique; the respondent is shown a cartoon and asked to supply the captions for it. The respondent will actually put his or her true feelings down; since it is only a cartoon, no blame can attach to the respondent for what the characters are 'saying'.
Third-person techniques	This projective technique is simple to apply: the respondent is asked what he or she thinks another person ('your neighbour' or 'most people') would say or do in a given situation. The respondent would typically give their own opinion as if it were that of the third person.
Analogy	Here the respondent's personality is linked to a prospective purchase. For example, the respondent might be asked to imagine what it would be like to actually be a new BMW car. The respondent might say 'I feel powerful' or 'I feel ready for my new executive owner' (Proctor 2000). Analogies help marketers develop communication strategies targeted at specific groups of consumers.
Experimentation	Respondents are invited to do something or are shown an item and their responses are monitored. For example, online research companies will use a 'virtual shopping' simulation to examine how consumers respond to certain products, how they are priced, where they are placed on the shelf and how they respond to online promotion.
Observation	The researcher watches the consumers and notes their behaviour. For example, a researcher might stand outside a shopping mall and count how many people go in. Fisher-Price, the toy manufacturer, has an on-site Play Lab where they annually test 1,200 toys on 3,500 children. Through observation they are able to identify which toys are right for each age group and developmental life stage (www.fisherprice.com).
Virtual focus group	Here respondents are recruited for an online chatroom to discuss the subject of interest. This technique has the great advantage that people can respond from their home or workplace, which means they can be recruited from anywhere in the world if need be. Second, they do not have to be online at the same time – the focus group can run for days or weeks if necessary. Third, a degree of anonymity can be preserved. Finally, analysis is made much easier because there is no need to prepare a transcript – the responses are already written down.
Online surveys	These are questionnaires that the target audience can complete on the Internet. Many companies offer tools to set up your own online surveys, so they can be relatively cheap and simple to do. They are a useful way to gauge public opinion.

It is not unusual to carry out qualitative research before designing a quantitative study to find out the dimensions of the problem; the researcher might then carry out a questionnaire-type survey to find out how many people agree with the statements made in the qualitative study. Because of the cost and time involved, there has been a movement away from this extensive approach, however, and much more research is being done using qualitative methods only.

Quantitative research

Quantitative research methodology deals with areas that can be expressed in numbers. It will tell researchers, for example, what proportion of the population drinks tea in the mornings and what their ages and occupations are; what it will not do very easily is tell researchers why those people prefer tea to coffee.

Surveys

Most people have at some time or other been asked to participate in a survey, and this method remains the commonest method of collecting quantitative data.

Surveys can elicit facts about the respondents' behaviour and possessions, can find out opinions about issues and ideas and can sometimes elicit interpretations of the respondents' actions or opinions. Table 5.2 shows some survey techniques.

A major problem with any survey lies in ensuring that the right questions are asked and that they are asked in the right way. A typical questionnaire would ask respondents about their behaviour and attitudes and about themselves; this is important for classification purposes. Obviously the researcher will be unable to say '25 per cent of 25–35-year-olds buy beer at least twice a week' if the questionnaire did not ask the respondents their age, but most questionnaires would need to contain much more detail about the respondents. The questions about the respondents themselves must be discreet as well as relevant, and this requires considerable skill on the part of the researcher in deciding what might or might not be relevant to the study at hand.

Questionnaire design can be a lengthy process for this reason. The criteria for writing survey questions are as follows:

- Questions need to be short, simple and unambiguous.
- Questions should not be leading – in other words, they should not direct the respondent towards a particular answer.
- The questionnaire's introduction should be persuasive and must qualify the respondent as belonging in the sample.
- The answers must be capable of analysis, preferably by computer.
- Questions must be necessary and relevant to the study.
- The respondent must have the information needed to answer the question.
- Respondents must be willing to answer the questions. If the questions get too personal, people will not respond.
- Questions must be specific. Avoid asking two questions at once, e.g. 'Was your holiday pleasant and good value for money?' Holidays can be pleasant without being good value.
- Hypothetical questions should be avoided; they require guesswork on the part of respondents and also can rarely be worded in such a way that respondents have enough information to answer.

Table 5.2 Survey techniques

Method	Explanation
Online surveys	Several online survey systems exist (SurveyMonkey, for example). Researchers can post their questionnaires on the site, then direct respondents to it. The major advantage is that analysis can be conducted virtually instantly; the main disadvantage is ensuring that the sample is representative, though of course this is a problem with all surveys.
Postal surveys	Questionnaires sent to respondents through the mail. Respondents fill in the answers and mail the survey back. They have the advantages of being cheap, of avoiding interviewer bias and of being capable of containing questions on a broad range of issues. They have the disadvantages of (typically) having a low response rate, of not allowing the researcher control over the respondent and of the possibility of someone other than the addressee (e.g. a secretary or assistant) filling in the replies.
Personal structured interviews	Here the researcher goes through the questions face to face with the respondent. This technique is more expensive than a postal survey, but gives the researcher control over the process (e.g. the order in which questions are asked and answered). The cost is high and the refusal rate (the proportion of people who refuse to participate) is also high.
Telephone surveys	Here the questionnaire is administered over the telephone. This has the advantage of being quick and cheap, with a high response rate, while still allowing the researcher to control the process. The disadvantage is that respondents sometimes suspect that they are about to be subjected to an unwanted sales pitch and the list of telephone numbers may be out of date. In the UK, people can opt out of inclusion on telephone lists by registering with the Telephone Preference Service, which means that a large number of potential respondents have been removed from the system.
Self-administered surveys (feedback cards)	This method is often used in service industries such as hotels and restaurants. Questionnaires are left for customers to fill in and put into a box or mail back. The major drawback of this method is that not all customers will fill in the survey; only those who are exceptionally pleased or exceptionally disappointed are likely to fill them in, so the management will get a distorted picture of customer satisfaction levels. Managers would be well advised to treat any comment other than 'excellent' as a complaint.
Panels	A panel is a group of respondents who regularly respond to surveys and are usually paid for participating. This frequently occurs online. Some panels are set up on a permanent basis and are often made available to researchers by commercial market research companies. Sometimes panels are used by a group of firms to carry out research which is syndicated to the group. Panels can be expensive to set up, but are relatively cheap to run and have the major advantage of offering a very high response rate.
Omnibus studies	Omnibus surveys are usually carried out by commercial market research agencies who combine several studies into one questionnaire. This reduces the cost for each client and ultimately reduces effort for respondents since they will need to give their personal details only once. For an omnibus survey, respondents will be asked about several unrelated topics; the questionnaires tend to be somewhat long and arduous to complete so respondents are often rewarded with a small gift.

Critical thinking

This is all very well, but how do we know people are telling us the truth? Even if they want to, might they not misunderstand the question or have something else on their minds? People often tell lies, especially if they are confronted with something embarrassing – and in any case, almost all of us like to appear in a good light.

Furthermore, there is the widespread view that a nosy question deserves a lying answer – people might appear to be cooperating, but instead will deliberately mislead us. And if that's the case, how can any research be worthwhile?

Even experienced researchers have difficulty writing effective questionnaires; what is a clear and obvious question to one person may have a different meaning to another, so it is usually a good idea to **pilot** all questionnaires. This means testing the first draft of the questionnaire by asking a group of typical respondents to fill it in, then analysing the results. Often (in fact, usually) this process will highlight errors in the design; these can be corrected before the finished version is used on the overall sample of respondents. If several errors are detected at the pilot stage, it may be worth considering piloting a second time; many surveys have been run only to find that there is a major ambiguity in one or more questions, invalidating the entire project.

Sampling

Sampling means choosing whom to ask. It is usually not feasible or necessary to ask everybody in the target market to give an opinion on a given issue, but it is important to ask enough of the right type of people to ensure that the data we get are reasonably representative of the market as a whole. In some cases sampling can be very simple; if we want to know what were the key factors in making a purchase, we could arrange for a simple questionnaire to be taken at the point of sale – in other words ask people to provide us with their main reasons for buying while they are still in the shop.

Finding the right mix of respondents is important because the researcher is attempting to draw conclusions about the target market as a whole; for some surveys, fewer than 100 respondents' opinions would be solicited to draw conclusions about consumers numbering in the millions. This means that a small sampling error will be multiplied many times when the analysis takes place. In general, the bigger the sample the less likely that there will be **sampling bias**, particularly if the survey is intended to find out the opinions of a small minority of the population.

The **sampling frame** is the list of possible respondents from whom the researcher wishes to draw a **sample**. In some cases this list will be available – for example, if a researcher wants to sample the opinions of doctors, it is possible to obtain a list of names and addresses for every doctor in the country. It would then be relatively

Table 5.3 Sampling methods

Sampling method	Description	Advantages	Disadvantages
Random sample or probability sample	Each individual in the population at large has an equal chance of being included in the sample	Will give a clear cross-section of the population	Almost impossible to achieve. Most so-called 'random' samples are seriously biased – for example, choosing names from the telephone book might seem 'random', but in fact only people with landline telephones will be included and, even then, those who are ex-directory will not be included
Quota sample	An analysis of the population is undertaken first, often from census data. Then a quota for each category (e.g. women aged 35, men aged 20, middle-aged professionals) is drawn up and interviewers are told to fill the quota	Will produce a clear cross-section of opinion, provided the basis for the quota is correctly set	Often means that interviewers are rejecting respondents because they do not fit the quota, and towards the end of the day the interviewers might be spending a lot of time looking for that last 35-year-old manual worker with two children
Stratified sample	Similar to quota sampling in that broad bands of the population are specified, but the final choice of respondent is almost taken by chance	Less waste of respondents than quota sampling, more flexibility for interviewers and therefore cheaper	Not as accurate as quota sampling

simple to construct a sample from the list. It is more likely, though, that the list the researcher wants is unavailable; for example, a list of people who have played squash in the past three months probably does not exist. In those circumstances the researcher would have to construct a representative sample of individuals with the required characteristics, which could prove to be a difficult task.

Table 5.3 shows some sampling methods.

Probability/random sampling tends to be the least preferred method of sampling nowadays, with the focus being more towards quota sampling and the use of databases and other online methods for sampling. The reasons for this are that quota sampling is easier and more reliable, and databases and online methods provide a quick and easy way of sampling a range of questionnaires.

Interview technique

When conducting interviews, it is all too easy for the interviewer to 'lead' the respondents into making the 'right' statements. Sometimes respondents will encourage this by asking questions themselves; good interviewers will avoid the temptation to step in and help at this point.

Some ways to avoid this are to use statements such as, 'Well, it's your opinion that's important. What do you think?' or perhaps just to give a questioning look. It is also advisable to explain to the respondents beforehand that you will not be able to help them with the answers.

In the case of a focus group or group depth interview, there is a problem in judging whether to let a particular line of conversation continue or not. What may at first appear to be an entirely irrelevant digression from the subject may eventually turn round and produce something very insightful; on the other hand, if the interview degenerates into a general chat, nothing useful will arise. The moderator could ask how the topic relates to the subject of the research. This will sometimes produce a quick explanation of the relationship or otherwise invite a quick return to the point of discussion.

In practice, groups mostly do keep to the subject at hand; digressions are few and usually short-lived.

Sources of bias

Bias is the effect whereby the results of a survey are rendered unreliable by some external force. The commonest sources are sampling bias and **interviewer bias**.

Sampling bias

This type of bias results from taking a sample that is not representative of the population we wish to study. It is easy to fall into the trap of thinking that the sample is representative, when in fact it has been drawn from a small population. For example, a researcher might carry out a survey in a high street, stopping every third shopper. This survey will not be representative, since it includes only those who shop on that high street on that day. A survey of this type undertaken on a Tuesday afternoon, for example, might include a higher proportion of pensioners and unemployed people than there are in the population at large. A similar survey undertaken on a Saturday afternoon might exclude most sports fans. Sample bias is common and difficult to avoid.

Interviewer bias

Interviewers naturally want to get through the questionnaire with the minimum of problems and they are also acutely aware that the respondent probably has better things to do than answer awkward or badly phrased questions. If the interviewer finds that respondents are showing a negative reaction to some questions, he or she might skip past those questions in future and 'guess' the answers or might try to 'help' respondents formulate their answers. Sadly, it has been known for some unscrupulous interviewers to fake the answers altogether if they are having difficulty in finding enough respondents to fill the quota (Kieker & Nelson 1996).

Interviewer bias can be subtle; in one-to-one open-ended interviews the interviewer's body language (facial expressions, movements etc.) can convey a message to the respondent that leads to a specific answer being given or to some information being withheld. Likewise, people tend to answer differently when the interviewer is male rather than female or older rather than younger.

Of course, the reverse to this is when respondents are wary of answering questions and may adjust their answers accordingly, based on the situation. For example, as online techniques such as digital interviews increase in popularity, respondents may feel concerned about privacy issues, which may impact on the truthfulness of their responses (Langer *et al.* 2017).

Analysing the results

Analysis has three distinct stages: **editing**, which means discarding any inconsistent or spoilt responses; **tabulating**, which means totalling the various responses and cross-tabulating them; and **interpreting**, which means saying what the figures mean.

Qualitative data analysis

Until relatively recently the analysis of *qualitative data* was heavily reliant on the judgement of the researcher. The traditional approach has been to make transcripts of recordings made during focus groups or depth interviews and then make an overall judgement of the views expressed using quotes to support the argument. This approach has been criticised on the grounds that it lacks the rigour of quantitative methods.

With the widespread use of computers, software has become available for the analysis of qualitative data. Software is available to carry out the following operations:

- Find individual words or phrases. Having decided which are the key phrases or words that are significant in the study, the researcher can tell the computer to find and count such words and phrases.
- Create *indexes* to show where and in what context the words and phrases have been used. Rather like a book index, this allows the researcher to attribute phrases to types of individual.
- Attach key words or codes to segments of text. Sometimes respondents will be talking about a particular issue without using the actual words that the researcher believes are the key ones. Some programs allow the researcher to add relevant codes and key words to identify subject areas in the text.
- Connecting the categories. This allows the researcher to see whether some types of statement are associated with other types of statement: for example, whether those respondents who make politically right-wing comments also prefer powerful cars.

Table 5.4 gives some examples of computer software for analysis of qualitative data. The list is by no means exhaustive; there is a vast range of other software available to help in

Table 5.4 Analysis tools for qualitative data

Software	Description
NVivo	A programme which supports qualitative and mixed methods research. This helps the researcher to organise, analyse and discover insights into qualitative data such as interviews and open-ended surveys.
QDA Miner Lite	This is free computer-assisted qualitative analysis software which helps to analyse interview transcripts and open-ended responses.
Qiqqa	This is used by academics, researchers and businesses alike. It is freemium management reference software which can be used to search for, read and annotate PDF files.
XSight	This is qualitative data analysis software for non-numerical and unstructured data.

qualitative analysis and more is being developed. Such software can only help take the tedium out of the analysis; it will not do the thinking for the researcher and a great deal of judgement is still needed in qualitative analysis (Catterall & Maclaran 1995).

Presentation of the data is not numeric. It is not appropriate to ascribe percentages to the comments made, since the sample used is small and the process of ascribing key words and codes to the data is not precise. Typically, qualitative data analysis results in a set of **matrices**, or a **network**. A matrix is the cross-tabulation of two lists, set up as rows and columns; a network is a diagram showing the relationship between concepts.

For example, a *tree* **taxonomy** is a network showing how concepts relate; it is rather like a family tree. A tree taxonomy for eating out is shown in Figure 5.2.

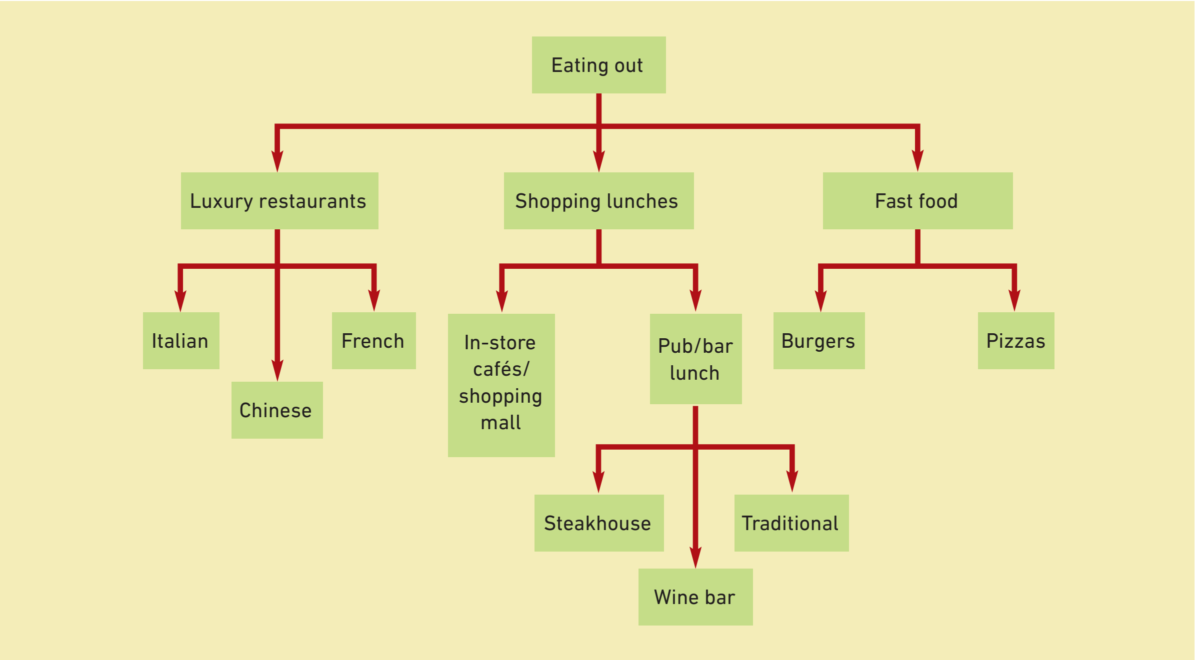
The final stage in qualitative analysis is to interpret the findings into something usable by managers. Again, this requires a degree of judgement on the part of the researcher and (in common with quantitative analysis) researchers can usually only draw inferences about what is probably happening, rather than make categorical statements about what is happening. For this reason, most market research reports tend to be lengthy and contain details on the reasoning behind the statements made.

Critical thinking

If so much of this research analysis depends on judgement, what's the point? We might as well just sit down and make it up, might we not? Turning everything into numbers might seem very scientific, but what happens if the basis for the calculations starts from the wrong place?

Maybe, though, just going through the process helps to focus our thinking. Is it the formal process that is important, then, or the results?

Figure 5.2 Tree taxonomy for eating out



Quantitative data analysis

Quantitative data analysis follows the editing, tabulating and interpreting format described earlier. Putting the data into tables needs to be considered at the design stage of the research; projects have been known to collapse because the questionnaire proved impossible to analyse. Normally the data would be cross-tabulated so that the researcher can identify which type of respondent gives each type of answer. For example, research into soft drink consumption might show that 40 per cent of the respondents buy soft drinks at least four times a week and 5 per cent buy soft drinks every day. The researcher would now need to identify which of the respondents do this and what else they have in common. Are they all young? What are their incomes? Which newspapers and magazines do they read? This enables the marketers to target that segment of the market.

One of the problems of quantitative analysis is determining how reliable the information is. Because only a small number of people have been surveyed (compared with the population at large), errors can easily be multiplied. The larger the sample the more reliable it will be and the more confident the researcher will be that the data reflect a true state of affairs in the population.

The mathematics of analysing the data is beyond the scope of this book, but statistical techniques exist that will enable the researcher to say how reliable the results are likely to be, and also to say which are the relevant factors in the research (see Further reading at the end of the chapter).

Statistical testing should, if carried out correctly, tell us whether this year's results are following a similar pattern to last year's, and whether this relationship actually means something or merely came about by accident. Table 5.5 shows some of the statistical methods available and the results that can be obtained.

Here are some quantitative statistical methods: it is beyond the scope of this text to describe each one in detail, but this does illustrate the wide range of options available.

1 Multivariate methods: Factor analysis, cluster analysis, multi-dimensional methods.
2 Regression and forecasting techniques: multiple regression, discriminant analysis, automatic interaction, forecasting methods such as time series analysis and exponential smoothing.
3 Simulation tests.
4 Statistical decision theory: queuing, stochastic processes, statistical design theory, game theory.
5 Deterministic operational research methods: transportation model, linear and non-linear programming.
6 Hybrid techniques: Dynamic programming, heuristic programming, stock control.
7 Network programming: PERT, CPM.

There are, of course, a great many more statistical tools available, most of which are easily available on software such as SPSS or Windows Excel. This means that

Table 5.5 Common statistical methods

Statistical method	Explanation
Exponential smoothing	Detects trends in the data by smoothing out the peaks and troughs. Gives more weight to recent data.
Regression analysis	Compares one set of data with another to show whether a trend in one set relates to a trend in the other.
Correlation	Shows the degree to which one set of data relates to another.
Factor analysis	Shows which factors relate to each other by relating them to a set of (theoretical) extra factors.
Significance testing, e.g. *t*-tests	Tests whether the results of a survey can be relied on or whether they could simply have come about by chance.

the hard work of doing the calculations is taken away, but researchers still need to understand the principles behind the statistical tools if they are to be able to draw sensible conclusions from the answers.

For example, a researcher might have surveyed 100 people to find out how many of them would be prepared to buy a new brand of beer. The researcher finds that 42 per cent of them, having tasted the beer, say that they would buy the beer and, on looking at the results for those people, it turns out that three-quarters of them are manual workers. This seems to show that manual workers are much more likely to try the beer than are white-collar workers, but it is possible that the researcher just happened to ask an unusual group of manual workers, and that most manual workers in the population at large would stay loyal to their current brand of beer.

A *t*-test might show that the results of the survey are significant at the 95 per cent confidence interval. This means that the researcher is 95 per cent confident that the results can be relied upon; there is still, however, a 5 per cent chance that the results have come about by a fluke. Unless the researcher talks to everybody in the country, there will always be some chance that the sample chosen is not typical; in practice, of course, it is impossibly expensive to question the entire population of the country, so researchers will always be working with samples of the population. In general, the larger the sample the more reliable the results, but this is what a *t*-test will show. By comparing the size of the difference between the groups with the overall sample size, a *t*-test will show whether the sample was large enough to be confident that the difference is a real one and not one that has appeared by chance.

Statistical methods are relatively easy to apply with the use of a computer, but the most exacting part of the analysis is interpreting the results. For example, the research may show that 40 per cent of people under 35 say that they prefer one type of washing powder to another. This is an interesting piece of information but it still raises the question of why this should be so. Often, research of this nature generates as many questions as it answers, and the researchers may find themselves going back to the beginning and redesigning the research to answer a different set of questions. Usually, qualitative research is more useful than quantitative research in finding out why people behave the way they do.

Overall, market research is not a simple proposition. There are many pitfalls for the unwary, but the alternative is almost always worse; examples abound of companies who failed to carry out appropriate market research, launched their products and lost millions before their mistakes could be corrected. Because of the subjective nature of consumer behaviour, no market research is ever going to be fully accurate, but good research will always improve the marketer's 'batting average'.

CASE STUDY 5 Nike

Nike is an American-owned manufacturer of sports clothing, and is best-known for its sports footwear. The company has relatively few physical assets: its manufacturing is subcontracted to 140 factories worldwide, and it has only its office equipment, furniture, and some stocks in transit between the factories and the distributors.

Essentially, Nike is managing a brand, and what's more is managing it in a highly competitive and rapidly shifting marketplace. For that reason, the company has to ensure that it stays at the top of its game in understanding its customers and consumers.

In order to stay ahead, Nike uses a psychographic segmentation policy. This means that consumers are divided up according to their attitudes, beliefs and underlying motivations. For most athletes other sports footwear such as Adidas or Puma would do the job just as well, but non-athletes are a different story: they only wear the shoes as fashion items so the company is in the business of selling an image.

Consequently, Nike uses sponsorship a great deal in order to promote its products and appeal to a specific market segment. Top athletes are paid to use Nike products, and consequently the image and popularity of the athlete is passed to the brand. The problem for Nike is to ensure that the right athletes are chosen, and that they are not involved subsequently in some scandal (for example using performance-enhancing drugs).

In an interview for the *Harvard Business Review*, the co-founder of Nike, Phil Knight, explained how the company's approach to marketing research had shifted and developed. At first, Knight said, almost all the company's employees were runners or other types of athlete, so in effect the company and the consumer were one and the same.

As the company grew, and branched out into other types of sports shoe, Knight explained that it began to talk to people at the top of athletics. The company reasoned that, if top athletes liked the shoes, amateur athletes would as well. This policy worked well for the company for a number of years, but later the realisation dawned that around 60 per cent of the people who bought Nike shoes didn't actually wear them to play sports.

To understand the rest of the pyramid, Knight says, the engineers and designers spent time with amateur athletes at sports stadiums and running tracks throughout the country. This still did not adequately address the fashion market however, and when Reebok came 'from nowhere' with a comfortable, good-looking trainer Nike were taken completely by surprise. Reebok's soft leather was fine for fashion wear, but not hard-wearing enough for serious sport: Nike had to develop a leather that was both soft and comfortable, and also strong enough to take real punishment. The company was determined that the shoes worn by the person on the street would be the same as the shoes worn by top athletes.

Now, the company has researchers who spend a lot of time in retail stores watching what happens when people choose shoes. It runs regular focus groups on prototype products, and it talks to retailers in depth. Talking to consumers and to the people closest to it enables Nike to create the most effective branding and to tailor the product to the right people.

For example, the company has more than one range of tennis shoe. One range, the Nikecourt RF Collection, is based around the personality and talent of Roger Federer. More recently it developed a shoe in honour of Federer becoming the oldest ever world number one after retaining the number one spot at the age of 37. The special edition, called Nike Air Force 1 Federer Forever, clearly plays on the tenacity, talent and longevity of Roger and will appeal to those who strive to be the best in their field.

Nike has carried this philosophy through to many other ranges. At the core is the concept that, no matter how fashionable the product becomes, each Nike shoe is still a serious sports shoe and will function well on the track, court or pitch.

Case study questions

1 Why does Nike talk to retailers?

2 How might a focus group on a new shoe help Nike to plan its market?

3 What is the role of observational research in Nike's overall research plan?

4 Why does Nike use qualitative methods rather than quantitative ones?

5 Why might the company not have felt the need to carry out research in its early years?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

In years gone by, most market research tended to consist of people with clipboards standing on the high street trying to get passers-by to complete a survey, or researchers knocking on doors or making phone calls in an attempt to persuade the inhabitants to answer a few questions. While these methods are still occasionally used, on the whole, market research has become much more sophisticated.

Techniques such as eye-tracking on websites, use of cookies to track shopping habits, observational methods such as watching people shopping and observing their behaviour as they do so, and behavioural economics technology (data collection, observation and interpretation) are more commonplace.

Often we aren't fully aware that some of this research is taking place, so it could be argued that such techniques are intrusive and an invasion of privacy.

Is this type of research ethical? Or is it just how things are in the digital age?

Summary

Market research is the starting point of marketing planning since it focuses on the needs of the customer and provides information that supports decisions designed to meet those needs. Without good information systems, the marketing planning and strategy activities have little hope of success and will almost always focus on the beliefs of the senior management, which may bear no relationship to the real needs of customers.

Here are the key points from this chapter:

- Data (raw facts) are useless until analysed and interpreted.
- Secondary research should always be conducted before embarking on primary research.
- Self-completion questionnaires need to be simple and unambiguous.
- All questionnaires should be piloted at least once.
- Careful training is needed to avoid interviewer bias.
- Quantitative research is about the how and the what; qualitative research is about the why.
- Market research is never 100 per cent reliable.

Chapter questions

Understanding the basics

1. What steps would you take to research the market for a new computer game?
2. Questionnaires can sometimes be ambiguous or ask irrelevant questions. How can these sources of error be reduced?
3. What are the main drawbacks of questionnaires?
4. What can be done to overcome interviewer bias?
5. Under what circumstances would qualitative research be more appropriate than quantitative research?
6. What type of focus group would be best suited to an investigation of working women's food shopping habits?
7. What are the main advantages and disadvantages of using online surveys and when might you use one?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1 Critically evaluate the benefits of using electronic methods of data collection over using more traditional methods of research.

2 'Questionnaires are of little use and provide inaccurate information.' Develop an evaluative discussion in response to this notion.

Action learning

1 Summerdale Beverages is a small company producing premium cordials from locally sourced produce. The Director of the company feels that there is no need to undertake any customer research as she knows exactly who her customers are.

   a Develop a short briefing paper which explains to her why undertaking research would be invaluable to the company.

   b Identify which research methods would be most suitable to research her current and potential market, using relevant evidence to explain your ideas.

2 Select one of the research methods discussed in this chapter. Now undertake some academic research. Review at least two academic journal articles which focus on your chosen method and develop a short paper which reviews the method. Compare and contrast the ideas highlighted within the articles

Further reading

***Collecting Qualitative Data: A Practical Guide to Textual, Media and Virtual Techniques*, edited by Virginia Braun, Victoria Clarke and Debra Gray** (Cambridge University Press, 2017) offers an interesting approach to qualitative data collection which goes beyond traditional data collection methods.

There are a number of texts which look at using qualitative analysis tools as mentioned earlier in Table 5.4. One such text focuses on NVivo and guides you through the process of using the tool effectively and efficiently, ***Qualitative Analysis Using NVivo: The Five-Level QDA® Method (Developing Qualitative Inquiry)*, by Nicholas Woolf and Christina Silver** (Routledge, 2017).

***Marketing Research: An Applied Approach*, 5th edn by Naresh Malhotra, Dan Nunan and David Birks** (Pearson, 2017) is an easy-to-read text which offers a comprehensive overview on a range of research methods, including social media and mobile research.

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6

Products, branding and packaging

Objectives

After reading this chapter you should be able to:

- Describe the stages that a product goes through from introduction to obsolescence
- Assess products in a given range and decide which ones are worth keeping and which should be dropped from the range
- Decide on an appropriate policy for developing and introducing new products to the market
- Identify some of the risks inherent in new product development
- Understand what a marketer means by ‘product’.

Introduction

This chapter is about developing new products and about product policy. The success of an organisation will depend, ultimately, on what bundles of benefits it offers to consumers; the decisions about what the firm should be offering need to be made in the light of the consumer's needs and wants.

There is a strong positive relationship between a firm's innovative activities and its ability to survive and prosper (Hyytinen *et al.* 2015; Ukko *et al.* 2017), so many companies place a strong emphasis on developing new products to replace those which become obsolete or which are superseded by competitors' offerings.

Defining products

Marketers define a *product* as being a *bundle of benefits*. This means that the product is more than just the sum of its physical characteristics; it includes fringe elements such as the brand image, the way the product is packed and delivered, even the colour of the box it comes in. **Primary characteristics** are those core benefits of the product that it has in common with its competitors; **auxiliary characteristics** are the features and benefits that are unique to the product and which may create a competitive advantage. For instance, consider the contrast between a pizza from a delivery service and a pizza from the supermarket freezer. The primary characteristics of each are the same: a dough base with tomato sauce and cheese on top, with other ingredients included. The primary benefit is that each provides a tasty and filling meal; it is the auxiliary characteristics that make the difference.

Apart from the differences in flavour, ingredients and so forth, the delivery service is more expensive (perhaps four or five times the price of the supermarket version). The supermarket pizza can be kept in the freezer and heated when needed, and can even be 'customised' by adding extra cheese or other ingredients. On the other hand, the delivery service pizza includes the service element of delivery, and is already heated and ready to eat. Clearly the benefits are different and therefore a marketer would say that the products are different.

Marketers need to be aware of the ways in which the needs and wants of consumers are changing so that the benefits offered by the product range can be tailored to fit those needs and wants. This is the function of market research (see Chapter 5), but it is important to make good use of the information gathered to see which new products might be developed or which old products might be adapted, and also to see which products are nearing the end of their useful lives.

Classifying products

Products bought to satisfy personal and family needs are **consumer products**; products bought for the purposes of resale or to be used to make other products are business-to-business (B2B) products. As in any other question of marketing, the subdivision of these broad categories into smaller, more convenient categories is carried out by reference to the consumer or the customer. In the case of consumer goods, the classification will be as shown in Table 6.1.

Table 6.1 Classification of consumer products

Classification	Explanation
Convenience products	*Cheap, frequently purchased items that do not require much thought or planning.* The consumer typically buys the same brand or goes to the same shop. Examples are basic groceries and soft drinks. Normally, convenience products would be distributed through many retail outlets and the onus is on the producer to promote the products because the retailer will not expend much effort on such low-priced items.
Shopping products	*Products people shop around for.* Usually infrequently purchased items such as laptops and tablets, mobile phones, cars or household appliances. From the manufacturer's viewpoint, such products may require few retail outlets, but will require much more personal selling on the part of the retailer. Hence there is usually a high degree of cooperation between manufacturer and retailer in marketing the products.
Speciality products	People plan the purchase of these products with great care, know exactly what they want and will accept no substitutes. Here the consumer's efforts bend towards finding an outlet that can supply exactly the item needed: this accentuates the exclusivity of the product, so some marketers deliberately limit the number of outlets that are franchised to sell the products. An example of this is the American hair-product manufacturer Redken, which appoints a limited number of hair salons to carry its products, as well as designer labels and specific car brands.
Unsought products	*These products are not bought; they are sold.* Examples are life insurance and fitted kitchens. While most people would recognise the need for these items, it is rare for consumers to go out looking for them; far more commonly the products are sold either by salespeople or are bought as the result of a sudden change of circumstances (for example, some mortgage lenders require house buyers to take out life insurance).

Likewise, B2B products can be categorised according to the use the purchasers intend to make of them. Table 6.2 illustrates this. In some ways, B2B buying has parallels with consumer buying behaviour (see Chapter 3), so parallels can also be drawn with the types of product purchased. First, the company must develop a clear view of what the customer is buying. Levitt (1986) suggested the following hierarchy of levels:

1 *Core or generic.* This is the basic physical product, or the minimum features that the customer would expect it to have. For example, a microwave oven would be expected to have a timer and a space inside to put the food, and would be expected to heat things up effectively.
2 *Expected.* This is the generic product plus some extra features that the customer would reasonably expect to see. In the microwave example, the customer would expect there to be an instruction book, a guarantee and some kind of servicing network in case of breakdowns.
3 *Augmented.* These are the factors that differentiate the product. For the microwave, this could be a sensor to say when the food is cooked, a defrost facility, free delivery or an after-sales call to check the product is functioning well. These are the features that may create a competitive advantage and make the customer buy one brand rather than another.

Table 6.2 Categorisation of business-to-business products

Categorisation	Explanation
Raw materials	*Basic products that will be transformed entirely into something else.* These are usually bought in large quantities and usually have a standardised quality range and prices; this makes it hard for the producer to differentiate the product from those of the competitors.
Major equipment	*The capital machinery and tools used for running the buyer's business.* These are equivalent to shopping goods; the purchasers spend considerable time and effort in choosing which to buy, and therefore there is considerable emphasis on personal selling and on product differentiation. After-sales service is also crucial to success in this market.
Accessory equipment	*Equipment used for the peripheral needs of the firm.* Examples are office equipment and health and safety equipment. Often these are distributed through many outlets and are more standardised than the major equipment items. This means there is more competition, but also a bigger market for such items as fire extinguishers and PCs.
Component parts	*Manufactured items which will be assembled into the finished product.* These are usually bought by negotiation or tender; often the purchaser has the most power in the relationship, as with car manufacturers.
Process materials	Rather more advanced than raw materials, process materials might be the special alloys used in aircraft construction, or specially tailored plastics. From a marketing viewpoint, process materials are similar to component parts, but with more opportunity for differentiation.
Consumable supplies	*Materials that are used by the purchasers but that do not become part of the finished product:* for example, industrial cleansing products. Consumable supplies are used for maintenance, repair and operation, so they are sometimes called MRO items.
B2B services	*The intangible products used by firms*: for example, industrial cleaning services, accountancy and legal services, and some maintenance services. Some firms provide these for themselves; for others it is cheaper to buy in the services as needed (for instance, a ten-person light engineering firm would not need a full-time lawyer on the staff).

4. *Potential.* This is all the possible features and benefits that could be wanted by customers. It is unlikely that any product could have all the necessary features (and it would be too expensive to buy anyway), but this list still needs to be developed so that the company can produce different models of the product for different customer needs. If a microwave oven manufacturer knows who the end buyer of the microwave is, it would be possible to keep the customer informed of new models coming onto the market in, say, three years' time when the old microwave is beginning to show signs of wear. The idea behind this is to encourage the customer to remain loyal to the original manufacturer.

From the consumer's viewpoint, some of those benefits are essential requirements, others are less important but still good to have, while others are not really relevant. Each consumer will have a different view as to which benefit belongs to which category.

Managing the product range

The **product life cycle (PLC)** is a useful concept to describe how products progress from introduction through to obsolescence. The theory is that products, like living things, have a natural life cycle beginning with introduction, going through a growth phase, reaching maturity, then going into decline and finally becoming obsolete. Figure 6.1 illustrates this in graphical form.

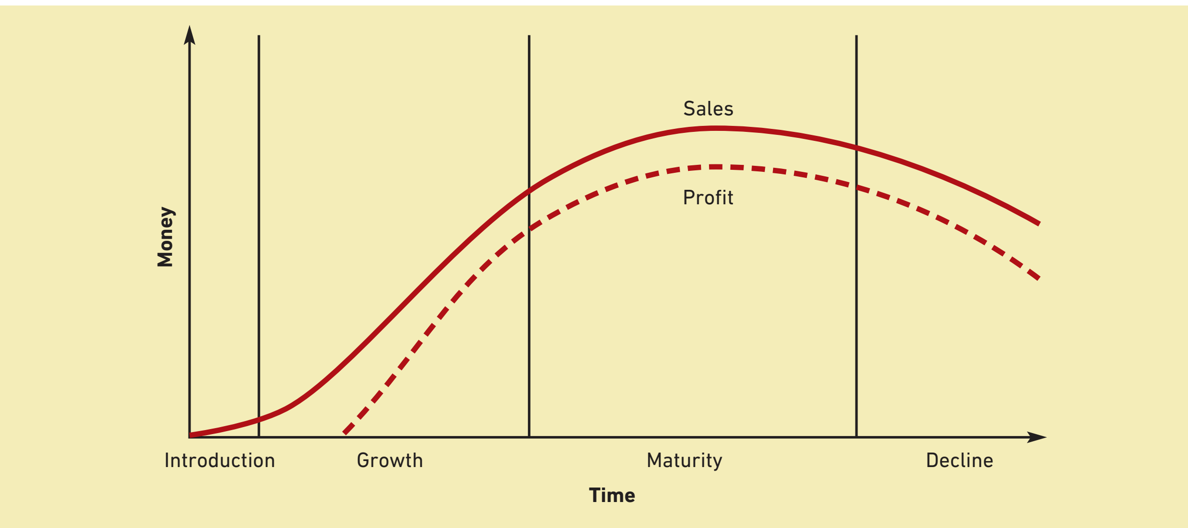
In the introduction phase, the product's sales grow slowly and the profit will be small or negative because of heavy promotion costs and production inefficiencies. If the product is very new, there will also be the need to persuade retailers and others to stock it.

In the growth stage, generally, there will be a rapid increase in sales as the product becomes better known. At this stage profits begin to grow, but competition will also be entering the market so the producer may now need to think about adapting the product to meet the competitive threat and possibly appeal to untapped segments.

In the maturity phase the product is well known and well established; at this point the promotional spend eases off and production economies of scale become established. By this time competitors will almost certainly have entered the market, so the firm will need to develop a new version of the product or retain the existing customers that they already serve. Supermarkets have attempted to do this by issuing loyalty cards to their customers. This is often the longest stage of the life cycle with well-known, well-established products and brands such as Heinz Baked Beans and Cadburys Dairy Milk remaining in this phase for many years.

In the decline phase, the product is losing market share and profitability rapidly. At this stage the marketer must decide whether it is worthwhile supporting the product for a little longer or whether it should be allowed to disappear; supporting a product for which there is little natural demand is very unprofitable, but sometimes products can be revived and relaunched, perhaps in a different market.

Figure 6.1 Product life cycle



The assumption is that all products exhibit this life cycle, but the timescale will vary from one product to the next. Some products, for example computer games, may go through the entire life cycle in a matter of months. Others, like pitta bread, have a life cycle measured in thousands of years, and may never become obsolete.

The PLC concept is a useful way of looking at **product development** but, like many simple theories, it has a number of flaws:

- The theory assumes that changes in consumer preference go only one way, and that there is no swing back to an earlier preference. Some clothing fashions return after a few years and some styles of music enjoy periodic revivals; also, some traditional products can suddenly become popular again, often following advertising campaigns based on nostalgia.
- The model assumes that nobody does anything to revive the product when it begins to decline or be superseded by other products. Most marketers would look at their declining products and decide whether a revival is possible, or worthwhile.
- The model looks at only one product, whereas most marketing managers have to balance the demands of many differing products and decide which ones are most likely to yield the best return on investment.
- It does not take into account environmental factors that may cause unexpected dips or rises, such as economic recession.

Note here that the PLC concept is useful to describe what is happening, but is not much use for predicting what is going to happen, since it is virtually impossible to tell how long the maturity phase will continue. This makes it difficult to use as a decision-making device; marketers are not easily able to tell which part of the PLC the product currently occupies. A temporary fall-off in sales might be caused by extraneous factors such as a recession or new competitive activity, without actually heralding the beginning of the decline phase.

Most firms produce several different products at the same time, and it is possible to superimpose the PLC diagrams for each product onto the graph to give a composite view of what is happening to the firm's product portfolio. This will give a long-term overview, but the problems of prediction still remain; for many managers, a 'snapshot' of what is happening now is more useful. The Boston Consulting Group (BCG) developed a matrix for decision-making in these circumstances.

Stars are products with rapid growth and a dominant share of the market. Usually, the costs of fighting off the competition and maintaining growth mean that the product is actually absorbing more money than it is generating, but eventually it is hoped that it will be the market leader and the profits will begin to come back in. The problem lies in judging whether the market is going to continue to grow or whether it will go down as quickly as it went up. It may be difficult to judge whether a Star is going to justify all the money that is being poured in to maintain its growth and market share, but a firm that does not do this will end up just with Dogs. Even the most successful Star will eventually decline as it moves through the life cycle.

Cash Cows are the former Stars. They have a dominant share of the market but are now in the maturity phase of the life cycle and consequently have low growth. A Cash

Cow is generating cash, and can be 'milked' of it to finance the Stars. These are the products that have steady year-in year-out sales and generate much of the firm's profits: examples might be the Big Mac, Coca-Cola, Cadburys Dairy Milk and the Ford Fiesta.

Dogs have a low market share and low growth prospects. The argument here is not whether the product is profitable: it almost always is. The argument is about whether the firm could use its resources to make something that would be more profitable, and this is also almost always the case.

The **Problem Child** (also sometimes shown as a question mark) has a small share of a growth market and causes the marketer the most headaches since it is necessary to work out a way of building market share to turn the product into a Star. This means finding out why the share is so low and developing strategies to increase market share rapidly. The Problem Child could be backed with an even bigger promotion campaign or it could possibly be adapted in some way to fit the market better. Market research plays a crucial role in making these decisions; finding out how to adapt a product is a difficult area of research, but the potential rewards are huge, and adapting the product to meet people's needs better is almost always cheaper than increasing the advertising spend.

The policy decisions that arise from this view of the firm's product portfolio lie in the following areas:

- Which products should be dropped from the range entirely? This question not only hinges on how profitable the product itself is: sales of one product often indirectly generate sales of another, more profitable, product. For example, Black & Decker sell electric saws and drills relatively cheaply, but make their profit on sales of replacement saw blades and drill bits.
- Which products should be backed with promotion campaigns? Backing the wrong product can be extremely expensive; advertising campaigns have no second-hand value, so if it does not work the money is lost forever.
- Which products could be adapted to fit the market better, and in what ways? This very much hinges on the market research findings and on customer feedback.
- Which new products could be introduced and at what cost?

Like the PLC, the BCG matrix is a simple model that helps marketers to approach strategic product decisions; again, like the PLC, it has a number of flaws. It is based on the following assumptions:

- Market share can be gained by investment in marketing. This is not always the case; some products will have lost their markets altogether (perhaps through environmental changes) and cannot be revived, no matter how much is invested.
- Market share gains will always generate cash surpluses. However, if market share is gained by drastic price cutting, cash may actually be lost.
- Cash surpluses will be generated when the product is in the maturity stage of the life cycle. This is not necessarily so; mature products may well be operating on such small margins because of competitive pressure that the profit generated is low.

Critical thinking

The BCG matrix is all very well, but how do we decide whether a market is 'high growth' or 'low growth?' Is 5 per cent per annum high growth? It would be in the car industry – but not in mobile telephones. Likewise, what is a high market share – 5 per cent? 50 per cent? 2 per cent? Any of these might be regarded as a respectable share in some markets.

Maybe we are back to executive judgement as the key factor in decisions – or maybe the BCG matrix just helps to focus our thinking!

- The best opportunity to build a dominant market position is during the growth phase. In most cases this would be true, but this does not take account of competition. A competitor's product might be growing even faster.

Barksdale and Harris (1982) proposed two additions to the BCG matrix. **War Horses** have high market share but the market has negative growth; the problem for management is to decide whether the product is in an irreversible decline or whether it can be revived, perhaps by repositioning into another market. **Dodos** have a low share of a negative growth market and are probably best discontinued.

The BCG matrix has proved a useful tool for analysing product portfolio decisions, but it is really only a snapshot of the current position with the products it describes. Since most markets are to a greater or lesser extent dynamic, the matrix should be used with a certain degree of caution, as the size of the product portfolio and the complexity of the products within it can have significant effects on the firm's management.

Developing better products

There is often debate within firms as to what constitutes a 'better' product. For marketers, the definition must be 'a product that more closely meets our customers' needs than does the product it supersedes'. Engineers, accountants and managers may have differing definitions; there is, however, general agreement that firms must introduce new products if they are not to be left with a range of obsolete, dying products. **New product development (NPD)** is therefore a crucial area of marketing activity and a great deal has been published on the subject.

New product development

Venture teams or *project teams* develop new products or projects. Typically a venture team will be an interdisciplinary group, perhaps comprising engineers, research scientists, finance experts and marketers. Among other considerations, marketers need to take an overview of the product range to see how the proposed new products match up with existing products. Sometimes a new product can lead to cannibalism of old product lines (in other words, the company ends up competing with itself). Sometimes it can be more effective to carry out a product modification (in terms of quality, function or style) rather than develop a new product from scratch.

The task of creating new products is, of course, more art than science; however, customer orientation does appear to make firms more innovative (Tajeddini *et al.* 2006). It is therefore difficult to generalise about the process, but a frequently quoted model of the NPD process was given by Cooper and Kleinschmidt (1988) and follows this sequence:

1. *New product strategy.* The firm examines its current portfolio, opportunities and threats and decides what kind of new product would best fit in with future strategy.
2. *Idea generation.* Specific ideas for the product are expressed, perhaps through a brainstorming session of the venture team.
3. *Screening and evaluation.* The ideas are checked for feasibility and marketability.
4. *Concept testing.* Having selected the ideas which show promise, discussions take place with customers, production engineers and anyone else who may have something to contribute, to develop the ideas further.
5. *Business analysis.* The feasibility of the product is estimated in terms of its potential profitability, effects on sales of other products, possible competitive responses and so forth.
6. *Technical development.* The engineering aspects of the product are investigated and a prototype is developed. The final design of the product needs to reflect the results of the concept testing stage.
7. *Market testing.* Formal market research is carried out to assess the product's viability in the market.
8. *Commercialisation.* Assuming the market research is positive about the product, the firm puts it into production.

All of these stages are likely to be covered in one form or other, but in many cases the methods used are likely to be subjective or carried out ineffectively. This can often be a source of problems following the launch: for example, a proper market appraisal may not be carried out because the venture team fall in love with the project and champion it through the process.

There are six broad types of innovation strategy:

1. *Offensive.* Pride in being the first. This is very much the strategy of firms such as Sony, Apple and 3M.
2. *Defensive.* ‘Me-toos’, copies of other companies' products, but slightly better.
3. *Imitative.* Straight copies of other companies' products.

4 *Dependent.* Led by bigger companies, perhaps customers or suppliers. For example, Microsoft produces new computer software, so it is dependent on new technology developed by computer chip manufacturers.
5 *Traditional.* Not really innovative at all; the firm is merely resurrecting old-fashioned designs.
6 *Opportunist.* Selling and marketing of inventions.

Launch decisions might revolve around areas such as test marketing; if the firm *test markets* the product (i.e. launches the product in a small geographical area to see whether it will be successful), this may save money on promotion but loses the advantage of surprise. On the other hand, if the firm goes for a national launch, this means committing large amounts of money, and mistakes are much harder to correct afterwards. The process of launching in one area at a time is called roll-out. The promotion policy will be affected by the customer category the firm is aiming for: innovators, early adopters, early majority, late majority or laggards.

Whether to go ahead or not with a new product is a decision which revolves around five dimensions (Carbonell-Foulquie *et al.* 2004). These are as follows:

1 *Strategic fit.* The degree to which the new product fits in with the company's overall marketing strategy.
2 *Technical feasibility.* Whether an effective product can be made economically.
3 *Customer acceptance.* Whether customers like the product.
4 *Market opportunity.* The level of competition the firm might be expected to face and the current state of the external environment.
5 *Financial performance.* Whether the product will prove sufficiently profitable to be worth launching.

Of these, customer acceptance should be the most important consideration throughout the NPD process.

Velamuri *et al*. (2017) added to this research. They suggested that as well as the above dimensions, open evaluation is a useful tool when deciding which products should be developed. This uses the views, ideas and knowledge of external stakeholders, so encouraging interested parties, potential customers, product users, etc. to actively participate in reviewing product ideas. This would involve voting, rating and commenting on new product ideas and designs. They suggest that there are six objectives of open evaluation, listed below:

1 *Engaging participants to build a community.* Encouraging groups of like-minded, motivated people to join in and actively participate in voting, rating and commenting.
2 *Encouraging activity.* Ensuring groups of motivated people become actively engaged in helping to develop future products and product adaptations.
3 *Enhancing submission quality.* Obtaining good-quality peer feedback to help enhance and develop products.

4 *Exploring trends and preferences.* Participant comments, voting and ratings can lead to invaluable insights, with regard to participants' perceptions, viewpoints about innovations, trends and preferences. It also helps to consider market acceptance, which was one of the dimensions put forward by Carbonell-Foulquie *et al.* (2004) mentioned earlier.

5 *Easing selection effort.* Comments, voting and rating can help organisations to shortlist the possible innovations worthy for development

6 *Equalising perspective.* Using the opinions of prospective customers and product users can complement the expert views and opinions and thus suggesting that any new product development will likely have higher market acceptance when launched into the marketplace.

So, it is clear that increasingly customers, consumers and the public at large can and should be playing an important role in product development.

Success and failure in NPD

NPD is extremely risky; according to a study by Nielson 76 per cent of fast-moving consumer goods (FMCG) product launches fail in the first year (O'Reilly 2014) and approximately 70–90 per cent of all new products generally fail (i.e. do not recover their development costs) (Kocina 2017). The remaining two out of ten thus have to fund all the others. Great effort has been expended on trying to find better ways of forecasting a product's prospects in the market, with only limited results.

First of all, though, it is necessary to define what a new product is. The researchers Calentone and Cooper (1981) identified nine categories of new product, as shown in Table 6.3. The clusters were identified according to whether the product was new to the firm or new to the world, and whether there was a production or marketing *synergy* with the firm's existing products.

Success rates for each cluster were as laid out in Table 6.4. Data were obtained on 102 successes and 93 failures. Some 177 firms were surveyed, and there were 103 usable replies.

Clusters 9, 8 and 6 were the most successful by far, perhaps indicating that the safest course is not to be too innovative. In recent years, many new products have been introduced which are reproductions of old designs: the Volkswagen Beetle and Mini Cooper are examples from the motor industry, and there are many household appliances which have been designed with a 'retro' image, such as SMEG refrigerators and Roberts DAB radios. These products rely on the following factors for their success (Brown *et al.* 2003):

- *Allegory.* This is the brand 'story', the history of the original product.
- *Aura.* This is the 'essence' of the brand, the mystique surrounding it.
- *Arcadia.* This is the idealised community in which such products might be used. Based on nostalgia, Arcadia is the place people would like to return to (for example, the 1990s, when they owned their first Mini Cooper).

Table 6.3 New product clusters

Clusters	Description
Cluster 1 **The Better Mousetrap with No Synergy**	This is a product which, while being an improvement over existing offerings, does not fit in with the firm's existing product lines
Cluster 2 **The Innovative Mousetrap that Really Wasn't Better**	This might be a product that, while being technically excellent, has no real advantage for the consumer over existing products
Cluster 3 **The Close-to-Home Me-Too Product**	A copy of a competitor's offering. Not likely to be perceived as new by consumers
Cluster 4 **The Innovative High-Tech Product**	A truly new-to-the-world product
Cluster 5 **The Me-Too Product with No Technical/ Production Synergy**	A copy of a competitor's product, but with no real connection with existing product lines
Cluster 6 **The Old But Simple Money-Saver**	Not a new product at all, except to the firm producing it
Cluster 7 **The Synergistic Product that was New to the Firm**	A product that fits the product line, but is new
Cluster 8 **The Innovative Superior Product with No Synergy**	A product that does not fit the existing product line, but is new
Cluster 9 **The Synergistic Close-to-Home Product**	A product line extension; perhaps a minor improvement over the firm's existing products

- *Antinomy*. This is brand paradox. New technology is viewed as unstoppable and overpowering, yet at the same time is responsible for people's desire to return to a simpler, less high-tech past. Hence some are returning to using mobile phones with basic capabilities rather than the all-singing, all-dancing smartphones which most people use today and there has been a resurgence of vinyl records and purchases of record players.

Although not all products in Cluster 6 are retro, the advent of a significant interest in retro styling has certainly changed the success rate of such products.

Table 6.4 Success rates of new products

Cluster	Success ratio	% successes	% of cases
9 The Synergistic Close-to-Home Product	1.39	72	12.82
8 The Innovative Superior Product with No Synergy	1.35	70	10.26
6 The Old But Simple Money-Saver	1.35	70	10.26
7 The Synergistic Product that was New to the Firm	1.2	67	10.76
4 The Innovative High-Tech Product	1.23	64	14.35
3 The Close-to-Home Me-Too Product	1.08	56	8.20
1 The Better Mousetrap with No Synergy	0.69	36	7.17
5 The Me-Too Product with No Technical/Production Synergy	0.27	14	10.26
2 The Innovative Mousetrap that Really Wasn't Better	0.00	0	10.26

Source: Calentone and Cooper (1981).

Cluster 8 contains the truly innovative, new-to-the-world product, but until it is actually launched it may be difficult to distinguish from Cluster 2, the Innovative Mousetrap that Really Wasn't Better. This category had no successes at all.

What the above research does not show is the degree to which new products are successful. The innovative, new-to-the-world product may carry the highest risks, but potentially it also carries the highest rewards if successful. The evidence is, therefore, that the safest route is to produce 'me-too' products (minor adaptations of existing market leaders), but that the much riskier route of producing real innovations (e.g. the Apple Watch) is the only way to become a world-leading company. Producing retro products may well be a useful strategy, combining the success factors of both approaches.

The research also does not consider what a firm might use as a measure of success. Is it profitability? Or is it market share? This will depend on the firm's overall strategy, which may or may not put profitability first. Research shows that the most commonly used measures of success in NPD are customer acceptance, customer satisfaction, product performance and quality (Huang *et al.* 2004; Healy *et al.* 2014).

Another aspect not addressed by the Calentone and Cooper research is that of the consumer's view of new products. Although a given product may be new to the firm, and may even involve a radical rethink of the company's production and marketing methods, consumers may not see the product as being significantly different from what is already available. If consumers do not see any advantage in using the new product, they will not buy it; this re-emphasises the importance of good market research and analysis.

Calentone and Cooper's research was borne out by research published in 2006, in which the authors found that incremental innovations (those which are a small improvement on existing products) carry the least risk for firms who are first to bring them to market. Discontinuous innovation (truly new-to-the-world products) carry the greatest risk for firms first into the market and for firms that follow later; in other words, being first to market can carry risks and little reward (Gao *et al.* 2012; Min *et al.* 2006).

Overall, NPD is concerned with replacing the firm's existing product range with fresh products that come even closer to meeting customer needs. Firms that do not innovate will, eventually, lose market share to firms that do, since the competitor firms will be offering better products. This places a heavy premium on NPD. Having said that, new products do not sell themselves – unsurprisingly, firms that provide high levels of marketing and technological support for their new products experience greater financial rewards from their innovations (Sorescu *et al.* 2003). It is therefore no surprise that firms with a strong market orientation are more likely to be successful in launching new-to-the-world products (Augusto & Coelho 2009), or that firms with strong customer relationship management also find it easier to innovate (Mihaela *et al.* 2018; Battor & Battor 2010).

Diffusion of innovation

New products are not immediately adopted by all consumers. Some consumers are driven to buy new products almost as soon as they become available, whereas others prefer to wait until the product has been around for a while before risking their hard-earned money on it. Innovations therefore take time to filter through the population; this process is called diffusion and is determined partly by the nature of consumers and partly by the nature of the innovation itself.

Everett M. Rogers (1962) classified consumers as follows:

- **Innovators**: those who like to be first to own the latest products. These consumers predominate at the beginning of the PLC.
- **Early adopters**: those who are open to new ideas, but like to wait a while after initial launch. These consumers predominate during the growth phase of the PLC.

- **Early majority**: those who buy once the product is thoroughly tried and tested. These consumers predominate in the early part of the maturity phase of the PLC.
- **Late majority**: those who are suspicious of new things and wait until most other people already have one. These consumers predominate in the latter part of the maturity phase of the PLC.
- **Laggards**: those who adopt new products only when it becomes absolutely necessary to do so. These consumers predominate in the decline phase of the PLC.

The process of diffusion of innovation is carried out through reference-group influence (see Chapter 3). Theories concerning the mechanisms for this have developed over the past 100 years, the three most important ones being trickle-down theory, two-step flow theory and multistage interaction theory.

Trickle-down theory says that the wealthy classes obtain information about new products and the poorer classes then imitate their 'betters' (Veblen 1899). This theory has been largely discredited in wealthy countries because new ideas are disseminated overnight by the mass media and copied by chain stores within days: for example, the dress worn by Kate Middleton when she married Prince William in 2011 was copied almost immediately by Chinese dressmakers in Suzhou (Moore 2011).

Two-step flow theory is similar, but this time it is 'influentials' rather than wealthy people who are the start of the adoption process (Lazarsfield *et al.* 1948). This has considerable basis in truth, but may be less true now than it was in the 1940s, when the theory was first developed; access to TV, mobile technology and other information media has proliferated, and information about innovation is disseminated much faster.

The multistage interaction model (Engel *et al.* 1995) recognises this and allows for the influence of the mass media. In this model the influentials emphasise or facilitate the information flow (perhaps by making recommendations to friends or acting as advisers). A more recent concept is that of the market maven: a maven is someone who knows a great deal about a product category (for example, someone who knows a lot about computer software) and is willing to share the knowledge.

Critical thinking

Perhaps nowadays we don't blindly copy the doings of the aristocracy, or even the upper middle class, but does that mean we are entirely uninfluenced by our 'betters'? We seem to have developed a new aristocracy, largely composed of entertainers such as footballers and singers, who set the fashions for us in many ways.

Even without celebrity endorsement, where such people are paid to say they use a particular brand of perfume or a particular set of golf clubs, we watch avidly to see what they are wearing, buying and doing. So maybe Veblen was stating a universal truth back in 1899!

Mavens usually have confidence in their ability to acquire knowledge, and confidence that people will respond positively to their offers of help. Mavens generally have a high level of knowledge, expertise and opinion leadership about products and services and are usually very strong influencers (Rezaei 2018), therefore they are an important group from a marketer's viewpoint (Clark *et al.* 2008).

Whether people are innovators, late adopters, laggards, etc. may depend on the degree to which they like to differentiate themselves from others. There is a conflict between wanting to be different and wanting to fit in with others, so adoption may relate to the individual's perception of the size of the group that uses the product already. If someone likes to be different, he or she might be attracted to a small group of users and would thus tend to be an innovator (Timmor & Katz-Navon 2008). On the other hand, the actual usefulness of the product is often decided by referring to internal factors, with little reference to social factors (Munnukka & Jarvi 2011).

Consumers often need considerable persuasion to change from their old product to a new one. This is because there is always a cost of some sort. For example, somebody buying a new car will lose money on trading in the old car (a *switching cost*), or perhaps somebody buying a new computer will also have to spend money on new software and spend time learning how to operate the new equipment (an *innovation cost*).

On the other hand there is strong evidence that newness as such is an important factor in the consumer's decision-making process (Haines 1966). In other words, people like new things, but there is a cost attached. Provided the new product offers real additional benefits over the old one (i.e. fits the consumer's needs better than the old product), the product will be adopted.

Consumers must first become aware of the new product, and then become persuaded that there is a real advantage in switching from their existing solution. A useful model of this adoption process is as follows:

- *Awareness.* This will often come about as a result of promotional activities by the firm.
- *Trial.* For a low-price item (e.g. a packet of biscuits) this may mean that the consumer will actually buy the product before trying it; for a major purchase, such as a car, the consumer will usually need to have a test-drive. Increasingly, supermarkets hold tasting and sampling sessions to allow customers to try new products.
- *Adoption.* This is the point at which the consumer decides to buy the product or make it part of the weekly shopping list.

Rogers (1962) identified the following perceived attributes of innovative products by which consumers apparently judge the product during the decision-making process:

- **Relative advantage**. The degree to which the innovation is perceived as better than the idea it supersedes
- **Compatibility**. Consistency with existing values, past experiences and needs of potential adopters
- **Complexity**. Ideas that are easily understood are adopted more quickly

- **Trialability**. Degree to which a product can be experimented with
- **Observability**. The degree to which the results of an innovation are visible to others.

In some cases, the actual usefulness of the product is determined in part by the number of people who already own it. This is particularly true of innovations in communications technology: social networking sites are of little use unless a large number of people use them.

Apart from the issue of adopting a product as it stands, there is the concept of **reinvention**. Sometimes users find new ways to use the product (not envisaged by the designers) and sometimes this leads to the creation of whole new markets. For example, in the 1930s it was discovered that baking soda is good for removing stale smells from refrigerators, a fact that was quickly seized on by baking soda manufacturers. Deodorising fridges is now a major part of the market for baking soda.

Branding

Many products are so similar to other manufacturers' products that consumers are entirely indifferent as to which one they will buy. For example, petrol is much the same whether it is sold by Shell, Esso or BP; such products are called commodity products because they are homogeneous commodities rather than distinct products with different benefits from the others on offer.

At first sight, water would come into the category of a commodity product. Yet any supermarket has a range of bottled waters, each with its own formulation and brand name, and each with its loyal consumers. In these cases the original commodity product (water) has been converted into a brand. Branding is a process of adding value to the product by use of its packaging, brand name, promotion and position in the minds of the consumers. Even non-profit-making firms are more successful if they are brand-oriented (Napoli 2006; Michaelidou *et al.* 2015; Wymer & Akbar 2017).

DeChernatony and McDonald (1998) offer the following definition of brand:

> **A successful brand is an identifiable product, service, person or place, augmented in such a way that the buyer or user perceives relevant, unique added values which match their needs most closely. Furthermore, its success results from being able to sustain those added values in the face of competition.**

More than 20 years on this definition still holds true. It emphasises the increased value that accrues to the consumer by buying the established brand rather than a generic or commodity product. The values that are added may be in the area of reassurance of the brand's quality, they may be in the area of status (where the brand's image carries over to the consumer) or they may be in the area of convenience (making search behaviour easier).

Figure 6.2 Commodity products versus branded products

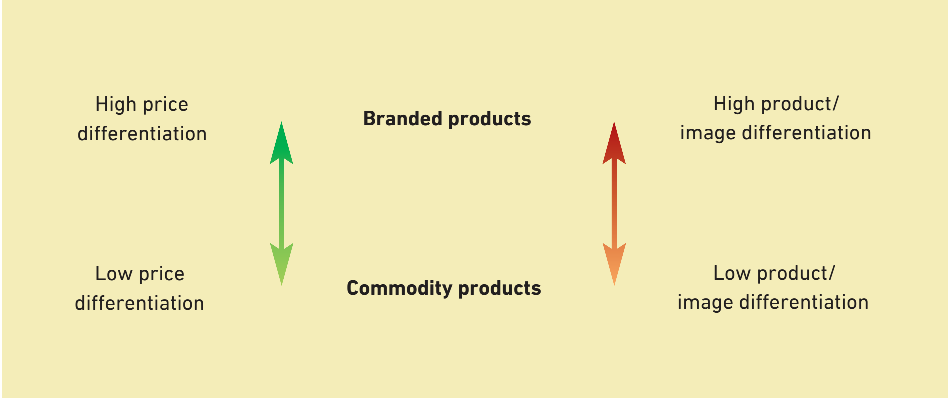


Figure 6.2 shows the relationship between commodity products and branded products in terms of image and price. Commodity products tend to be undifferentiated in price (for example, petrol tends to be much the same price in petrol stations within a given geographical area; a differential of even 10 per cent would be very noticeable). They also tend to have a low degree of differentiation in the product characteristics and the image. Branded goods, on the other hand, score high on both factors; since they command a premium price, this is likely to lead to an increased profit, which strengthens the case for developing a strong brand.

Brand names

When a new product has been developed, the producer will usually give it a *brand name*. A brand name is a term, symbol or design that distinguishes one seller's product from its competitors. The strategic considerations for brand naming are as follows:

- *Marketing objectives*. The brand name should fit the overall marketing objectives of the firm: for example, a firm intending to enter the youth market will need to develop brand names that appeal to a young audience.
- *Brand audit*. An estimate of the internal and external forces such as critical success factor (also known as the unique selling proposition).
- *Brand objectives*. As with the marketing objectives, the overall intentions about the brand need to be specified.
- *Brand strategy alternatives*. The other ways of achieving the brand's objectives and the other factors involved in its success have a bearing on the choice of brand name.

Brand names can be protected in most countries by *registration*, but there is some protection for brands in that it is illegal to try to 'pass off' a product as being a branded one when it is not. For example, using a very similar brand name to a famous brand, or even using similar package design, could be regarded as 'passing off'. This is a civil offence, not a criminal one, so it is up to the offended brand owner to take legal action.

Ries (1995) suggested that brand names should have some, or all, of the following characteristics:

- They should shock, i.e. catch the customer's attention. French Connection United Kingdom use its FCUK acronym for this purpose.
- They should be alliterative: this helps them to be memorable. For example, Dunkin Donuts and Krispy Kreme.
- They should connect to the product's positioning in the consumer's perceptual map. UK biscuit brand Hobnobs conveys an image of a warm kitchen (the hob) with friendliness (hob-nobbing).
- They should link to a visual image: again, this helps the memorability. Timberland outdoor clothing conjures a visual image of mountain country.
- They should communicate something about the product or be capable of being used to communicate about the product. Duracell conveys the main advantage of the batteries – they are durable. Brand names in French are often perceived as being more hedonic (Salciuviene *et al.* 2010), such as Bonne Maman conserves, biscuits, cakes, Perle de Lait and Petits Filous yoghurts and Presidente cheese and butter.
- They should encourage the development of a nickname (for example, Bud for Budweiser beer).

Brands and semiotics

Semiotics is the study of meaning and is concerned with the symbolism conveyed by objects and words. Semiotics refers to systems of signs; the most obvious system is words, but other systems exist. For example, a film would use the sign systems of the spoken word, the gestures of the actors, the music of the soundtrack and the conventions of movie direction and production to generate an overall meaning. The overall meaning is generated as a result of an interaction between the sign system and the observer or reader; the viewer interprets the information in the light of existing knowledge and attitudes, later including it in an overall perceptual map of reality (see Chapter 3).

Brands are important symbols, often using more than one sign system to create meaning: the brand name, the logo, the colour and the design of the packaging all contribute. In terms of semiotics, brands have four levels:

1. *A utilitarian sign.* This is about the practical aspects of the product and includes meanings of reliability, effectiveness, fitness for purpose and so forth.
2. *A commercial sign.* This is about the exchange values of the product, perhaps conveying meanings about value for money or cost-effectiveness.

3 *A socio-cultural sign.* This is about the social effects of buying (or not buying) the product, with meanings about membership of aspirational groups or about the fitness of the product for filling social roles. Research shows that even young children are affected by this – having the right brand of snack in the lunch-box was found to be extremely important for eight- to eleven-year-olds (Roper & La Niece 2009) as well as the right brand of footwear in gym class (Lopez & Rodriguez 2018).

4 A sign about the mythical values of the product. Myths are heroic stories about the product, many of which have little basis in fact: for example, the Harley Davidson motorcycle brand has a strong mythical value due (in part) to its starring role in the film *Easy Rider*.

Myths provide a conceptual framework through which the contradictions of life can be resolved, and brands can build on this. For example, modern industrial life is, presumably, the antithesis of frontier adventure. Yet the Harley Davidson, a product of twentieth-century industry, was used to represent the (probably mythical) freedom and adventure of the American West. Most powerful brands have at least some mythical connotations – in the United Kingdom, the Hovis bread brand has mythical connotations centred around corner bakery shops at the turn of the century; in Malaysia and Singapore Tiger Balm carries mythical connotations about ancient Chinese apothecaries; in Australia Vegemite carries mythical connotations about Australian family life that its main competitor, Promite, has never tapped into.

The association of different values with the brand name can be extremely useful when researching the acceptability of a brand's image. The importance that consumers place on these values can be researched using focus groups, with a subsequent analysis of the key signs contained within the brand, and consumers can be segmented according to their responsiveness to the particular signs contained within the brand and their relevance to the consumer's own internal values.

Research carried out by Gordon and Valentin (1996) into retail buying behaviour showed that different retail outlets convey different meanings to consumers in terms of a continuum from planned, routine shopping through to impulse buying. Each store type met the needs differently and conveyed different meanings in terms of appropriateness of behaviour. Convenience stores conveyed an image of disorder and feelings of guilt and confusion (perhaps associated with having forgotten to buy some items in the course of the regular weekly shop). Supermarkets represented planned shopping and conveyed an image of efficient domestic management and functionality. Petrol stations carried a dual meaning of planned purchase (for petrol) and impulse buying (in the shop). Business travellers seeking a break from work and pleasure travellers seeking to enhance the 'holiday' feeling both indulged in impulsive behaviour motivated by the need for a treat. Finally, off-licences legitimised the purchase of alcohol, allowing shoppers to buy drinks without the uneasy feeling that other shoppers might disapprove. Off-licences also provided an environment in which people felt able to experiment with new purchases.

These signs are relevant not only for the retailers themselves in terms of their own branding, but also for branded-goods manufacturers who need to decide which outlets are most appropriate for their brands and where in the store the brand should be located. For example, snack foods and chocolate are successfully sold in petrol stations, where travellers are often looking for a treat to break up a boring journey.

Strategic issues in branding

Adding value to the product by branding involves a great deal more than merely giving the product a catchy name. Branding is the culmination of a range of activities across the whole marketing mix, leading to a brand image that conveys a whole set of messages to the consumer (and, more importantly, to the consumer's friends and family) about quality, price, expected performance and status. For example, the Porsche brand name conveys an image of engineering excellence, reliability, sporty styling, high speed and high prices, and of wealth and success on the part of the owner. People do not buy Porsches simply as a means of transport.

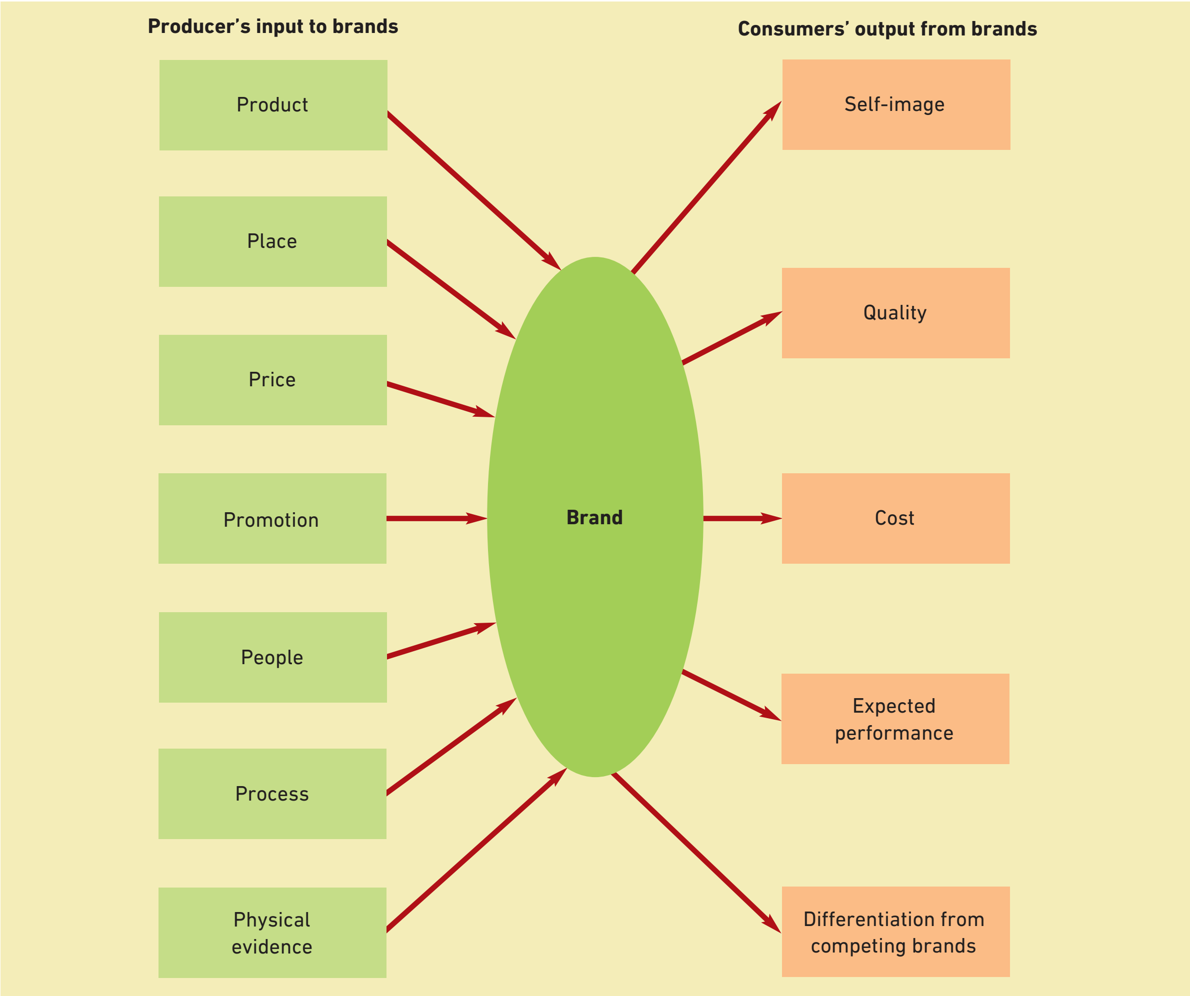
Because branding involves all the elements of the marketing mix, it cannot be regarded simply as a tactical tool designed to differentiate the product on the supermarket shelves. Instead, it must be regarded as the focus for the marketing effort, as a way of directing the thought processes of the management towards producing consumer satisfaction. The brand acts as a common point of contact between the producer and the consumer, as shown in Figure 6.3.

As the figure shows, the consumer benefits from the brand in terms of knowing what the quality will be, knowing what the expected performance will be, gaining some self-image values (for example, a prestigious product conveys prestige to the consumer by association – conversely, a low-price product might enhance a consumer's sense of frugality and ability to find good value for money).

In many cases the core product has very little to differentiate it from other products, and the brand is really the only differentiating feature. A famous example is the rivalry between Pepsi Cola and Coca-Cola; in blind taste tests, a large proportion of people prefer the flavour of Pepsi, but Coca-Cola outsells Pepsi in virtually every market. This apparent discrepancy can only be explained by the brand image which Coca-Cola has, and in taste tests where consumers are able to see the can the drink comes out of, Coca-Cola is the preferred brand.

Despite the apparently artificial nature of differentiation by branding, the benefits to the consumer are very real; experiments show that branded analgesics work better than generic analgesics at relieving pain, even though the chemical formula is identical. This is because of the psychosomatic power of the brand. Someone driving a prestige car gains very real benefits in terms of the respect and envy of others, even if the performance of the car is no better than that of its cheaper rival.

Figure 6.3 Brands as a contact point



Brands can be looked at in a number of different ways. Table 6.5 shows eight different strategic functions of brands.

Branding clearly has advantages for the manufacturer and the retailer, since it helps to differentiate the product from the competitor's product. Economies of scale and scope are attributed to branding, and a brand with high sales will generate production economies. A successful brand also creates a *barrier to entry,* so that competitors find it harder to enter the market (Demsetz 1982). Brands also allow firms to compete other than on price, which clearly has advantages since the firm does not have to cut its profit margins to compete.

Furthermore, brands that are held in high esteem tend to be more consistent in their sales, riding over the ups and downs of the marketplace (Png & Reitman 1995). Not all brands are priced at a premium; many brands are competitively priced to take advantage of consistent sales.

Branding has advantages for the consumer; it is easy to recognise the product and easy to identify with it. Messages about the formulation and benefits are clearly

Table 6.5 Strategic functions of brands

Function	Explanation
Brand as a sign of ownership	Brands were at one time a way of showing who had instigated the marketing activities for the brand. This was an attempt to protect the formulation of the product in cases where intellectual property protection was insufficient, and also to ensure that customers knew whether they were buying a manufacturer's brand or a retailer's brand.
Brand as a differentiating device	A strong brand undoubtedly does differentiate the product from similar products, but having a strong brand name is not enough. The product itself also needs to be different in some way; the brand image is the communicating device that conveys the difference to the consumer.
Brand as a functional device	Branding can be used to communicate functional capability. In other words, the brand conveys an image of its quality and expected performance to the consumer.
Brand as a symbolic device	The symbolism of some brands enables the consumer to say something about themselves. This is particularly apparent in the 'designer' clothes industry – a very ordinary T-shirt acquires added value because the name of the designer is printed on the front. If the consumers believe that the brand's value lies in its communication ability, they will spend considerable time and effort in choosing the brand that conveys the appropriate image.
Brand as a risk reducer	Every purchase involves a degree of risk; the product might not perform as expected and if it fails to do so then the vendor might not be prepared to put matters right. Buying a strongly branded product offers the consumer a degree of reassurance about both the product and the producer. Astute marketers find out what types of risk are of most concern to the customers or consumers and develop a brand presentation which addresses those risks.
Brand as a shorthand device	Brands are used as a way of 'tagging' information about a product in the consumers' memories. This is particularly relevant when the brand is extended to other product categories, since the consumer's view of the parent brand is transferred to the new brand. For example, Virgin successfully extended the brand image from CDs to retailing to airlines and trains to financial services and Virgin media (TV, broadband and mobile phones) all offering the same innovative approach and serving similar market segments.
Brand as a legal device	Brands give a certain amount of legal protection to the producer, since pack design and name can be protected where (often) the formulation of the product cannot. Strong branding offers some protection for the firm's intellectual property.
Brand as a strategic device	The assets constituting the brand can be identified and managed so that the brand maintains and builds on the added value that it represents.

conveyed, and in most cases the use of a particular brand says something about the consumer (for example, wearing designer clothes or using technological products such as Apple to convey innovativeness) (van der Westhuizen 2018). Because most purchases involve only limited problem-solving behaviour, branding helps to reduce the decision-making time and also the effort of evaluating competing products: brands do not necessarily need to have unique features for this to happen

(Romaniuk & Gaillard 2007). Consumers who either do not want to spend time on an extended information search or do not have the expertise to do so can use the brand as an implicit guarantee of quality. These positive feelings about the brand are called consumer brand equity and can be affected by all aspects of the brand, including country of origin (Pappu *et al.* 2006).

In business-to-business markets, buyers may be prepared to pay a premium for a known brand, based on the following dimensions (Persson 2010):

1. *Brand familiarity.*
2. *Product solution.* This is the extent to which the product is known to provide a solution to the buyer's problems.
3. *Service associations.* This is the degree to which the buyer can see that there will be good after-sales services.
4. *Distribution associations.* This is the degree to which the deliveries will be reliable and effective.
5. *Relationship associations.* This is the degree to which the buyer has good working relationships with the supplier.
6. *Company associations.* These are the factors surrounding the supplying company's reputation.

Information storage and retrieval in humans are carried out by a process of ‘chunking’, or collecting information in substantial quantities and storing them under a single ‘file name’ (Buschke 1976). In effect, the brand name provides an informational chunk; the individual is able to summon up a huge amount of information from memory using the brand name as the trigger.

From a strategic viewpoint, the brand image provides a focus for the creative energies of the marketing team. Koestler (1964) suggested that creativity involves the bringing together of hitherto unrelated, yet familiar, objects to generate a creative insight. The difficulty for marketers is that product and brand development is often a team process and, as such, the team needs to keep a firm picture of what the product is intended to convey – the ‘personality’ of the product – if they are to maintain consistency in their creative activities. One way of doing this is to use a metaphor for the product. Kao *et al.* (2017) suggests that using a metaphor can create a deeper connection with and better understanding of a brand, by using factual and visual images to convey the message, as it is likely that this will cause some sort of experiential or emotion-based response. For example, the Snickers TV ads portray people acting out of character and infer that once you have eaten a Snickers bar, you'll feel normal again.

Brand planning is important but time-consuming; often the job is given to a brand manager, many of whom are young and inexperienced. Developing the brand is a process of integrating a number of strands of business activity, so a clear idea of the brand image is essential, as is a long-term view. To see branding as merely being about design or advertising or naming is inadequate and short-sighted; successful brands are those that act as a lens through which the consumer sees the corporation and the product. Constant evaluation of the image seen through the lens is essential if the brand is to retain its status.

Occasionally products need to be rebranded, sometimes because of a bad association (for example, after the Zeebrugge ferry disaster in the 1980s the company concerned rebranded itself from Townsend Thoresen to P&O Ferries), but more commonly because of a structural change in the firm, perhaps caused by a merger or a takeover (Muzellec & Lambkin 2006). Within the European Union, rebranding has often occurred in recent years to develop a Europe-wide identity (as in the case of Jif cleaning products, which became Cif). Such rebranding needs to be handled carefully, and invariably involves added promotional expenditure to establish the new brand.

Branding has become increasingly important as technology develops. People are accessing more information online and through mobile devices, so it is vital that brands have an online presence in order to build a stronger link with the customer.

Generally the principles of branding will remain the same, but people are viewing brands in different ways. The brand elements and values must be portrayed online in a consistent manner that fits in with the overall brand image. A company website must say as much about the brand as any promotional campaign and it enables the organisation to have a much clearer picture of how people compare and contrast the various competing brands in the marketplace (Adamson 2009).

Furthermore, customers and stakeholders are becoming more involved with company branding, often creating brand communities, whereby participants relate to each other through a mutual interest in a brand or product. This results in participants becoming ‘co-creators’ of the brand, as they play a large part in developing and enhancing a brand and its value. They are highly motivated to share brand experiences and are actively engaged with the brand itself (Kaufmann *et al.* 2016).

Conversely, technology also enables the consumer to attack a brand. Extensive use of social media has given consumers a platform for mass action whereby consumers will voice their opinions about brands and organisational behaviour (Rauschnabel *et al.* 2016). In some cases ‘anti-brand’ communities may be set up by those who oppose or dislike particular brands (Kristal *et al.* 2018).

Thus, brand co-creation may mean that companies lose some control over their brand meaning (Kristal *et al.* 2018; Tarnovskaya & Biedenbach 2018), so this type of activity needs to be carefully managed and monitored by the brand owner and criticisms taken on board to enhance, develop and maintain the brand (Kristal *et al.* 2018).

Extending the brand

A **brand extension** is another product in the company's range that uses a similar brand name. For example, Cherry Coke is a brand extension of the original Coca-Cola. Overall, **family branding** is where one brand name is used for a range of products, such as Heinz 57 Varieties, and **line family branding** is where a smaller group of brands carries a single identity.

In each case the aim is to convey a message of quality to the consumer by borrowing from the established reputation of the parent brand, and to appeal to the target market, who are already familiar with the parent brand. Properly carried out, the establishment of a brand is a long-term project, which can be expensive; this leads to an emphasis by some firms on brand extensions that are intended to maximise the return on the investment made in establishing the brand. In some cases, brands have been extended to the breaking point; relatively few brands (Virgin being one example) can be extended apparently indefinitely, and even as well-established a brand as Levi Strauss jeans could not extend itself to smart suits (the company's attempt to do so in the early 1980s turned to disaster). The most important driver for brand extension success is the fit between the present brand and the extension product (Volckner & Sattler 2006); Virgin's ability to extend relies on the brand's image as being original and fresh-thinking, coupled with a combination of solidity and practicality.

Having a strong brand associated with a new product does affect consumer perceptions significantly; people will generally have a higher perception of a new product if it is associated with a well-known and trusted brand (Besharat 2010; Dwivedi & Merrilees 2013). Conversely, people will often look for other ways of confirming the quality of an unbranded item, and will even be prepared to pay a premium for such confirmation (Ubilava *et al.* 2011).

Another area of branding is known as **compositioning**, in which products are grouped under a brand name to create a composite value greater than that of the components (Ruttenberg *et al.* 1995). Joint marketing and distribution alliances come under this heading. The products concerned do not necessarily come from the same producer and may not even be in the same general category; for example, Disneyland has 'official airlines' or 'official ferry companies' to transport visitors to its theme parks. A further extension of this concept is **brand architecture** which is concerned with setting up 'partner' brands and creating a balance between branding at the product level and corporate or banner levels.

Within the international arena, firms have the opportunity to extend the brand across international frontiers. This raises fundamental strategic issues: for example, should the brand be globalised, with the firm offering a standard package throughout the world (as does Coca-Cola), or should the brand be adapted for each market (as does Heinz)? Some firms brand globally, but advertise locally (Sandler & Shani 1992), while others organise task groups to handle the brand on a global scale (Raffee & Kreutzer 1989).

Retailers' own-brands

Retailer power has grown considerably over the past 30 years, with a proliferation of own-brand products. In the past, the retailer's own-brand products were usually of poorer quality than manufacturers' brands, but they are now often of equal or even superior quality. According to consumer researchers Neilson in 2014 supermarket brands generated 54 per cent of UK grocery sales (www.nielson.com) and in 2017, their research demonstrated that shoppers were increasingly turning to supermarket own labels as inflation rose and consumers needed to better manage their disposable income (www.qualityfoodawards.com). For manufacturers this creates a problem of response; should the manufacturer try to invest in the firm's brands more heavily to overcome the retailer's brand, or should it capitulate entirely and produce on behalf of the retailer (Quelch & Harding 1995). Often manufacturers will become suppliers of retailer-brand products which compete with their own branded goods. Reasons for doing this are as follows:

- *Economies of scale.* The manufacturer may be able to buy raw materials in greater quantities or may be able to invest in more efficient production methods if the throughput of product is increased.
- *Utilise excess capacity.* Seasonality or production synergies may make production of own-brand products attractive in some cases.
- *Base for expansion.* Supplying a retailer with own-brand goods may lead to other opportunities to supply the retailer with other products in future.
- *No promotion costs.* The retailer bears all the investment in the brand (which is, of course, a brand extension of the retailer's trading name in any case).
- *No choice.* Some retailers only trade in their own brands (the UK's Marks & Spencer being an example, although more recently they have started to introduce a small number of well-known brands into their food courts). Manufacturers who wish to trade with these retailers have no choice but to produce under the retailer's brand name.
- *To shut out the competition.* If the manufacturer does not produce goods under the retailer's brand name, another manufacturer will thereby gaining ground.

Manufacturers with very strong branding often refuse to produce own-brand goods, Kellogg's breakfast cereals being a notable example. If the brand is strong enough, this allows the firm to promote on an 'accept no substitutes' platform.

In the past, own-brand products were cheap versions of the leading brands, but in more and more cases the retailers now have enough financial strength to fund the development of entirely new versions of products, some of which are superior to the proprietary brands and have achieved substantial market shares.

In many cases this is achieved by producing *'lookalike'* branding, where the product looks very similar to the brand leader. In the UK this led to the formation of the British Producers and Brand Owners Group, which lobbied Parliament to regulate the visual and physical simulation of successful brands. In fact, research showed that few, if any, consumers accidentally pick up the wrong brand, but some confusion is engendered. Retailers (perhaps disingenuously) claim that using similar packaging helps consumers identify products, whereas manufacturers claim that lookalikes give the impression that the products are identical. In other words, the confusion arises not at the level of picking up the wrong pack, but at the more subtle level of forming inaccurate beliefs about the lookalike's attributes based on the attributes of the leading brand (Foxman *et al.* 1992).

A further argument advanced by retailers is that strong manufacturers' brands have created generic product categories of their own – 'Gold Blend-type' instant coffees, for example. The retailers argue that products with similar quality and specifications should look as similar as possible to the brand that first created those values – an argument that is particularly annoying to manufacturers who have invested large sums of money in creating those brand values in the first place.

Packaging

Packaging of the product is equally part of the product, since the packaging can itself convey benefits. In fact, some research shows that attractive packaging triggers areas of the brain which are normally associated with rewards, while unattractive packaging triggers activity in a different part of the brain, one which is usually associated with processing things such as unfair offers or disgusting pictures (Stoll *et al.* 2008).

The main purpose of packaging is to protect the contents from the outside environment and vice versa, but packaging also:

- Informs customers
- Meets legal information requirements
- Sometimes aids the use of the product (e.g. ring pulls on canned products make it easier to open the can).

Packaging decisions might include such areas as **tamper resistance** (paper strips around caps to prevent bottles being opened while on supermarket shelves) and *customer usage* (e.g. the resealable nipples on mineral water bottles, making it easier to drink the water while participating in sports such as running or cycling). The protection of the environment has become important to consumers in recent years. So much packaging is either recyclable or biodegradable and many supermarkets now are actively cutting down the amounts of packaging on their products. For example, some of Tesco's pre-packed vegetables are labelled as using 50 per cent less packaging. Customer acceptability is of obvious importance; packaging must be hygienic and convenient for the consumer. Within the UK there has been a growing trend to develop packaging designs that can be legally protected under the 1994 Trade Marks Act; the purpose of this is to prevent imitators from making close copies of the packaging. In some cases the package design has been made expensive to copy, requiring retooling for unusual pack shapes, or expensive printing processes (Gander 1996). 'Me-too' packaging has become particularly common among supermarket own-brand versions of popular products, and there has been some debate about the ethics of this. In some cases these close copies may infringe copyright or patent laws.

Colour can also be important: for example, Heinz's use of a turquoise label for their baked beans tin emphasises the orange colour of the beans when the can is opened. Even the proportions of the package make a difference: the ratio of the sides of the package affect perception (Raghubir & Greenleaf 2006).

In recent years, because of the huge upsurge in world trade, it has also become necessary to consider the legal requirements of labelling, which differ from one country to the next; nutritional information may have to be in a different form for each country (for example, in the United States food has to be labelled with the amount of fat, calories and sugar content it contains expressed as a percentage of a 2000-calorie daily intake). There is also a requirement in many countries to label foods which contain genetically modified crops; this has created a major problem for global food corporations since they may source ingredients from many places, as well as market-finished products globally (D'Souza *et al.* 2008).

Packaging can often be used for promotion of other products in the manufacturer's range (via recipe instructions, for example) or for joint promotions with non-competing companies. Interestingly, corporate brands on packaging seem to have little impact on the desirability of the product, whereas brand category dominance has a significant effect (LaForet 2011).

CASE STUDY 6 Subway

Subway is a fast-food restaurant in which sandwiches are freshly made, with the exact composition decided by the customer. The sandwiches are made from soft bread rolls, usually either six inches or twelve inches long: in the United States such sandwiches are called 'submarines', hence the brand name of the company.

Subway began in 1965 when Fred DeLuca borrowed $1,000 from his friend Peter Buck in order to open 'Pete's Super Submarines' in Bridgeport, Connecticut. Fred's intention was to make some money to fund his way through medical school: Pete had a PhD in physics, so they formed a company, Doctor's Associates Inc., to oversee the expansion of the franchise. In 1968, the brand name was changed to Subway, and by this time the franchise was beginning to take off in a big way. People liked the ability to choose the sandwich fillings, and also the bread used.

In the restaurants themselves, the fillings are kept in cold trays and the staff member adds whichever ones the customer would like. Customers pay per filling, and of course the temptation is to add more and more fillings: very few people would have only one filling. Salad, hot peppers, various meats and cheeses, in fact all the ingredients one might find in a sandwich are available. Sandwiches can be heated.

The core product is, of course, the submarine sandwich, but this is in fact an almost infinitely variable product since it can be tailored. Within this formula, Subway offer specific non-tailored products such as its most popular sandwich, the BMT. This was originally named after the Brooklyn–Manhattan Transit, a subway in New York, but it has subsequently been renamed as 'Biggest, Meatiest, Tastiest'. The idea of naming standardised sandwiches after actual subway systems has largely been dropped.

Subway has introduced various other products as time has gone by. The chain sells wraps, paninis (introduced in 2017), salads and baked goods such as muffins and cookies. In 2006, the company introduced personalised pizzas, which are made to order in the same way as the subs, and heated for 85 seconds.

Subway has a reputation for providing healthier food than most other fast-food outlets. The availability of freshly prepared salads and freshly prepared fillings, as well as a choice of wholemeal bread, has enhanced this reputation: in the UK and Ireland, Subway reduced the salt content of its food by 33 per cent in line with government guidelines. In 2009, a Zagat survey placed Subway first out of all fast-food providers in terms of providing healthy options.

Internationally, Subway has adapted its products to meet local religious and cultural norms. For example, in India the company does not include any pork or beef products in the range, and offers a much wider range of vegetarian options to allow for the large number of vegetarians in India. In 2013, Subway opened its second all-vegetarian restaurant in Ahmedabad, at which Jain food is offered. Jains have one of the most restricted all-vegetarian diets in the word, since they do not eat root vegetables or vegetables with red juice, and of course eat no meat at all.

In some outlets, Subway offers gluten-free bread and brownies, and in the United States it has several kosher outlets which do not serve pork, shellfish or cheese (since strict Jews do not eat meat and dairy products in the same meal). Cheese replacement products based on vegetable protein are available.

As of June 2017, Subway had approximately 45,000 outlets worldwide, around half of which are in the United States. The company is the largest single-brand restaurant chain and the largest restaurant operator in the world: outside the USA its largest number of locations are Brazil, Australia and the UK but it has branches in over 100 countries. Franchising, and a willingness to adapt the product, have been the roots of its success.

Case study questions

1 What effect would the change of brand name (from Pete's Super Submarines to Subway) have had?

2 What are the risks in offering tailored products such as kosher food or all-vegetarian food?

3 What problems would you envisage in introducing pizzas into the range?

4 How might Subway conduct its new product development programmes?

5 What is the role of the product life cycle in Subway's planning?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

In 2018 the government introduced the 'Sugar Tax' in an attempt to reverse the rising levels of obesity and tooth decay in the UK. The levy is applied to food and drink manufacturers and is dependent on the levels of sugar added to the product. For example, drinks with more than 8g of sugar per 100ml are subject to a tax of 24p per litre and drinks with a sugar content of 5–8g per 100ml are charged at 18p per litre.

Fanta, Ribena and Lucozade chose to reduce the sugar content prior to the introduction of the tax. Coca-Cola also adapted most of its brands to meet the government regulations, offering no sugar and no calorie options for most of its brands, as well as ensuring the labelling is clearer on the packaging. However, Coca-Cola chose to maintain the sugar levels for their Classic Coke, as it is a 130-year-old brand and it wanted to offer choice to loyal consumers of this particular variation. Of course, this was probably also influenced by the backlash from customers in the 1980s when it tried to change the formula, quickly reverting back to the original recipe after customers complained in huge numbers and even took to the streets in protest in the USA.

There is much debate as to whether food and drinks brands should be doing more, as many products still contain large amounts of sugar, well above the daily recommended intake. Starbucks Caramel Frappuccino Blended Coffee contains 66g of sugar in a 16fl oz serving (www.starbucks.com) and a 330ml can of Classic Coke contains approximately 39g of sugar (www.coca-cola.co.uk).

Will customers just pay the extra and continue to consume these products with a high sugar content anyway?

Should food and drink manufacturers be doing more to reduce sugar content in their products?

Should companies be constantly addressing health issues when developing their products rather than waiting for regulations to be imposed?

Are companies merely reducing sugar content because they have to rather than because they should? Or are they acting in an ethical proactive manner?

Summary

This chapter has been about those decisions that are closest to the product. The main issues revolve around managing the product portfolio to ensure that the firm continues to offer relevant products to meet the needs of consumers, knowing when to drop a product from the mix and knowing when to introduce a new product.

Branding is concerned with communicating the unique selling proposition of the product to the consumers and is the focus of all the firm's marketing activities relating to the product. The brand is the 'personality' of the product, communicating subtle messages about quality and performance.

Here are the key points from this chapter:

- The product life cycle is a useful description, but not much help in prediction.
- Products in the Star stage will cost more money to maintain than they bring in, but are an investment for the future.

- Dogs may still be profitable, but are probably a poor use of resources and could be replaced by more profitable products.
- War Horses and Dodos will eventually disappear unless they can be repositioned into new, growing markets.
- Most products will decline and must be replaced eventually.
- The safe route in NPD is the me-too; the high-growth route is innovation.
- A product is a bundle of benefits, not merely the sum of its physical characteristics.

Chapter questions

Understanding the basics

1 What are the stages of new product development?

2 Why should firms innovate?

3 How might a firm use reinvention when repositioning a product?

4 From the BCG matrix, which products would probably be bought by the late majority of adopters?

5 Why is it important for companies to develop and maintain brands?

6 What disadvantages might family-line branding have over individual branding?

7 How does the development of technology impact on brand building?

8 What is a brand community and what impact does it have on brand development?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1 Critically evaluate the usefulness of the BCG matrix when developing a product portfolio. You should also consider the limitations of using such a framework.

2 Why should companies brand their products? Develop an evaluative discussion which considers the elements of a brand, the importance of branding and the problems faced when developing a brand. You should use academic underpinning within your answer.

3 As more and more people are accessing social media and review websites, critically assess the role of brand communities when developing and enhancing a brand image.

4 Evaluate the importance of package design and colour when developing a brand.

Action learning

1 Select a well-known brand and visit its website. Evaluate how your chosen brand maintains its brand image online. You might want to consider the following:
- Is it in keeping with the company brand values and image?
- How is the brand message conveyed?
- Is there any evidence as to how it actively engages the consumer and responds to any negative comments?
- Can you recommend any ways to improve the brand image through online activity?

2 In April 2018, Sainsbury's and Asda merged to create the UK's biggest supermarket group. There has been much debate as to how the two brands will work together as they both have a significantly different brand proposition. Initially the intention is to retain both fascias (i.e. continue the brands as separate entities) but it remains to be seen as to whether this will continue in the long term.

According to an article in *Marketing Week*,

> **Sainsbury's has a focus on values and is perceived as being better quality but more expensive. Asda, on the other hand, has built its brand on price and a value positioning.**

In the same article, Natalie Berg, retail analyst at NBK Retail, says:

> **They may be retaining both fascias for now but I imagine the Asda brand will disappear from the high street. There's no room for a retailer like Asda in today's market. If shoppers want low prices, they head to the discounters. If they want convenience, they head to Amazon.**
>
> **https://www.marketingweek.com/2018/04/30/branding-conundrum-sainsburys-and-asda-merger**

Imagine you are on the marketing team, working on the merger and its brand implications. Your Marketing Director has asked you to write a short paper to be presented at an important board meeting, which discusses:
- the importance of branding/benefits of branding for consumers and marketers
- whether or not you think the brands should remain distinct and separate and why
- if you choose to keep them distinct, how would you develop the brands and maintain distinctiveness
- if you think the brands should merge, how would you recommend this happens? Which brand name/fascia would you choose? Why?

You must include relevant academic underpinning, supporting evidence and examples to justify your ideas.

Further reading

***Innovation Management and New Product Development*, 6th edn by Paul Trott** (Pearson, 2016) provides a detailed account of the new product development process and the management of the adoption process by customers.

***Designing Brand Identity*, 5th edn by Alina Wheeler** (John Wiley & Sons, 2017) is a classic text which discusses brand fundamentals, process basics, and includes a range of useful case studies. It is a very practical and easy to understand and is an excellent resource for both students and practitioners alike to get to grips with key principles of branding.

If you wish to go beyond the branding discussion in this chapter and think about how branding works on a global level, then ***Global Brand Strategy: World-Wise Marketing in the Age of Branding* by Jan-Benedict Steenkamp** (Palgrave Macmillan, 2017) is an interesting read. It provides a practical framework, techniques and tools to help managers develop strategies in order to adapt in a global marketplace and uses global case studies to illustrate his ideas.

***Digital Branding: A Complete Step-by-Step Guide to Strategy, Tactics, Tools and Measurement*, 2nd edn by Daniel Rowles** (Kogan Page, 2017) offers practical advice about online brand building and uses real case studies.

Velamuri, V.K., Schneckenberg, D., Haller, J.B.A. and Moeslein, K.M.: 'Open evaluation of new product concepts at the front end of innovation: and objectives and contingency factors', *R & D Management*, 47 (4) (2017), pp. 501–21. This article has been mentioned earlier in the chapter; it offers an interesting insight into how companies can use customers in the new product evaluation process.

Kaufmann, H.R., Loureiro, S.M.C. and Manarioti, A.: 'Exploring behavioural branding, brand love and co-creation', *Journal of Product and Brand Management*, 25 (6) (2016), pp. 516–26. Co-creation is a much discussed topic when thinking about branding. This article very succinctly sets out ideas about how customers are involved in the co-creation process.

Rauschnabel, P.A., Kammerlander, N. and Ivens, B.S.: 'Collaborative brand attacks in social media: exploring the antecedents, characteristics, and consequences of a new form of brand crises', *Journal of Marketing Theory and Practice*, 24 (4) (2016), pp. 381–410. This article takes a look at some of the more damaging aspects of online communities, the impact they might have on a brand and makes recommendations as to how this could be handled.

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7

Pricing strategies

Objectives

After reading this chapter you should be able to:

- Explain the advantages and disadvantages of different pricing methods
- Calculate prices using different approaches
- Choose the correct pricing strategy to fit a firm's overall objectives
- Explain some of the economic theories underlying the marketer's view of price and value.

Introduction

Pricing may not be exciting, but it is one of the most important issues for marketers; it is crucial not only to the profit that is to be made, but also to the quantity of the products that will be sold. It touches on all the other elements of the marketing mix because it clarifies the offer of exchange being made – it is the signal to the customer of what we expect in exchange for what we are offering. This chapter examines the different ways of pricing that are used and offers some ideas on how to choose a pricing strategy.

Economic theories of pricing and value

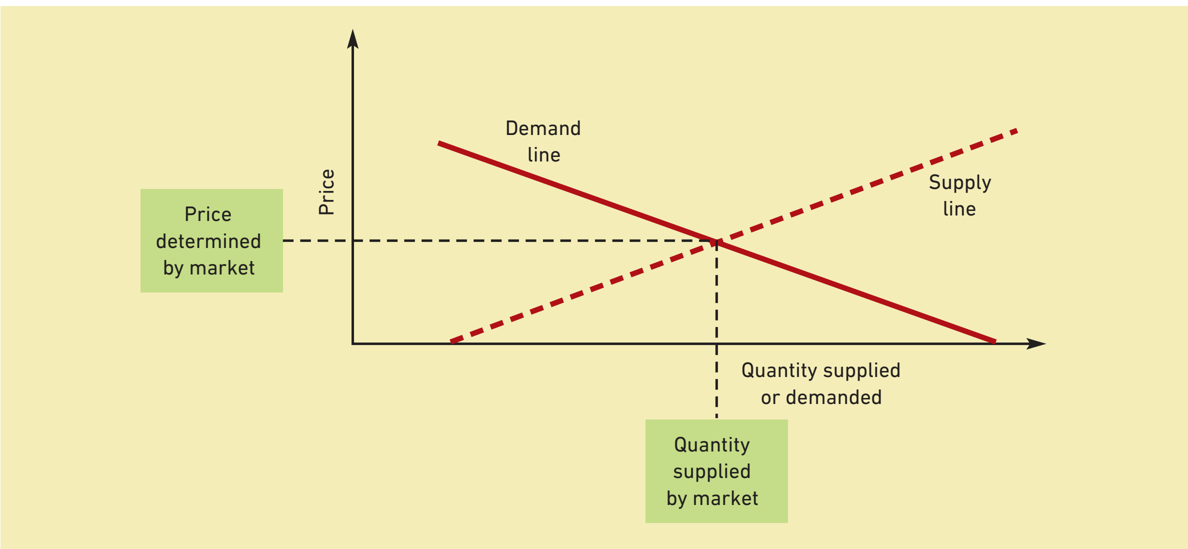
Classical economists assumed that prices would automatically be set by the laws of *supply and demand*. Figure 7.1 shows how this works.

As prices rise, more suppliers find it profitable to enter the market, but the demand for the product falls because fewer customers think the product is worth the money. Conversely, as prices fall there is more demand, but fewer suppliers feel it is worthwhile supplying the product so less is produced. Eventually a state of equilibrium is reached where the quantity produced is equal to the quantity consumed, and at that point the price will be fixed.

Unfortunately, this neat model has a number of drawbacks.

- The model assumes that customers know where they can buy the cheapest products (i.e. it assumes perfect knowledge of the market).
- Second, it assumes that all the suppliers are producing identical products, which is rarely the case.
- Third, it assumes that price is the only issue that affects customer behaviour, which is clearly not true.
- Fourth, it assumes that customers always behave completely rationally, which, again, is substantially not the case.
- Fifth, there is an assumption that people will always buy more of a product if it is cheaper. This is not true of such products as washing machines and wedding rings.
- Finally, the model assumes that the suppliers are in perfect competition – that none of them has the power to 'rig' the market and set the prices (see Chapter 2).

Figure 7.1 Supply and demand



The model does, at least, take account of customers, and it was the pioneer economist Adam Smith who first said that 'the customer is king' (Smith 1776). Unfortunately, the shortcomings of the model mean that it has little practical use, no matter how helpful it is in understanding a principle. Economists have therefore added considerably to the theory.

Elasticity of demand

This concept states that different product categories will show different degrees of sensitivity to price change.

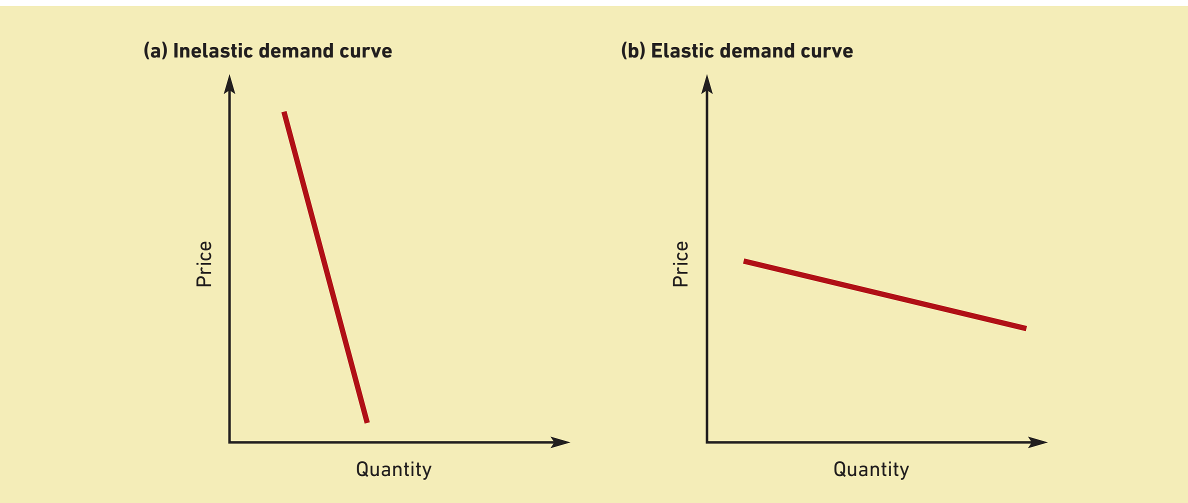
Figure 7.2(a) shows a product where the quantity sold is affected only slightly by price fluctuations, i.e. the demand is **inelastic**. An example of this is salt. Figure 7.2(b) shows a product where even a small difference in price leads to a very substantial shift in the quantity demanded, i.e. the demand is **elastic**. An example of this is borrowed money, e.g. mortgages, where even a small rise in interest rates appears to affect the propensity to borrow. Although these examples relate to consumers, the same is true for suppliers; in some cases suppliers can react very quickly to changes in the quantities demanded (for example, banking), whereas in other cases the suppliers need long lead times to change the production levels (for instance, farming).

The **price elasticity of demand** concept implies that there is no basis for defining products as necessities or luxuries. If a necessity is defined as something without which life cannot be sustained, then its demand curve would be entirely inelastic; whatever the price was, people would have to pay it. In practice, no such product exists.

Economic choice

Economists have demonstrated that there can never be enough resources in the world to satisfy everybody's wants, and therefore resources have to be allocated in

Figure 7.2 Price elasticity of demand



some way (which will probably mean an equality of dissatisfaction). Resources used for one purpose cannot, of course, be used for another; this is the concept of the **economic choice**.

For example, a clothing manufacturer has only a certain number of machinists who work a certain number of hours. This means that it may be possible to produce either 8,000 shirts with the available resources or 4,000 pairs of trousers. If the manufacturer has two orders, one for each type of product, he or she will have to choose which order to supply and disappoint the other customer.

From the customer's viewpoint, the economic choice means having to choose between going to the cinema or going to the pub; there may not be the time or the money to do both. Because of this, customers may also take into account the price of activities other than those the prospective supplier is providing: the pub, for example, may not be aware that the cinema is competition, and that a fall in the price of going to the cinema may affect takings over the bar. In the UK in recent years, pubs have been closing down at an unprecedented rate, largely owing to the availability of cheap alcoholic drinks from supermarkets; many pubs have failed to recognise this as competition and counter it effectively.

Although the economists' view of pricing offers some interesting insights, there is little practical value in the theories offered because they do not take account of the consumer decision-making process (see Chapter 3). Consumers are not always rational; marketers are aware of this.

Critical thinking

Are we really that illogical when we buy things? It's a rather bleak comment on human beings – after all, we are the most intelligent creature so far discovered! If we don't use our brains to decide how to spend our hard-earned money, doesn't that imply that we don't use our brains much for anything else?

Of course, maybe we do think about things sometimes. If it's an important purchase or if we are short of money, we might make more effort – but who bothers to spend time thinking about the price of a bar of chocolate? Apart, of course, from marketers!

Pricing and market orientation

As in any other question of marketing, pricing is dependent on how customers will react to the prices set. Customers do not usually buy the cheapest products; they buy those that they feel represent good value for money. If this were not so, the most popular mobile phones in Britain would be Nokia rather than Apple and Samsung. Typically, customers will assess the promises the supplier has made about what the product is and will do, and will measure this against the price being asked (Zeithaml 1988).

This leaves the marketer with a problem. Marketers need to decide what price will be regarded by customers as good value for money, while still allowing the company to make a profit. The main methods of pricing used by firms are cost-based, customer-based and competitor-based.

Cost-based pricing

Cost-based methods are the least customer-oriented; two still used are **cost-plus pricing** and **mark-up pricing**.

Cost-plus pricing

Cost-plus pricing is commonly advocated by accountants and engineers, since it is simple to use and appears to guarantee that the company meets a predetermined profit target. The method works by calculating the cost of manufacturing the product, including distributed overhead costs, and research and development costs, then adding on a fixed percentage profit to this figure to arrive at the price. Such a calculation might look like Table 7.1.

A variant of cost-plus pricing is absorption costing, which works by calculating the costs of each unit of production, including an allowance for overheads within the unit price. This allows the firm to calculate a break-even point at which further sales will be profitable.

On the face of it, this type of pricing seems logical and straightforward; unfortunately, it does not take account of how customers will react to the prices quoted. If customers take the view that the price does not represent value for money, they will not buy the product and the result will be that the company will have made 20,000 units of a product for which there will be no sales. Conversely, if customers take the view that the price is incredibly good value for money, the company may not have enough stocks on hand to meet demand, and competitors will be able to enter the market easily (not to mention that the company could have charged more for the product and therefore made more money).

Table 7.1 Cost-plus pricing

Item	Cost per unit
Labour costs	£2.52
Raw materials	£4.32
Electricity	£0.27
Tooling costs (assuming production run of 20,000 units)	£1.78
Overheads	£3.43
Total production cost per unit	£12.32
Plus profit of 20%	£2.46
Net price	**£14.78**

Some government contracts are awarded on a cost-plus basis, but experience in the United States has shown that allowing cost-plus contracts to be granted will often result in the supplier inflating the costs to make an extra profit.

Mark-up pricing

Mark-up pricing is similar to cost-plus pricing, and is the method used by most retailers. Typically, a retailer will buy in stock and add on a fixed percentage to the bought-in price (a mark-up) to arrive at the **shelf price**. The level will vary from retailer to retailer, depending on the type of product; in some cases the mark-up will be 100 per cent or more, in others it will be near zero (if the retailer feels that stocking the product will stimulate other sales). Usually there is a standard mark-up for each product category.

Here the difference needs to be shown between a **mark-up** and a **margin**. Mark-up is calculated on the price the retailer pays for the product; margin is calculated on the price the retailer sells for. This means that a 100 per cent mark-up equals a 50 per cent margin; a 25 per cent mark-up equals a 20 per cent margin (Table 7.2).

Retailers use this method because of the number of lines the shop may be carrying. For an average-size supermarket, this could be up to 25,000 separate lines, and it would clearly be impossible to carry out market research with the customers for every line. The buyers therefore use their training and knowledge of their customer base to determine which lines to stock, and (to some extent) rely on the manufacturers to carry out formal market research and determine the recommended retail prices.

This method is identical to the cost-plus method except for two factors: first, the retailer is usually in close contact with the customers and can therefore develop a good ‘feel’ for what customers will be prepared to pay; second, retailers have ways of disposing of unsold stock. In some cases, this will mean discounting the stock back to cost and selling it in the January sales; in other cases, the retailer will have a sale-or-return agreement with the manufacturer so that unsold stock can be returned for credit. This is becoming increasingly common with major retailers who have sufficient ‘clout’ in the market to enforce such agreements and some manufacturers are using this as a promotional tool to boost their sales, particularly with the larger supermarkets. In a sense, therefore, the retailer is carrying out market research by test-marketing the product; if the customers do not accept the product at the price offered, the retailer can drop the price to a point that will represent value for money or can return it to the manufacturer for credit.

Table 7.2 Mark-up versus margin

Bought-in price	£4.00
Mark-up at 25% of £4.00	£1.00
Price on the shelf	£5.00
Margin of 20% of £5.00	£1.00
Bought-in price	£4.00

Customer-based pricing methods

The various approaches to *customer-based pricing* do not necessarily mean offering products at the lowest possible price, but they do take account of customer needs and wants.

Customary pricing

Customary pricing is customer-oriented in that it provides the customer with the product for the same price at which it has always been offered. An example is the price of a postage stamp, which tends to remain at the same price point for some time.

The reason for using customary pricing is to avoid having to reset the postage prices too often. Similar methods exist for doctor's prescriptions, taxis, some children's sweets and gas or electricity pre-payment meters. If this method were to be used for most products, there would be a steady reduction in the firm's profits as the costs caught up with the selling price, so the method is not practical for every firm.

Demand pricing

Demand pricing is the most market-oriented method of pricing. Here, the marketer begins by assessing what the demand will be for the product at different price levels. This is usually done by asking the customers what they might expect to pay for the product and seeing how many choose each price level. This will lead to the development of the kind of chart shown in Table 7.3.

As the price rises, fewer customers are prepared to buy the product, as fewer will still see the product as good value for money. In the example given in Table 7.3, the fall-off is not linear, i.e. the number of units sold falls dramatically once the price goes above £5. This kind of calculation could be used to determine the stages of a skimming policy (see below) or it could be used to calculate the appropriate launch price of a product.

For demand pricing, the next stage is to calculate the costs of producing the product in the given quantities. Usually the cost of producing each item falls as more are made (i.e. if we make 50,000 units, each unit costs less than would be the case if we made only 1,000 units). Given the costs of production, it is possible to select the price that will lead to a maximisation of profits. This is because there is a trade-off between quantity produced and quantity sold; as the firm lowers the selling price, the amount sold increases but the income generated decreases.

Table 7.3 Demand pricing

Price per unit	Number of customers who said they would buy at this price
£3 to £4	30,000
£4 to £5	25,000
£5 to £6	15,000
£6 to £7	5,000

Table 7.4 Costings for demand pricing

Number of units	Unit cost (labour and materials)	Tooling-up and fixed costs	Net cost per unit
30,000	£1.20	£4,000	£1.33
25,000	£1.32	£4,000	£1.48
15,000	£1.54	£4,000	£1.81
5,000	£1.97	£4,000	£2.77

The calculations can become complex, but the end result is that the product is sold at a price that customers will accept and that will meet the company's profit targets. Table 7.4 shows an example of costings to match up with the above figures. The tooling-up cost is the amount it will cost the company to prepare for producing the item. This will be the same whether 1,000 or 30,000 units are made.

Table 7.5 shows how much profit could be made at each price level. The price at which the product is sold will depend on the firm's overall objectives; these may not necessarily be to maximise profit on this one product, since the firm may have other products in the range or other long-term objectives that preclude maximising profits at present.

Based on these figures, *the most profitable* price will be £4.50. Other ways of calculating the price could easily lead to making a lower profit from this product. For instance, the price that would generate *the highest profit per unit* would be £6.50, but at this price they would sell only 5,000 units and make £18,650. The price that would generate *the highest sales* would be £3.50, but this would (in effect) lose the firm almost £10,000 in terms of foregone profit.

A further useful concept is that of *contribution*. Contribution is calculated as the difference between the cost of manufacture and the price for which the product is sold – in other words, it does not take account of overheads. Sometimes a product is worth producing because it makes a significant extra contribution to the firm's profits without actually adding to the overheads. It is not difficult to imagine a situation where a product carries a low profit margin and is therefore unable to support a share of the overheads, but is still worth producing (perhaps because it supports sales of something else or is bought by the firm's most loyal customers). A calculation which included an overall share of the overheads might not give a fair picture, since the contribution would be additional to existing turnover.

Table 7.5 Profitability at different price bands

Number of units sold	Net profit per unit	Total profit for production run	Percentage profit per unit
30,000	£2.17	£65,100	62
25,000	£3.02	£75,500	67
15,000	£3.61	£54,150	66
5,000	£3.73	£18,650	57

Demand pricing works by knowing what the customers are prepared to pay and what they will see as value for money.

Product-line pricing

Product-line pricing means setting prices within linked product groups. Often sales of one product will be directly linked to the sales of another, so that it is possible to sell one item at a low price to make a greater profit on the other one. Gillette sells its razors at a very low price, with the aim of making up the profit on sales of the blades. In the long run, this is a good strategy because it overcomes the initial resistance of consumers towards buying something untried, but allows the firm to show high profits for years to come (incidentally, this approach was first used by King C. Gillette, the inventor of the disposable safety razor blade).

Companies such as Epson and Hewlett Packard choose to sell their printers relatively cheaply; the profit comes from selling the printer cartridges and other sundries such as special printer papers for a much higher price. When Kodak launched their own printer they took the opposite approach, selling the printer for a high price and keeping the ink costs low, but this was relatively less successful as a strategy since the company needed to re-educate consumers into the idea that they would save money in the long run. This also required a degree of trust on the part of the customers, of course.

Skimming

Skimming is the practice of starting out with a high price for a product, then reducing it progressively as sales level off. It relies on two main factors: first, that not all customers have the same perception of value for money and, second, that the company has a technological lead over the opposition which can be maintained for long enough to satisfy the market.

Skimming is usually carried out by firms that have developed a technically advanced product. Initially the firm will charge a high price for the product, and at this point only those who are prepared to pay a premium price for it will buy. Profit may not be high, because the number of units sold will be low and therefore the cost of production per unit will be high. Once the most innovative customers have bought and the competition is beginning to enter the market, the firm can drop the price and 'skim' the next layer of the market, at which point profits will begin to rise. Eventually, the product will be sold at a price that allows the firm only a minimum profit, at which point only replacement sales or sales to late adopters will be made.

The advantage of this method is that the cost of developing the product is returned fairly quickly, so that the product can later be sold near the marginal cost of production. This means that competitors have difficulty entering the market at all, since their own development costs will have to be recovered in some other way.

Skimming is commonly used in consumer electronics markets. This is because firms frequently establish a technological lead over competitors and can sometimes even protect their products by taking out patents, which take some time for competitors to overcome. An example of this is the Smart TV, which sold at a premium price when it was first launched. As competitors entered the market with similar products, the price dropped dramatically. Research has shown that customers are aware of skimming and changes in technology in electronics markets and delay purchases of new electronic devices until the prices drop (Viardot 2004; Bidgoli 2010; Du & Chen 2017). This may affect the way firms view skimming in the future.

Skimming requires careful judgement of what is happening in the marketplace, in terms both of observing customer behaviour and of observing competitive response. Market research is therefore basic to the success of a skimming policy, and very careful monitoring of sales is needed to know when to cut the price again.

Critical thinking

Skimming seems like a bit of a cheat. The firm makes the product for a low price, then sells it at a high price, knowing that the price is going to fall later. Isn't this a bit like cheating the first few customers by overcharging them?

Or maybe these customers are enjoying the fun of being the first to own the product and the firm is making them pay for the privilege. It seems an expensive bit of fun to have, though – and anyway, people know about skimming.

On the other hand, of course, firms are not in business for the fun of it. They are entitled to make a profit, and of course recover the rather expensive research and development costs they incur in producing new products for us.

Psychological pricing

Psychological pricing relies on emotional responses from the consumer. Higher prices are often used as an indicator of quality (Erickson & Johansson 1985; Estelami 2008; Larson 2014; Koschate-Fischer & Wullner 2017), so some firms will use **prestige pricing**. This applies in many service industries, because consumers are often buying a promise; a service that does not have a high enough quality cannot be exchanged afterwards. Consumers' expectations of high-priced restaurants and hairdressers are clearly higher in terms of the quality of service provision; cutting prices in those industries does not necessarily lead to an increase in business. Interestingly, there is evidence that the price–quality relationship was affected considerably in Germany by the introduction of the euro. Prices previously expressed in Deutschmarks appeared higher than the new price in euros because there were approximately two euros to the Deutschmark – people's perception was that the price had 'halved' which lowered their expectations of quality (Molz & Gielnik 2006).

Odd–even pricing is the practice of ending prices with an odd number, for example £3.99 or $5.95 rather than £4 or $6. It appears that consumers tend to categorise these prices as '£3 and a bit' or '$5 and change' and thus perceive the price as being lower. The effect may also be due to an association with discounted or sale prices. French researchers found that lowering the price of a pizza from 8 euros to 7.99 euros increased sales by around 15 per cent (www.news.bbc.co.uk).

Paradoxically, some research shows that people are more likely to try a new product for the first time if the price is a round number (Bray & Harris 2006).

This apparent discrepancy may be due to cultural differences. Research has shown that odd–even pricing does not necessarily work in all cultures, in particular, people from non-Western cultures tend to be less likely to accept the illusion of cheapness or value for money created by odd-ending pricing (Suri *et al.* 2004; Nguyen *et al.* 2007; Schlinder 2009; Jeong & Crompton 2017). In Poland, Korea and China, for example, the effects are negligible. Odd–even pricing also has effects on perceptions of discounts during sales. Rounding the price to (say) £5 from £4.99 leads people to overvalue the size of the discount, which increases the perception of value for money (Gueguen & Legoherel 2004). Thus the positive effect on sales of using a 99-ending can be negated by the effect when the product is on offer in a sale.

Another effect of discounting can arise when retailers set upper or lower purchase requirements on discounted prices. A retailer offering a discount for buying more of a product (for example, 10 per cent off for buying at least three items) leads people to want to buy more of the product than they had intended, whereas with a discount which has an upper limit (10 per cent off, limited to two items per customer), people tend to want to buy less of the product than they had intended (Yoon & Vargas 2011). This response seems almost perverse, but it certainly shows which type of discount a retailer should use.

Second-market discounting

Second-market discounting is common in some service industries and in international markets. The brand is sold at one price in one market and at a lower price in another: for example, museums offer discounts to students, some restaurants offer lunchtime discounts to elderly people on weekdays, and so forth. Often these discounts are offered to even out the **loading** on the firm; weekday discounts fill the restaurant on what would otherwise be a quiet day, so the firm makes more efficient use of the premises and staff.

In international markets, products might be discounted to meet local competition. For example, Honda motorcycles are up against strong local competition in India from Royal Enfield, so the price of their Royal Enfield Classic 500 motorcycle is around Rs178,000 (about £1,950). A similar Honda motorcycle in the UK costs around £4,700. The specifications of the motorcycles do differ somewhat, and the import duty structures are different – however, it is difficult to see any difference that would account for a £2,750 price differential.

Competitor-based pricing

Competitor-based pricing recognises the influence of competition in the marketplace. Strategically, the marketer must decide how close the competition is in providing for the consumers' needs; if the products are close, then prices will need to be similar to those of the competition. A **meet-the-competition strategy** has the advantage of avoiding price wars and stimulating competition in other areas of marketing, thus maintaining profitability. An **undercut-the-competition strategy** is often the main plank in the firm's marketing strategy; it is particularly common among retailers who have relatively little control over product features and benefits and often have little control over the promotion of the products they stock. Some multinational firms (particularly in electronics) have the capacity to undercut rivals since they are able to manufacture in low-wage areas of the world or are large enough to use widespread automation. There is a danger of starting price wars when using an undercutting policy (see penetration pricing below).

Firms with large market shares often have enough control over their distribution systems and the production capacity within their industries to become **price leaders**. Typically, such firms can make price adjustments without starting price wars and can raise prices without losing substantial market share (see Chapter 2 for monopolistic competition) (Rich 1982). Sometimes these price leaders become sensitive to the price and profit needs of their competitors, in effect supporting them, because they do not wish to attract the attention of monopoly regulators by destroying the competition. Deliberate price fixing (managers colluding to set industry prices) is illegal in most countries.

Penetration pricing

Penetration pricing is used when the firm wants to capture a large part of the market quickly. It relies on the assumption that a lower price will be perceived as offering better value for money (which is, of course, often the case).

For penetration pricing to work, the company must have carried out thorough research to find out what the competitors are charging for the nearest similar product. The new product is then sold at a substantially lower price, even if this cuts profits below an acceptable level; the intention is to capture the market quickly before the competitors can react with even lower prices. The danger with this pricing method is that competitors may be able to sustain a price war for a long period and will eventually bankrupt the incoming firm. It is usually safer to compete on some other aspect of the offering, such as quality or delivery.

Penetration pricing is often used for fast-moving consumer goods in supermarkets in order to encourage consumers to try new products. However, this is usually only as an introductory offer and must be promoted as such, otherwise customers will not want to start to pay a higher price later on, when the actual price is put in place.

Predatory pricing

In some cases, prices are pitched below the cost of production. The purpose of this is to bankrupt the competition so that the new entrant can take over entirely; this practice is called **predatory pricing** and (at least in international markets) is illegal. Predatory pricing was successfully used by Japanese car manufacturers when entering European markets in the 1970s, and is commonly used by large firms that are entering new markets. For the strategy to be successful, it is necessary for the market to be dominated by firms that cannot sustain a long price war. It is worth doing if the company has no other competitive edge, but does have sufficient financial reserves to hold out for a long time. Naturally, this method is customer-oriented since it can work only by providing the customers with very much better value for money than they have been used to. The company will eventually raise prices again to recoup the lost profits once its market presence has been established, however.

The ultimate in predatory pricing is dumping. This is the practice of selling goods at prices below the cost of manufacture and was at one time commonly practised by Communist countries desperate for hard currency. Dumping is illegal under international trade rules, but is difficult to prove, and by the time the victim countries have been able to prove their case and have the practice stopped, it is usually too late.

Competitor-based pricing is still customer-oriented to an extent since it takes as its starting point the prices that customers are currently prepared to pay.

Setting prices

Price setting follows eight stages, as shown in Table 7.6.

Price setting can be complex if it is difficult to identify the closest competitors, but it should be borne in mind that no product is entirely without competition; there is almost always another way in which customers can meet the need supplied by the product. Also, different customers have different needs and therefore will have differing views on what constitutes value for money – this is why markets need to be segmented carefully to ensure that the right price is being charged in each segment. As in any question of marketing, it is wise to begin with the customer.

Table 7.6 Eight stages of price setting

Stage	Explanation
Development of pricing objectives	The pricing objectives derive from the organisation's overall objectives. Does the firm seek to maximise market share or maximise profits?
Assessment of the target market's ability to purchase and evaluation of price	Buyers tend to be more sensitive to food prices in supermarkets than to drinks prices in bars and restaurants. Also, a buyer's income and availability of credit directly affect the ability to buy the product at all.
Determination of demand	For most products demand falls as price rises. This is not necessarily a straight-line relationship, nor is the line necessarily at 45 degrees; for some products even a small price rise results in a sharp fall in demand (e.g. fast-moving consumer goods), whereas for other products (e.g. petrol) even a large price rise hardly affects demand at all.
Analysis of demand, cost and profit relationships	The firm needs to analyse the costs of producing the item against the price that the market will bear, taking into account the profit needed. The cost calculation will include both the fixed costs and the unit costs for making a given quantity of the product; this quantity will be determined by the market and will relate to the selling price.

Table 7.6 continued

Stage	Explanation
Evaluation of competitors' prices	This will involve a survey of the prices currently being charged, but will also have to consider the possible entry of new competitors. Prices may be pitched higher than those of competitors to give an impression of exclusivity or higher quality; this is common in the perfume market and in services such as restaurants and hairdressing.
Selection of a pricing policy	The pricing policy needs to be chosen from the list given in the early part of the chapter.
Development of a pricing method	Here the producer develops a simple mechanism for determining prices in the future. The simplest method is to use cost-plus or mark-up pricing; these do not take account of customers, however, so something a little more sophisticated should be used if possible.
Determining a specific price	If the previous steps have been carried out in a thorough manner, determining the actual price should be a simple matter.

Source: Adapted from Dibb *et al.* (1994).

CASE STUDY 7 KFC

KFC began life as Kentucky Fried Chicken, and was founded in 1952 by Colonel Harland Sanders. The 'Colonel' title was an honorary one: he was not a military man, but had been compelled to earn his own living from an early age due to the untimely death of his father. His mother taught him to cook since he had the responsibility of looking after his younger brothers and sisters.

During the 1930s Sanders ran a petrol station in Kentucky, and served basic meals to motorists. His pan-fried chicken proved extremely popular, but he was concerned about the time it took to prepare: preparing it in advance, or deep-frying the chicken rather than pan-frying it, reduced the quality of the finished meal. In 1939, the first commercial pressure cookers became available: although they were intended for steaming foods, Sanders hit on the idea of pressure-frying the chicken, which greatly reduced the cooking time. This technique is still used in KFC restaurants.

Sanders had finalised the formula for the coating on the chicken in 1940: the recipe remains a trade secret. He used the recipe in his own restaurants, but after the War he hit on the idea of franchising the concept, and restaurants began to open all over the United States. Sanders sold the chain in 1964: he was then 74 years old, and was finding the strain of running a large franchise too much.

KFC's flagship product is, of course, pan-fried chicken. The pricing varies across the chain: in some cases, the location of the restaurant may mean that it incurs higher costs, and franchisees are allowed to vary the product offering and the pricing to some extent to reflect this. However, the big difference in price happens in international markets.

For example, a ten-piece bucket of KFC's chicken would cost around £13.50 in the UK: in the United States it would cost around £10. In Denmark an equivalent bucket sells for £17, and in Bangalore it would cost around £4.50. Incidentally, reviews of the Bangalore restaurant say that it is overpriced – a KFC consumer in Copenhagen might well disagree.

Clearly there are differences in relative costs in each country, but it is hard to see why the costs in the United States would be 30 per cent lower than those in the UK, and given the world price of chicken, it seems unlikely that Indians can buy raw chicken for one-third the price a UK buyer would pay. Plus, of course, the secret coating is supplied by KFC itself, so would come in at a standard cost for all restaurants.

KFC is a very successful company in international markets. Currently, China is its biggest market: KFC was the first Western fast-food chain to enter the Chinese market, and it has more branches there than in the USA. In China, the equivalent of the ten-piece bucket would cost around £4: however, the chicken pieces tend to be smaller. China is regarded as an extremely price-sensitive market, and KFC entered into a small price war with McDonald's. McDonald's has certainly met with considerable problems in becoming established: KFC has convincingly won the market from McDonald's.

Pricing in the fast-food business is not straightforward. Costs vary in different locations, and the price-sensitivity of customers also varies: competitive influences might affect the pricing approach, and currency fluctuations might also add to costs. KFC seems to have overcome these difficulties very well – and has consequently secured a strong foothold in markets worldwide.

Case study questions

1 How can the company justify such large differences in price for what is substantially the same product?
2 Why would KFC enter the Chinese market when the price for the product has to be kept so low?
3 What factors should KFC take into account when deciding on the pricing of its products in a new market?
4 Why did KFC enter into a price war in China?
5 What might be the effect on sales worldwide if KFC was to adopt a cost-plus pricing method?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

Tickets for sports and music events can be rather expensive particularly when big-name bands and high-profile sports teams are involved.

Consumers have become increasingly upset by additional fees such as delivery charges and booking fees which aren't always highlighted until the final stage of the sale. This can make an already highly priced ticket even more expensive.

In 2018 the Advertising Standards Authority (ASA) ruled that ticket sales organisations such as Viagogo, GetMeIn and StubHub must make ticket prices clearer. Now all taxes and fees have to be clearly stated at the start of the ticket-purchase journey.

Another issue that also made news headlines in 2018 was regarding the resale of tickets, where ticket touts and others hoping to make a quick profit have resold tickets way above the original ticket price.

The Irish Government banned the resale of tickets for more than face value and well-known artists such as Adele and Ed Sheeran chose to use Twickets as their official resale partners, so that if their fans were no longer able to use their tickets, they could sell them to other fans at a reasonable price. Furthermore, Swiss-based Viagogo were being investigated by the UK's Competition and Markets Authority (www.bbc.co.uk).

In response to such events, Ticketmaster announced that it would close its resale sites Seatwave.com and GetMeIn.com in October 2018 in an attempt to prevent ticket touts and secondary websites profiting through charging extortionate prices for tickets. Instead, Ticketmaster allows people to re-sell on their own site for the face value price or less.

For the time being fans and ticket touts will still be able to sell for a profit on rival resale services, but should more be done to combat this? Is it an ethical practice or is it just people being entrepreneurial?

Summary

Value for money is a subjective concept; each person has a differing view of what represents value for money, and this means that different market segments will have differing views on whether a given price is appropriate. Marketing is about encouraging trade so that customers and manufacturers can maximise the satisfaction gained from their activities; to this end, marketers always try to make exchanges easier and more pleasant for customers.

Here are the key points from this chapter:

- Prices, ultimately, are fixed by market forces, not by suppliers alone. Therefore suppliers would be ill-advised to ignore the customer.
- There is no objective difference between necessities and luxuries; the distinction lies only in the mind of the customer.
- Customers cannot spend the same money twice, so they are forced to make economic choices. A decision to do one thing implies a decision not to do another.
- Customers have a broad and sometimes surprising range of choices when seeking to maximise utility.
- Pricing can be cost-based, competitor-based or customer-based; ultimately, though, consumers have the last word because they can simply spend their money elsewhere.

Chapter questions

Understanding the basics

1. What is the difference between margin and mark-up?
2. When should a skimming policy be used?
3. How can penetration pricing be used in international markets?
4. Why should a firm be wary of cost-plus pricing?
5. How does customary pricing benefit the supplier?
6. What role does customer perception play when setting prices?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1. Price is often regarded as a financial decision rather than a marketing one. Critically evaluate this notion, explaining why pricing is a fundamental element of the marketing mix.

Action learning

1. Choose a product category such as soft drinks or shampoo. Now visit a store (either physically or online) and list the prices for each competing brand within that product category.
   - a Have a look at each product. Think about the packaging and consider the image that the brand is trying to portray. Is it a premium product, a value product etc.?
   - b Now compare each product. Think about the price point for each of those brands. Does the price reflect the image? What price would you be willing to pay? At what price would you stop paying for that product? What pricing strategy has been used for each product?
   - c Now, imagine you were introducing a new brand in your selected product category. What pricing strategy/method would you use and why?

Further reading

For a fairly readable text on the economic aspects of pricing, **Richard Lipsey and Alec Chrystal's *Economics*, 13th edn** (Oxford University Press, 2015) is worth looking at.

A comprehensive text that focuses on making strategic pricing decisions that manage customer perceptions of value and motivate purchasing decisions is by **Thomas Nagle and Georg Muller, *The Strategy and Tactics of Pricing: A Guide to Growing More Profitably*, 6th edn** (Routledge, 2017).

A useful text, which offers a comprehensive perspective on pricing theory and practice is by **Tim Smith, *Pricing Strategy: Setting Price Levels, Managing Price Discounts and Establishing Price Structure*** (Cengage Learning, 2015).

Peter Hills' ***Pricing for Profit: How to Develop a Powerful Pricing Strategy for Your Business*** (Kogan Page, 2013) is a practitioner-style book which contains useful easy-to-read information on how pricing works within organisations.

Koschate-Fischer, N. and Wullner, K.: 'New developments in behavioural pricing research,' ***Journal of Business Economics*, 87** (6) (2017), pp. 809–75 is a really comprehensive paper which looks at a large range of different pricing methods.

Ronald Schlinder has written a number of papers on psychological pricing which are well worth a read. He has particularly focused on the impact of psychological pricing in international markets. One such paper is **Schlinder, R.M.: 'The 99 price ending as a signal of low-price appeal,'** ***Journal of Retailing*, 82** (1) (2006), pp. 71–7.

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8

Distribution

Objectives

After reading this chapter you should be able to:

- Understand the role of distribution as providing an integral part of the product's benefits
- Explain the way agents, wholesalers and retailers work in the distribution system
- Choose the best distribution channel for a given market segment and product
- Explain some of the challenges facing retailers
- Know what to expect of different types of wholesaler
- Understand the difference between logistics and distribution.

Introduction

Producing something that consumers would like to buy is only part of the story; people can only buy products that are available and easily obtained. In terms of the seven Ps, distribution is the means by which place is determined. Marketers therefore spend considerable effort on finding the right channels of distribution and on ensuring that the products reach consumers in the most efficient way.

In business-to-business marketing, distribution is often the real key to success. Business buyers may buy through agents or wholesalers rather than direct from producers, so that tapping into a good distribution network is the most important step a company can take.

Logistics versus distribution

Physical distribution is concerned with the ways organisations position physical products at a point where it is most convenient for consumers to buy them. *Logistics* takes a wider view; originally based on military terminology, logistics is concerned with the process of moving raw materials through the production and distribution processes to the point at which the finished product is needed. This involves strategic decision-making about warehouse location, materials management, stock levels and information systems. Logistics is the area in which purchasing and marketing overlap.

In some ways the physical distribution of a product is part of the bundle of benefits that make up that product. For example, a jacket bought online offers convenience benefits which a chain-store jacket does not. Conversely, the chain-store purchase may include hedonic benefits (the fun of shopping around, the excitement of finding a real bargain), which the Internet retailer does not supply. Even when the actual jacket is identical, the benefits derived from the distribution method are different.

The purpose of any physical distribution method is to get the product from its point of production to the end consumer efficiently and effectively. The product must arrive in good condition and fit the consumer's need for convenience, or cheapness, or choice, or whatever else the particular target market thinks is important. Thus, from a marketing viewpoint, the subject of distribution covers such areas as transportation methods, wholesaling, high street retailing, direct mail marketing and even farm-gate shops.

Physical distribution is to do with transportation methods; **distribution strategy** decisions are about which outlets should be used for the product.

Transportation methods

Transportation methods vary according to speed, cost and ability to handle the type of product concerned. As a general rule, the quicker the method the more expensive it is, but in some cases it may be cheaper to use a faster method because the firm's capital is tied up for less time. The same applies to perishable items.

Factos such as the physical characteristics of the product, the methods used by the competition, the cost of the transportation method, reliability of the channel, traceability and the level of customer service equired. In all these cases, there will be trade-offs involved. Greater customer service will almost always be more expensive; greater reliability may increase transit time, as will greater **traceability** because in most cases the product will need to be checked on and off the transport method chosen. As with any other aspect of marketing activity, the customer's overall needs must be taken into account, and the relative importance of those needs must be judged with some accuracy if the firm is to remain competitive.

Distribution channels

Transportation method is also affected by the **channel of distribution**, or marketing channel. Figure 8.1 shows some of the possible channels of distribution that a consumer product might go through.

The choice of delivery method will depend on a number of factors: first, the type of product. For fragile products such as glass, distribution chains need to be short. For perishable goods such as flowers and fresh vegetables, speed is important – in some cases, airfreight is actually cheaper than surface transport because of reduced spoilage.

Second, cost is obviously a factor. Again, the cheapest may not be the most cost-effective: for high-value items, having capital tied up for a long time may mean that surface transport is more expensive than air freight.

Third, reliability and security will be major considerations for transport of medical supplies or valuable cargoes. Traceability is also a factor here – knowing where the shipment is at all times might be crucial to planning.

Fourth, customer service level is a factor. For most manufacturers, just-in-time production methods mean that components must arrive within a narrow time-frame: major car manufacturers, for example, only carry a few hours' worth of components as a buffer against late deliveries.

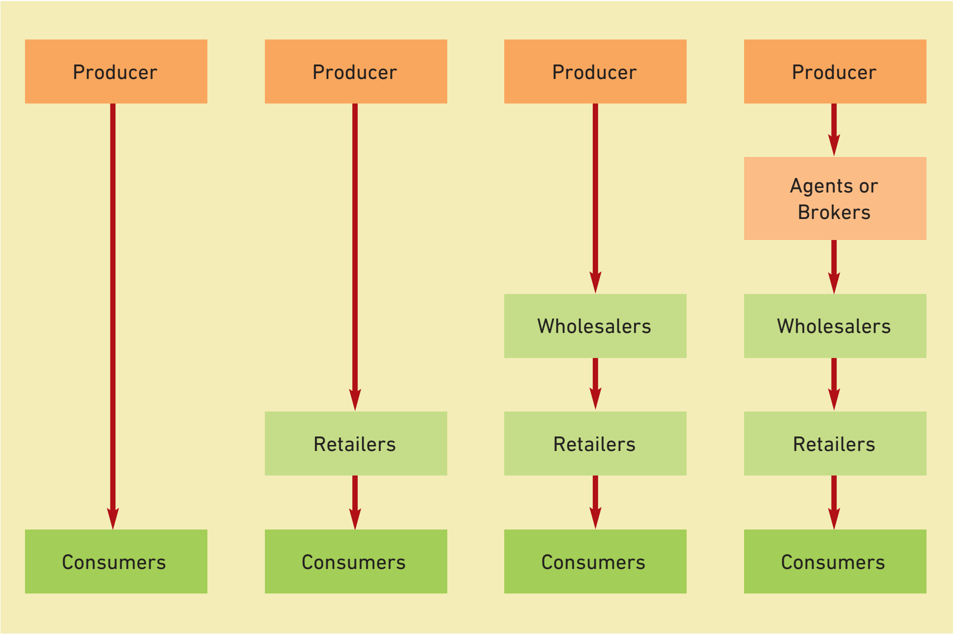
Finally, the methods used by the competition may affect the decision. Using a method that competitors have not yet considered or cannot imitate may well provide a competitive edge.

Products are not always delivered directly from producer to consumer, but instead pass through the hands of wholesalers, agents, factors or other middlemen. For example, it is hardly likely to be very efficient for a tuna importer to deliver directly to every small grocery business in the country. (It would be even less efficient to deliver to each consumer.) The importer will probably employ an **agent** (who will be working for several manufacturers) to take orders from wholesalers. The importer will bulk-deliver the tuna to the **wholesalers**, who will then break the delivery down to send out to the **retailers**. The wholesaler will either deliver to the retailers along with the products of many other importers and manufacturers or will offer a cash-and-carry service so that the retailers can make all their supply purchases in one trip. The net result is a great saving in time since the trucks are not going perhaps hundreds of miles with one case of tuna on board.

In fact, food frequently passes through lengthy and complex distribution systems. Each intermediary in the process performs a useful function, increasing the efficiency of the exchanges. Table 8.1 shows some of the functions carried out by intermediaries.

'Cutting out the middleman' is popularly supposed to be a way of buying things cheaper. In fact, for most products where agents and wholesalers are used, the savings made by greater efficiency more than cover the cost of the extra mark-up on the

Figure 8.1 Channels of distribution



Source: Dibb *et al.* (1998).

product. This means that cutting out the middleman is more likely to increase the cost of the product.

Direct producer-to-consumer channels are typical of personal services such as hairdressing, where use of intermediaries would be impossible, and of major capital

Table 8.1 Functions of channel members

Function	Explanation
Sorting out	Separating out heterogeneous deliveries into homogeneous ones. For example, sorting a tomato crop into those suitable for retail sale and those suitable only for juice production.
Accumulation	Aggregating small production batches into amounts big enough to be worth shipping. Forwarding agents will arrange for small exporters to share a container, for example.
Allocation	Breaking down large shipments into smaller amounts. A wholesaler receiving a truckload of baked beans will sell them on a case at a time. This is also called bulk breaking.
Assorting	Combining collections of products that will appeal to groups of buyers. For example, clothes shops stock clothes from many manufacturers; food cash-and-carry wholesalers will specialise in all the products needed by caterers and grocers, including shop signs and plastic knives and forks.

Critical thinking

If cutting out the middleman is such a bad idea, why do companies often advertise it as if it's an advantage? And if it reduces efficiency, why have so many developed interactive websites so that people can order online?

Is it actually cheaper to order online (taking account of delivery costs) or is it more about convenience? And how convenient is it, in fact, when one may have to visit several websites to buy items which are available in one convenient retail store – why not just stop on the way home from work and browse? Perhaps it depends on one's personal circumstances.

purchases such as houses or home improvements. This is because these products cannot be broken down into smaller units, or assorted, or accumulated. There is therefore no function for the middlemen to fulfil. There is also an increasing number of companies selling products and services online and cutting out the middleman: this reduces the need for storing stock in large warehouses or retail outlets and creates the opportunity to offer cheaper prices to the consumer and/or a greater profit margin for the seller.

If the distribution network is efficiently managed, goods come down the channel and information goes up. Retailers can feed back information about what consumers need, either *formally* (by carrying out a monitoring exercise and passing the information to the manufacturer or wholesaler) or *informally* (since retailers order only what is selling, producers can infer what is required by the consumers). A good salesperson will also act as an information channel and will find out from the retailers what they think consumers want, as well as convey information from the manufacturers to the retailer.

Major manufacturers often have several distribution channels, catering for different market segments. Food processing firms will usually have separate channels for caterers and for retailers; car manufacturers may deal directly with large fleet operators rather than operating through their retail dealer network; electronics manufacturers may have one channel for consumer products and another for defence products.

Table 8.2 shows the functions of some of the members of a channel of distribution.

Wholesalers

Wholesalers carry out the following functions:

- Negotiate with suppliers
- Some promotional activities: advertising, sales promotion, publicity, providing a salesforce

Table 8.2 Categories of channel members

Channel member	Function
Agents	Agents usually act purely as a sales arm for the manufacturer, without actually buying the products. The agent never takes title to the goods; agency sales representatives call on major retailers and on wholesalers on behalf of a number of manufacturers, and take orders and arrange delivery. This saves the manufacturer the cost of operating a large salesforce to carry perhaps only a small product range. This is often a useful channel for producers who wish to enter international markets that they know little about, as they will have a good knowledge of the relevant marketplace.
Wholesalers	Wholesalers actually buy the goods from the manufacturers, often through an agent, then sell the goods on to the retailers or sometimes the final consumers.
Retailers	A retailer is any organisation that offers goods directly to consumers. This includes mail-order companies, door-to-door salespeople and e-commerce organisations selling over the Internet.

- Warehousing, storage and product handling
- Transport of local and sometimes long-distance shipments
- Inventory control
- Credit checking and credit control
- Pricing and collection of pricing information, particularly about competitors
- Channel of information up and down the distribution network, again particularly with regard to competitors' activities.

All of these functions would have to be carried out by each manufacturer individually if the wholesaler did not exist; by carrying them out on behalf of many manufacturers, the wholesaler achieves economies of scale which more than cover the profit taken.

The wholesaler also provides services to retailers, as follows:

- Information gathering and dissemination
- One-stop shopping for a wide range of products from a wide range of manufacturers
- Facilities for buying relatively small quantities
- Fast deliveries – often cash-and-carry
- Flexible ordering – can vary amounts as demand fluctuates.

Again, from the retailer's viewpoint it is much more convenient and cheaper to use a wholesaler. Only if the retailer is big enough to order economic quantities direct from the manufacturer will it be worthwhile to do so. For example, few hairdressers are big enough to order everything direct from the manufacturers, so a large part of a salon's stock-in-trade is bought from wholesalers. Similarly, small independent convenience stores will not be able to go straight to the manufacturer to buy their goods, instead they can purchase a range of products from a wholesaler.

There are many different types of wholesaler:

- **Merchant wholesalers** buy in goods and sell directly to retailers, usually delivering the goods and having a salesforce calling on retailers in their area.
- **Full-service merchant wholesalers** provide a very wide range of marketing services for retailers, including shop design, sales promotion deals, advertising (sometimes nationally), coupon redemption, own-brand products and so forth. A good example is Spar, the grocery wholesaler, which supplies corner shops throughout the UK and parts of the rest of Europe. The shops carry the Spar logo and stock Spar's own-brand products, but each shop is individually owned and managed.
- **General-merchandise wholesalers** carry a wide product mix, but little depth, dealing mainly with small grocery shops and general stores. They operate as a one-stop shop for these retailers. Cash-and-carry warehouses are a good example.
- **Limited-line wholesalers** offer only a limited range of products, but stock them in depth. They are often found in industrial markets, selling specialist equipment (such as materials handling equipment) and offering expertise in the field.
- **Speciality line wholesalers** carry a very narrow range, for example concentrating on only one type of food (e.g. tea). They are typically found dealing in goods that require special knowledge of the buying, handling or marketing of the product category.
- **Rack jobbers** own and maintain their own stands or displays in retail outlets. Typical products might be cosmetics, tights or greetings cards. The retailer pays only for the goods sold, and usually does not take title to the goods – this can be a big saving in terms of capital and, since the rack jobber undertakes to check the stock and restock where necessary, the retailer also saves time.
- **Limited-service wholesalers** take title to goods, but often do not actually take delivery, store inventory or monitor demand. A typical example might be a coal wholesaler, who buys from a producer and arranges for the coal to be delivered direct to coal merchants, without the coal first being delivered to the wholesaler.
- **Cash-and-carry wholesalers** offer a way for wholesalers to supply small retailers at minimum cost. The cash-and-carry wholesaler operates like a giant supermarket; retailers call, select the cases of goods needed and pay at a checkout, using their own transport to take the goods back to their shops. This is an extremely flexible and efficient system for both parties.

- **Drop shippers** (or *desk jobbers*) obtain orders from retailers and pass them on to manufacturers, buying the goods from the manufacturer and selling to the retailer without ever actually seeing the goods. The drop shipper provides the salesforce and takes on the credit risk on behalf of the manufacturer, but does not have the storage costs or the overheads of a merchant wholesaler.
- *Mail-order wholesalers* use catalogues to sell to retailers and industrial users. This avoids the use of an expensive salesforce and works best for dealing with retailers in remote areas. Goods are dispatched through the post or by commercial carriers; these wholesalers take title to the products.

To summarise, wholesalers perform a wide variety of functions, all aimed at making the exchange of goods easier and more efficient. This leaves manufacturers free to concentrate resources on improving production efficiencies and the physical product offering, and retailers free to concentrate on providing the most effective service for the consumer.

Retailers

Retailers deal with any sales that are for the customer's own use, or for the use of family and friends. In other words, any purchases that are not for business needs are the domain of the retailer.

Therefore, a retailer is not necessarily a high street shop or a market trader; mail order catalogues, TV phone-in lines, online retailers such as Amazon and even door-to-door salespeople are all retailers. Companies such as Avon (which sells cosmetics through party plan and door-to-door agents) are as much retailers as Lidl, Aldi or Tesco, even though the product is sold in the customers' own homes.

Traditionally most retail outlets have been in city centres or suburban high streets. Partly this was for convenience, so that shoppers had a central area to visit for all their shopping requirements, and partly it was due to planning regulations which zoned most retail shops in traditional retail areas, away from industrial parks and housing estates.

More recently, out-of-town hypermarkets, shopping parks and designer outlets (out-of-town shopping centres selling discounted designer and high street products) have been growing up. This is in response to the following factors:

- Greater car ownership means an increase in **outshopping** (shopping outside the area where the consumer lives). The cost of inner-city parking and the fact most shopping parks offer free parking has also had a major influence on outshopping.
- High city-centre rents and property taxes make out-of-town sites more attractive for retailers.
- Town planners have used retail parks as a way of regenerating decaying industrial sites on the edges of towns.

Such out-of-town sites have not necessarily damaged all town-centre retailers, although there has been a shift in the composition of city-centre retail districts. For example, food retailers have largely gone from central sites in major cities, except for delicatessens and speciality food outlets. In the United Kingdom, supermarket chains Tesco, Sainsbury's as well as Marks & Spencer have begun to reverse this trend, with the establishment of Tesco Express, Sainsbury's Local and Marks & Spencer Simply Food stores in city centres. These stores carry a limited range of products, often in smaller pack sizes, and aim at office workers shopping in their lunch hours or convenience shopping.

Here are some descriptions of different types of retail outlet:

- **Convenience stores**, or corner shops, offer a range of grocery and household items. These local shops often open until late at night. They are usually family-run; approximately 75 per cent of convenience stores are owned by independent shopkeepers. They often belong to a trading group such as Spar, Nisa, Londis or One Stop and cater for last-minute and emergency purchases. In recent years, the convenience store sector has seen a good deal of growth as shopping behaviour has shifted from large weekly shops to consumers typically making smaller more frequent purchases.
- **Supermarkets** are defined as large self-service shops which rely on selling at low prices. Typically they are well laid-out, bright, professionally run shops carrying a wide range of goods.
- **Hypermarkets** are even bigger supermarkets, usually in an out-of-town or edge-of-town location. A typical hypermarket would carry more than 200,000 lines at any one time. The true hypermarket sells everything from food to TV sets.
- **Department stores** are located in city centres and sell everything; each department has its own buyers and functions as a separate profit centre. Examples are Harrods of London and El Corte Inglés in Spain. Within department stores, some functions are given over to **concessionaires**, who pay a rental per square foot plus a percentage of turnover to set up a store-within-a-store. Miss Selfridge, Warehouse, Faith Footwear and Ted Baker all operate in this way within department stores. The trend is towards allowing more concessionaires, and around 70 per cent of Debenham's floor space is allocated in this way.
- **Variety stores** offer a more limited range of goods, perhaps specialising in clothes (e.g. Primark) or in books and stationery (e.g. WHSmith).
- **Discounters** (sometimes called baby sharks) are grocery outlets offering a minimum range of goods at very low prices. Often the decor is basic, the displays almost non-existent and the general ambience one of pile-it-high-and-sell-it-cheap. German retailers Lidl and Aldi are examples of this approach; such stores typically carry only 1,300 lines or so.
- **Niche marketers** stock a very limited range of products, but in great depth. Examples are Accessorize, Body Shop and Lush. They frequently occupy tiny shops (even kiosks at railway stations) but offer every possible type of product

within their very narrow spectrum. Niche marketers were the success story of the 1980s but declined somewhat during the 1990s.

- **Discount sheds** are out-of-town DIY and hardware stores. They are usually businesses requiring large display areas, but with per-square-metre turnovers and profits that do not justify city-centre rents. Service levels are minimal, the stores are cheaply constructed and basic in terms of decor and ambience, and everything is geared towards minimising the overhead.
- **Catalogue showrooms** have minimal or non-existent displays and are really an extension of the mail-order catalogue. Customers buy in the same way as they would by mail order, by filling in a form, and the goods are brought out from a warehouse at the rear of the store. These outlets usually have sophisticated electronic inventory control. A good example of this would be Argos.
- **Non-store retailing** includes door-to-door selling, vending machines, telemarketing (selling goods by telephone), mail order and catalogue retailing. **Telemarketing** may be inbound or outbound; inbound means that customers telephone the retailer to place an order, whereas outbound means the retailer telephones potential customers to ask them to buy. Outbound telemarketing has grown in the UK in recent years; it can be used to make appointments for sales representatives to call for products such as fitted kitchens or double glazing, and is also used for direct selling of some items which are then delivered by mail. In general, it is unpopular with customers and, in both the USA and the UK, systems have been set up to allow people to be removed from the lists of telesales companies. In the UK, the system is the Telephone Preference Service (TPS); firms that continue to call after someone has registered with the TPS can be fined, although in practice this is rare. The TPS has no power to prevent people being telephoned from outside the UK, nor does it have any power to curb companies with whom the person has an existing relationship: for example, the individual's bank or electricity supply company.

E-commerce refers to retailing over the Internet. In its early days, e-commerce was dominated by business-to-business marketing, but dot.com firms such as Amazon.com, lastminute.com and priceline.com quickly made inroads into consumer markets. The growth of such firms is limited mainly by the growth in Internet shoppers; as more people feel comfortable about shopping online, the potential market increases and is likely to do so for the foreseeable future. The other main limiting factor is the degree to which people enjoy the process of shopping in the traditional way – factors such as a social experience outside the home, the pleasure of bargaining, diversion and sensory stimulation are all likely to ensure that people will continue to enjoy visiting traditional retail stores. Traditional retailers have not been slow to respond to the perceived threat, however; many retailers now offer an Internet service, with free delivery. The Internet is more likely to be used when the customer has high levels of experience with the product and the Internet, and a low perceived risk; conventional retailers or call centres are more likely to be used when the customer has low experience levels and high perceived risk (Rhee 2010).

Because consumer needs change rapidly, there are fashions in retailing (the rise and fall of niche marketing and the growth of convenience stores demonstrate this). Being responsive to consumer needs is, of course, important to all marketers, but retailers are at the 'sharp end' of this process and need to be able to adapt quickly to changing trends. The following factors have been identified as being crucial to retail success:

- *Location.* Being where the consumer can easily find the shop – in other words, where the customers would expect such a shop to be. A shoe shop would typically be in a high street or city-centre location, whereas a furniture warehouse would typically be out of town.
- *Buying the right goods in the right quantities* to be able to supply what the consumer wants to buy.
- *Offering the right level of service.* If the service level is less than the customer expects, he/she will be dissatisfied and will shop elsewhere. If the service level is too high, the costs increase and the customer may become suspicious that the prices are higher than they need be. Discount stores are expected to have low service levels and consumers respond to that by believing that the prices are therefore lower.
- *Store image.* If the shop and its goods are upmarket, the image in the consumer's mind must be too. As with any other aspect of the product, the benefits must be as expected or post-purchase dissonance will follow. Trust in the store extends to trust in the store's own-brand goods (see Chapter 6); conversely, mistrust will reduce intention to buy the retailer's own brands (LaForet 2008).
- *Atmospherics.* These are the physical elements of the shop design that encourage purchase. Use of the right colours, lighting, piped music, odours and even flooring can greatly affect purchasing behaviour (Bitner 1992; Imschloss & Kuehnl 2017). For example, playing slow-tempo music to a supermarket queue makes people feel more relaxed and satisfied and also makes the waiting time seem shorter; however, music played when the supermarket is overcrowded can make people irritable (Oakes & North 2008). Atmospherics can be developed on the Internet also: for example, Kluge *et al.* (2013) suggest that organisations selling luxury goods should use darker backgrounds, a horizontal navigation bar and a reduction of the elements displayed on the pages.
- *Product mix.* The retailer must decide which products will appeal to its customers. Sometimes this results in the shop moving away from its original product range into totally unrelated areas.

Over the years, trends in retail have included use of EPOS (electronic point-of-sale) equipment and laser scanners to speed up checkout queues (and, incidentally, to save staffing costs), home delivery and the widespread use of **loyalty cards**. These cards give the customer extra discounts based on the amount spent at the store over a given period. The initial intention is to encourage customers to buy at the same store all the time to obtain the discounts, and in this sense the cards are really just another sales promotion. This type of loyalty programme, involving economic benefits, does have a positive effect on customer retention. The schemes also tend to help in terms of increasing the retailer's share of the customers (Verhoef 2003), particularly when the rewards are more personalised to the individual shopper (Wierich & Zielke 2014).

EPOS technology has enabled organisations to keep very detailed records of each customer's buying habits and to establish the purchasing pattern, based on the EPOS records. Theoretically, this could mean that customers could be reminded at the checkout that they are running low on certain items, since the supermarket computer would know how frequently those items are usually bought. The phrase 'Domesday marketing' has been coined by Professor Martin Evans to describe this; whether it could be seen as a useful service for consumers or as an unwarranted invasion of privacy remains a topic for discussion (Evans 1994). Loyal customers tend to be attracted to store brands during promotional periods, presumably because they trust the store (Rajagopal 2008).

Perception is important in the retail environment. Store atmospherics have already been mentioned, but people also like to be able to touch products, open the boxes and see what they are buying. This can cause problems, since people will tend to open the box to examine the product but then take an unopened box to the checkout. The opened box will probably not sell until it is the last one, since people tend to believe that the product is contaminated and no longer new if other people have handled it. This phenomenon is known as shop soiling, but is explained by anthropologists in terms of magic: the 'contaminated' product has had part of the essence of the other shopper transferred to it (Argo *et al.* 2006).

Retailer power has become an increasing problem in recent years. Many retailers (particularly supermarkets) have been criticised for the pressure they put on manufacturers to maintain low prices. This has resulted in many manufacturers and suppliers being pushed out of the marketplace and in some cases having to close their operations.

Selecting channels

Choosing a channel involves a number of considerations. These are as follows:

- Whether to use a single channel, or several channels
- Location of customers
- Compatibility of the channels with the firm
- Nature of the goods
- Geographic, environmental and terrain decisions
- Storage and distribution issues
- Import and export costs.

Above all, of course, the firm must begin by considering the customers' needs. Having said that, the needs of channel members will also be involved since they are unlikely to cooperate if their needs are not considered.

Using a single channel clearly provides the channel members with the security of knowing that they will not be competing with other firms carrying the same product line. Some retailers insist on being given exclusive rights to the products they carry, so that they can make ‘price promises’ without fear of consumers actually being able to buy the identical product anywhere else, whether at a lower price or not. On the other hand, the needs of consumers are best met by having the product widely available.

Location of customers influences the channel as well as the physical distribution. Some channels might be unavailable in some countries – for example, distribution via the Internet is not viable in many African countries because few people are online and the road infrastructure makes delivery difficult.

Channels need to be compatible with the firm’s capability and size: small manufacturers can become overwhelmed by dealing with large retailers, for example.

The nature of the goods determines which type of retailer would be best. Sometimes firms have obtained a competitive advantage by using unusual routes to market – jewellery firms have distributed through hairdressing salons, for example.

Geographic and environmental (in the sense of business environment) considerations can render some routes unviable. For example, mail order in the United States became popular with people living in remote regions during the nineteenth century (a geographical consideration). Such people were unable to reach major stores easily and local stores were unable to carry all the products people might need. Mail order grew in Germany for a different reason; at one time, the business environment required retail stores to close at 5 pm and prohibited weekend opening except for one Saturday a month. This meant that most working people had serious difficulty in getting to shops, and mail order became a favourite way of buying almost everything.

Storage and distribution costs, particularly for overseas markets, may mean that a wholesaler becomes necessary simply because of the need to make a few large deliveries rather than many small ones. Likewise, if storage is expensive, an on-demand service such as that supplied by motor factors to small garages might be necessary.

Import and export costs, especially duties and tariffs, might mean that a local agent (or even a local assembly plant) might need to be used. Shipping costs are likely to make it more efficient to fill a shipping container rather than send small quantities at a time, but the nature of the product needs to be considered – perishable or expensive products might need to be sent immediately, rather than waiting until there are enough to fill a container.

Managing distribution channels

Channels can be led by any of the channel members, whether they are producers, wholesalers or retailers, provided that the member concerned has **channel power**. This power comes from seven sources, as shown in Table 8.3 (Michman & Sibley 1980).

Table 8.3 Sources of channel power

Economic sources of power	Non-economic sources of power	Other factors
Control of resources. The degree to which the channel member has the power to direct goods, services or finance within the channel	Reward power. The ability to provide financial benefits or otherwise favour channel members	Level of power. This derives from the economic and non-economic sources of power
Size of company. The bigger the firm compared with other channel members, the greater the overall economic power	Expert power. This arises when the leader has special expertise which the other channel members need	Dependency of other channel members
Referent power emerges when channel members try to emulate the leader		Willingness to lead. Clearly some firms with potential for channel leadership prefer not to have the responsibility or are unable to exercise the potential for other reasons
Legitimate power arises from a superior–subordinate relationship. For example, if a retailer holds a substantial shareholding in a wholesaler, it has legitimate power over the wholesaler		
Coercive power exists when one channel member has the power to punish another		

Channel cooperation is an essential part of the effective functioning of channels. Since each member relies on every other member for the free exchange of goods down the channel, it is in the members' interests to look after each other to some extent. Channel cooperation can be improved in the following ways:

- The channel members can agree on target markets, so that each member can best direct effort towards meeting the common goal.
- The tasks each member should carry out can be defined. This avoids duplication of effort or giving the final consumer conflicting messages.

A further development is **co-marketing**, which implies a partnership between manufacturers, intermediaries and retailers. This level of cooperation involves pooling of market information and full agreement on strategic issues (Marx 1995).

Channel conflict arises because each member wants to maximise its own profits or power. Conflicts also arise because of frustrated expectations; each member expects the other members to act in particular ways, and sometimes these expectations are unfulfilled. For example, a retailer may expect a wholesaler to maintain large enough stocks to cover an unexpected rise in demand for a given product, whereas the wholesaler may expect the manufacturers to be able to increase production rapidly to cover such eventualities.

An example of channel conflict occurred when EuroDisney (now Disneyland Paris) first opened. The company bypassed travel agents and tried to market directly to the public via TV commercials. Unfortunately, this did not work because at that time European audiences were not used to the idea of booking directly (and also were not as familiar with the Disney concept as American audiences), so few bookings resulted. At the same time Disney alienated the travel agents and had to expend considerable time and money in wooing them back again. This is a general problem for companies seeking to use multiple channels of distribution; if the company decides to deal direct with the public via its website or uses several different routes, existing channel members may feel that the relationship is being undermined. This does not mean that using multiple channels is impossible; it simply means that marketers need to be cautious not to damage the interests of existing channel members. In general, there is unlikely to be a problem if the new channels approach a segment of the market which the existing channels do not reach.

Channel management can be carried out by cooperation and negotiation (often with one member leading the discussions) or it can be carried out by the most powerful member laying down rules that weaker members have to follow. Table 8.4 shows some of the methods which can be used to control channels. Most attempts to control distribution by the use of power are likely to be looked on unfavourably by the courts, but of course the abuse of power would have to be fairly extreme before a channel member would be likely to sue.

Sometimes the simplest way to control a distribution channel is to buy out the channel members. Buying out members across a given level (for example, a wholesaler buying out other wholesalers to build a national network) is called **horizontal integration**; buying out members above or below in the distribution chain (for example, a retailer buying out a wholesaler) is **vertical integration**. An example of extreme vertical integration is the major oil companies, which extract crude oil, refine it, ship it and ultimately sell it retail through petrol stations. At the extremes,

Critical thinking

If controlling the channel is regarded as unfair, how about buyers who specify particular ways in which potential suppliers can approach them? Is it unreasonable to ask for salespeople to call on a particular day or only by appointment? Clearly not. But then, would it be unreasonable to expect suppliers to draw up detailed reports on their ability to meet delivery schedules and quality standards? Hmmm . . . perhaps. Would it be unreasonable to expect suppliers to provide copies of their accounts and allow the customer's auditors to check on the supplier's financial stability and probity? Well, maybe not. Would it be reasonable to use knowledge of a supplier's financial difficulties to force through lower prices? Maybe, maybe not.

Business isn't exactly a coffee morning, but there are ethical and practical issues at stake. Knowing where to draw the line might not be so easy.

Table 8.4 Channel management techniques

Technique	Explanation	Legal position
Refusal to deal	One member refuses to do business with one or more other members: for example, hairdressing wholesalers sometimes refuse to supply mobile hairdressers on the grounds that this is unfair competition for salons.	In most countries suppliers do not have to supply anybody with whom they do not wish to deal. However, grounds may exist for a lawsuit if the refusal to deal is a punishment for not going along with an anti-competitive ruling by a supplier or is an attempt to prevent the channel member from dealing with a third party with whom the manufacturer is in dispute.
Tying contracts	The supplier (sometimes a franchiser) demands that the channel member carries other products as well as the main one. If the franchiser insists that all the products are carried, this is called *full-line forcing*.	Most of these contracts are illegal, but are accepted if the supplier alone can supply goods of a given quality or if the purchaser is free to carry competing products as well. Sometimes they are accepted when a company has just entered the market.
Exclusive dealing	A manufacturer might prevent a wholesaler from carrying competitors' products, or a retailer might insist that no other retailer be supplied with the same products. This is often used by retailers to ensure that their 'price guarantees' can be honoured – obviously consumers will not be able to find the same product at a lower price locally if the retailer has prevented the manufacturer from supplying anybody else.	Usually these are legal, provided they do not result in a monopoly position in a local area: in other words, provided the consumer has access to similar products, there will not be a problem.
Restricted sales territories	Intermediaries are prevented from selling outside a given area. The intermediaries are often in favour of this idea because it prevents competition within their own area.	Courts have conflicting views about this practice. On the one hand, these deals can help weaker distributors and can also increase competition where local dealers carry different brands; on the other hand, there is clearly a restraint of trade involved.

this type of integration may attract the attention of government monopoly regulation agencies, since the integration may cause a restriction of competition.

Producers need to ensure that the distributors of their products are of the right type. The image of a retailer can damage (or enhance) the image of the products sold (and vice versa). Producers need not necessarily sell through the most prestigious retailer, and in fact this would be counter-productive for many cheap, everyday items. Likewise, a prestigious product should not be sold through a downmarket retail outlet.

In the long run, establishing good relationships between channel members will improve overall profitability for all members. As the relationship between members of the distribution channel becomes closer, power and conflict still remain important, but they are expressed in other ways and the negotiations for their resolution change in nature (Gadde 2004).

Efficient consumer response

Efficient consumer response (ECR) seeks to integrate the activities of manufacturers and retailers using computer technology; the expected result is a more responsive stocking system for the retailer, which in turn benefits the manufacturer. Some of the features of ECR are as follows:

- *Continuous replenishment* under which the supplier plans production using data generated by the retailer.
- *Cross-docking* attempts to coordinate the arrival of suppliers' and retailers' trucks at the distribution centres so that goods move from one truck to the other without going into stock. Although transport efficiency falls because a supermarket truck collecting (say) greengrocery might have to wait for several suppliers' trucks to arrive, the overall speed of delivery of products improves, which can be crucial when dealing with fresh foods.
- *Roll-cage sequencing* allows storage of products by category at the warehouse; although this adds to the labour time at the warehouse, it greatly reduces labour time at the retail store and also ensures less disruption in the store while customers are shopping.

The main problem with ECR is that it relies on complete cooperation between supplier and retailer. In any channel of distribution where the power base is unequal, this is less likely to happen; despite the overall savings for the channel as a whole, self-interest on the part of channel members may lead to less than perfect cooperation.

CASE STUDY 8 ASOS

ASOS is an online retailer of fashion items. The company has no high street stores, instead operating solely on the Internet: the name comes from As Seen On Screen (and is pronounced ACE-OSS).

The company was founded in 1999 by Quentin Griffiths and Nick Robertson, two young entrepreneurs who saw the potential for an online fashion shop. ASOS appeared one year after the launch of Boo.com, another online fashion retailer: the differences between the two firms could not have been much greater. While Boo.com focused on some very sophisticated technology to display the clothing and other items, ASOS focused on ensuring that the website was accessible. Boo.com's software relied on customers having cutting-edge computers in their homes, which, in 1998, simply wasn't the case. Most people found that the Boo.com website was either extremely slow to load, or didn't load at all: ASOS was simpler, clearer and faster.

The company grew rapidly as more young people obtained access to good computer equipment. The growth of Internet shopping has been largely driven by the young: people who have grown up with the technology have no problem in using it to shop, whereas many older people still have difficulty in trusting it. The company's smartphone app has been downloaded ten million times, making it a major source of business for the company.

ASOS have a fulfilment centre in Bradford from which the goods are dispatched to customers. Company headquarters are in Camden Town, London, and the company has a customer services department in Hertfordshire, in easy travelling distance from the headquarters. Being heavily centralised does bring problems: a major fire at a fuel depot near its Barnsley centre closed the company down for six weeks, and a fire in the centre itself stopped business for three days.

The return of unwanted goods is a major problem for any retailer, but for online retailers it can be a major cost factor. In fashion, the risk is that someone will order an item, wear it once (for example to a special event) and then return it. In the case of a high street retailer, this does not involve any great cost: if the item has been damaged, no refund need be made. For an online retailer, however, the company must bear the shipping costs of any returns, and should there be a dispute about damage to the product it would have to be carried out via email, rather than face to face with the evidence before both parties. Much depends on honesty, and for an online retailer this also entails maintaining a good reputation.

In the case of ASOS, the company has a large number of ways for customers to return goods should they need to. Customers can drop off parcels at various locations (usually small general stores or newsagents) which use courier services such as InPost, Doddle, Pass My Parcel and Hermes, or can simply use a Freepost label (which comes with the goods) and send the item back by Royal Mail. There is a cost attached to this, of course, which is covered by ASOS.

As one might expect, ASOS has a considerable presence on social media. The company has a Facebook page, and is active on Twitter as well as other social media sites. The company updates the sites and monitors comments in order to pick up any problems or complaints, and to tailor its offering to customers.

ASOS now has a worldwide presence, with fulfilment centres in the UK, USA, China, Russia and several other European countries. It carries over 80,000 items, and can deliver to 140 countries – more than two-thirds of the countries in the world. It has separate websites in English, Spanish, French, German, Italian, Russian and Chinese. Straightforward distribution and returns ensure that the company's customers retain confidence in the process – and all without any presence on the high street.

Case study questions

1 What difficulties might a supplier have in dealing with ASOS?

2 How might ASOS overcome the lack of social interaction involved in traditional retailing?

3 Why might the smartphone app have been such a success?

4 Why does ASOS emphasise the ease of returning goods?

5 What are the major strengths of online shopping compared with traditional high street shopping?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

Amazon started from humble beginnings, with its founder initially operating out of a garage selling books online. Clearly now it has been become an incredible success story, selling just about anything you could want.

However, many people believe that Amazon's massive expansion has contributed to the downfall of the traditional high street store due to Amazon's ability to charge low prices and deliver products quickly and efficiently.

Amazon originally relied on delivery companies to transport products to the end customers; now it has its own vast delivery network, with talk of drones being the next method of delivery that the company will use to cut costs further. So it is even changing the face of how products get from A to B.

Some say that Amazon has an unfair advantage, others believe it is an incredibly innovative company with a fantastic business model.

Is it fair to allow a large online organisation to expand in this way? Is it ethical?

Should more be done to protect traditional high street stores or should they be allowed to disappear?

Summary

This chapter has been about getting the goods to the consumer in the most efficient and effective way possible.

Here are the key points from this chapter:

- Distribution forms part of the product because it has benefits attached to it.
- The faster the transport, the more expensive in upfront costs but the greater the savings in terms of wastage and in capital tied up.
- Transport methods must consider the needs of the end user of the product.
- Cutting out the middleman is likely to increase costs in the long run, not decrease them.
- Retailing includes every transaction in which the purchase is to be used by the buyer personally or for family use.
- Retailing is not necessarily confined to high street shops.

Chapter questions

Understanding the basics

1. Under what circumstances might air freight be cheaper than surface transport?
2. How might wholesalers improve the strength of their position with retailers?
3. Why might a wholesaler be prepared to accept a restricted-territory sales agreement?

4 When should a manufacturer consider dealing direct with retailers?

5 When should a manufacturer consider dealing direct with the public?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1 Critically analyse the importance of distribution channels when developing a brand image.

2 Develop a critical discussion considering the impact of retailer power on distribution channels. Use relevant examples to illustrate your answer.

Action learning

1 Identify and examine at least three different PESTEL factors within the marketing environment. Perhaps have a look at a news website, a newspaper or relevant marketing publication to help you.

   a Now think about those PESTEL factors and evaluate how these factors might affect a company's distribution decisions.

   b In light of your research, what channels might you select if you were a marketer working for:

   - A soft drinks manufacturer
   - A sportswear manufacturer
   - A mobile phone company
   - A supermarket.

Further reading

***Sales and Marketing Channels: How to Build and Manage Distribution Strategy*, 3rd edn by Julian Dent and Michael White** (Kogan Page, 2018) offers an insight into the complexities and challenges facing businesses when considering routes to market as well as considering the impact of emerging business models and buying behaviours.

***Marketing Channel Strategy*, 8th international student edn by Robert Palmatier, Louis Stern and Adel El-Ansary** (Routledge, 2016) offers a global view on developing and maintaining effective marketing channels and includes some useful examples.

***Logistics and Supply Chain Management*, 5th edn by Martin Christopher** (Harlow, FT Prentice Hall, 2016) gives a good readable overview of logistics problems, though not really from a marketing perspective as such.

Kim, S. and Gilliland, D. 'Working more or working less? Contingent allocation of reseller effort in distribution channels,' *Industrial Marketing Management*, 64 (2017), pp. 44–56, offers a thought-provoking study into the relationships with intermediaries.

An interesting discussion which considers the complementarity of online and offline retail sales is offered by **Wang, K and Goldfarb, A.: 'Can offline stores drive online sales?' *Journal of Marketing Research*, 54** (5) (2017), pp. 706–719.

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9

Marketing communications and promotional tools

Objectives

After reading this chapter you should be able to:

- Explain how marketing communications operate
- Plan a promotional campaign
- Explain how the elements of the promotional mix fit together to create a total package
- Select suitable promotional tools for achieving a given objective
- Understand what public relations (PR) will do for you and what it will not do
- Explain the main pitfalls of defensive PR
- Plan a media event
- Understand the problems facing a PR executive or agent
- Formulate a suitable PR policy for a given set of circumstances
- Formulate a brief for an advertising agency
- Explain the main criteria for writing advertising copy
- Understand what personal selling is intended to achieve for the firm
- Outline the main features of sales management
- Explain the role of word-of-mouth communication
- Explain how sponsorship helps in building a positive corporate image
- Explain the importance of the Internet
- Outline the importance of social media.

Introduction

This chapter is about communicating the organisation's messages to the public. The tools of communication (advertising, personal selling, PR and sales promotions) are the most visible aspects of marketing, so non-marketers tend to think they represent the whole of marketing.

Communication requires the active participation of both the sender and the receiver, so the messages not only have to contain the information the organisation wishes to convey but must also be sufficiently interesting to the consumers (or the organisation's other publics) for them to pay attention to it.

Marketing communications theory

Communication is one of the most human of activities. The exchange of thoughts that characterises communication is carried out by conversation (still the most popular form of entertainment in the world), by the written word (letters, books, magazines and newspapers) and by pictures (cartoons, television and film).

Communication has been defined as a transactional process between two or more parties whereby meaning is exchanged through the intentional use of **symbols** (Engel *et al.* 1994). The key elements here are that the communication is intentional (a deliberate effort is made to bring about a response); it is a transaction (the participants are all involved in the process) and it is symbolic (words, pictures, music and other sensory stimulants are used to convey thoughts). Since human beings are not telepathic, all communication needs the original concepts to be translated into symbols that convey the required meaning.

This means that the individual or firm issuing the communication must first reduce the concepts to a set of symbols which can be passed on to the recipient of the message; the recipient must decode the symbols to get the original message. Thus the participants in the process must share a common view of what the symbols involved actually mean. In fact, the parties must share a common field of experience. This is illustrated in Figure 9.1.

The sender's field of experience must overlap with the receiver's field of experience, at least to the extent of having a common language. The overlap is likely to be much more complex and subtle in most marketing communications; **advertisements** typically use references from popular culture such as TV shows, from proverbs and common sayings, and will often make puns or use half-statements which the audience is able to complete because it is aware of the cultural referents involved. This is why foreign TV adverts often seem unintentionally humorous or even incomprehensible.

Figure 9.1 Model of the communication process

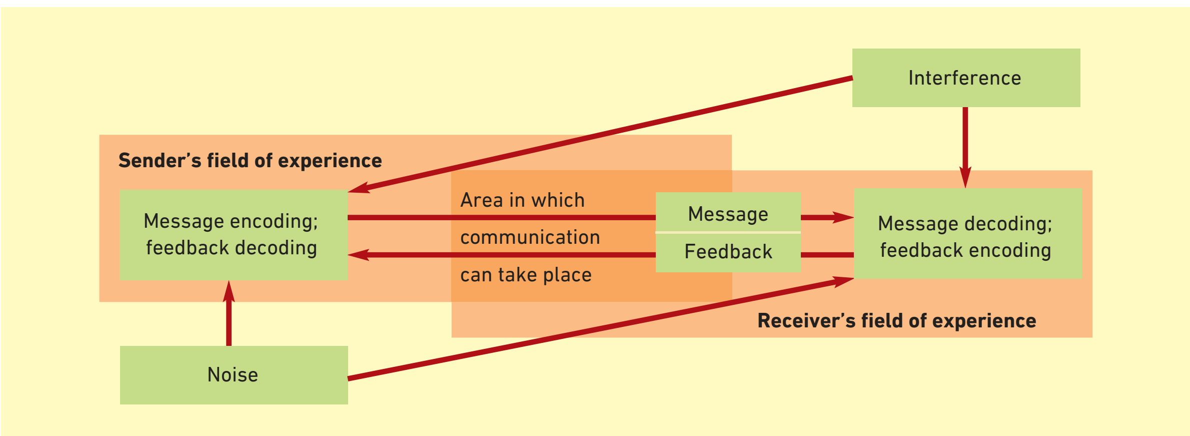
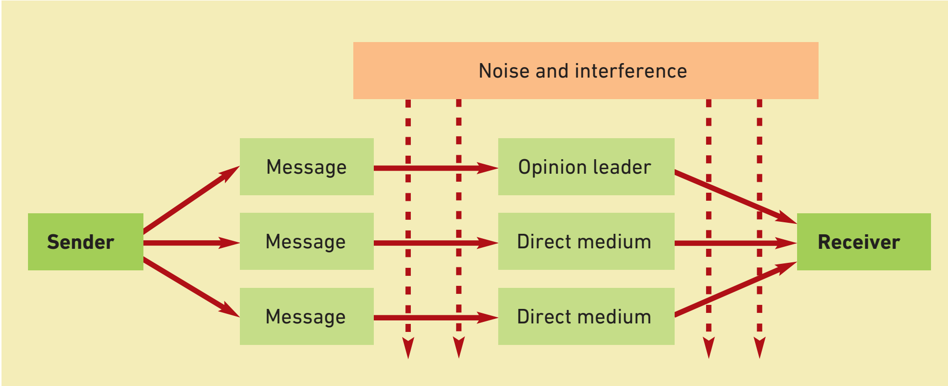


Figure 9.2 Redundancy in communication



Noise is the surrounding distraction present during the communications process and varies from children playing during the commercial break through to arresting headlines in a magazine. Eagle *et al.* (2014) call this clutter, which they define as 'a form of noise that reflects modern consumers' exposure to multi-media'. **Interference** is deliberate attempts to distract the audience's attention with intelligent communications. For example, a car driver may be distracted away from a radio ad by another car cutting in (noise) or by seeing an interesting billboard (interference). For most marketing purposes, the difference is academic.

The above model is essentially a one-step model of communication. This is rather oversimplified; communications do not necessarily occur in a single step in this way. In most cases, the message reaches the receiver via several routes. Sending the same message by more than one route is called **redundancy**, and is a good way of ensuring that the message gets through. Figure 9.2 shows this diagrammatically.

In the diagram, the sender sends almost identical messages via different routes. The effect of noise and interference is to distort the message, and the opinion leader will moderate the message, but by using three different routes the meaning of the message is more likely to get through. This is the rationale behind the integration of marketing communications.

Critical thinking

When messages are sent by different routes, the medium must surely affect the message. After all, a news story written for a tabloid newspaper comes across very differently from the same story printed in a respectable broadsheet. And that's a comparison between two newspapers! How different the story would be if it were to be broadcast on TV or read over the radio.

Yet we're being asked to believe that an advertisement can be designed which will convey the same message, even though it is sent through several different media. How is that going to be accomplished?

An alternative view of communication is that it is concerned with the co-creation of meaning (Mantovani 1996). In this view, communication is not something which one person does to another; the communication is subject to interpretation by the recipient and may even be ignored. Communication might be better thought of as involving an initiator, an apprehender and appreciation; acceptance of a common meaning arises from the apprehender's choice, not from the initiator's intention (Varey 2002).

Developing communications

Developing effective marketing communications follows a six-stage process, as follows:

1. *Identify the target audience.* In other words, decide who the message should get to.
2. *Determine the response sought* (encoding). What would the marketer like members of the audience to do after they get the message?
3. *Choose the message.* Write the copy, or produce an appropriate image.
4. *Choose the channel.* Decide which newspaper, TV station, websites, social media or radio station the audience uses.
5. *Select the source's attributes.* Decide what it is about the product or company that needs to be communicated.
6. *Collect feedback.* For example, carry out market research to find out how successful the message was.

Communication is always expensive. According to Stewart (2017),

> **A 30-second ad during ITV's breakfast schedule between the likes of *Good Morning Britain* or *Lorraine* can cost anything from £3,000 to £4,000 on average. For a daytime slot, ads of the same time length come in at £3,500 to £4,500, while a peak rate alternative can cost between £10,000–£30,000.**

A full-page colour advertisement in *The Sunday Times* can cost up to £97,000 (according to dealwiththemedia.com).

It is therefore worthwhile spending time and effort in ensuring that the message is comprehensible to the target audience. Communications often follow the **AIDA** approach. This was put forward by Elias St Elmo Lewis at the end of the nineteenth century then later followed by E.K. Strong, but is still used as an important acronym today.

Attention
Interest
Desire
Action

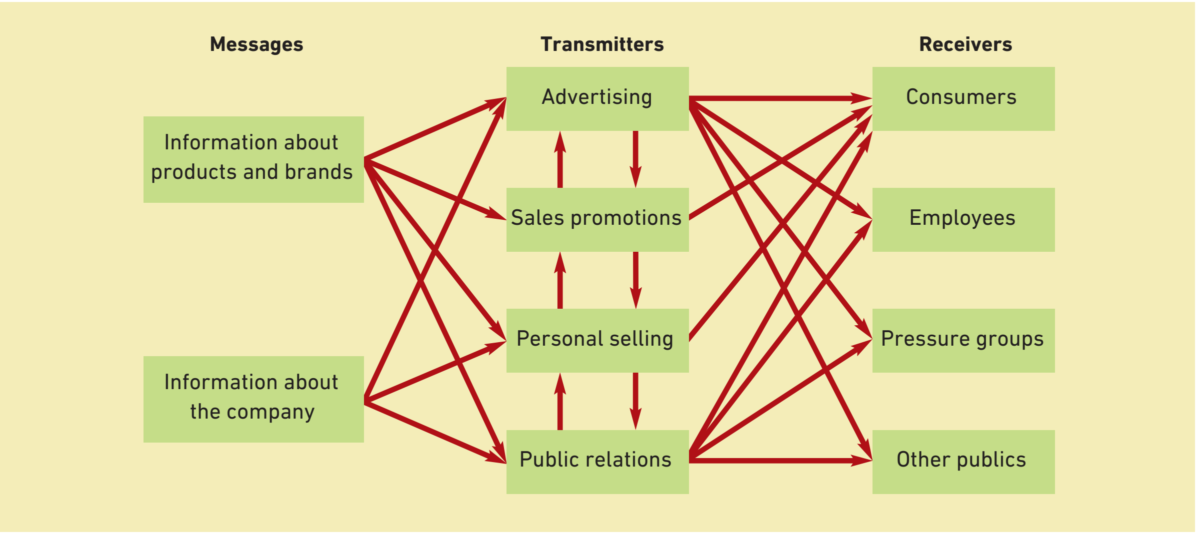
This implies that marketers must first get the customer's *attention.* Clearly, if the receiver is not ‘switched on’ the message will not get through. Second, the marketer must make the message interesting, or the receiver will not pay attention to it. This should, if the message is good, lead to a desire for the product on the part of the receiver, who will then take action. Although this is a simplistic model in some ways, it is a useful guide to promotional planning; however, it is very difficult to get all four of these elements into one communication. For this reason, marketers usually use a mixture of approaches for different elements, called the **promotional mix**.

The promotional mix

The basic promotional mix consists of advertising, **sales promotion**, **personal selling** and **public relations (PR)**. When the concept of the promotional mix was first developed, these were the only elements available to marketers, but in the past 40 years more promotional methods have appeared which do not easily fit within these four categories. For example, a logo on a T-shirt might be considered as advertising or as public relations. For the purposes of this text, however, the original four components are still considered to be the main tools available to marketers.

The important word here is 'mix'. The promotional mix is like a recipe, in which the ingredients must be added at the right times and in the right quantities for the promotion to be effective. Figure 9.3 shows how the mix operates. Messages from the company about its products and itself are transmitted via the elements of the promotional mix to the consumers, employees, pressure groups and other publics. Because each of these groups is receiving the messages from more than one transmitter, the elements of the mix also feed into each other so that the messages do not conflict.

Figure 9.3 The promotional mix



The elements of the promotional mix are not interchangeable, any more than ingredients in a recipe are interchangeable; a task that calls for personal selling cannot be carried out by advertising, nor can public relations tasks be carried out by using sales promotions. Promotion is all about getting the message across to the customer (and the consumer) in the most effective way, and the choice of method will depend on the message, the receiver and the desired effect.

Managing advertising

Advertising is defined as 'a paid message inserted in a medium'. This definition can be broken down as follows:

- *Paid:* news about a company or its products is not necessarily advertising; sometimes a medium (television, radio, website, newspaper or magazine) will carry a message about a company in the form of a news item, but this is not advertising unless the space is paid for.
- *Message:* there must be some kind of communication intention in an advertisement, however obscure.
- *In a medium:* the message must appear in a newspaper, magazine, billboard, online, or a broadcast medium. Leaflets through doors, company names printed on T-shirts and telephone selling are not necessarily advertising (but they are promotion).

Most advertising works below the conscious level. People are often familiar with a brand name and even know a lot about the product without being able to remember where they saw the product advertised. Advertising is a *non-personal* communication in that it has to speak to a large number of people, so the message has to be clear for the whole of the target audience to understand. Research by Farris and Buzzell (1979) indicated that the proportion of promotional spending devoted to advertising is higher under the following conditions:

- The product is standardised rather than produced to order
- There are many end users (for example, most households)
- The typical purchase amount is small
- Sales are made through channel intermediaries (such as retail shops) rather than direct to users.

For example, a company selling detergents will spend the largest proportion of its promotional budget on advertising, probably on TV and in the press, whereas a company selling cars will spend a relatively higher proportion of its money on salespeople's salaries and commission.

TV remote controls and digital recorders allow viewers to 'zap' the commercial breaks. Research suggests only 30 per cent of viewers still watch adverts at normal speed (www.barb.co.uk), the majority preferring to skip through adverts on their digital video recorders, and newspaper and magazine readers quickly become adept at flipping past the ads. Lucy Handley (2017) proposed that 65 per cent of people skip online video ads and Elkin (2016) suggests that 84 per cent of millennials block or skip ads all or some of the time. This means that the consumer's attention is hard to get. It is not usually possible to cover all of AIDA in one advertisement, so marketers usually spread the communication load over several types of promotion.

For this reason, there are many different categories of ad campaign. Here are some examples:

- **Teaser campaigns**. Here the advertiser runs an initial advertisement which does not completely reveal the identity of the product, brand or idea in the first instance. Once the advertisement has run for a while, the advertiser will reveal more information in order to complete the picture. The first ad is intended to attract attention by being mysterious and engaging. An example is the campaign run by modu, the mobile phone brand, in January 2008. A video was placed on YouTube showing people going about their normal day's activities, making calls, driving, preparing for work in the morning, and so forth without any explanation of what modu is or does. The video clip was engaging and entertaining, but the product was not featured – just the brand name at the end of the clip. Eventually the actual nature of the product was revealed, during February of that year.

  Companies are increasingly using teaser campaigns online and through social media to create more engaging content. For example, the cult TV show *Game of Thrones* uses teaser campaigns whenever a new series is due for release. The 'House Targaryen' clip was the most viewed on Facebook, with 1.2 million views in less than a day. By using teaser videos on YouTube and Facebook, as well as online games, excitement is built up and interest encouraged. Such activity really builds the brand and entices people to watch the series on its release.
- **Lifestyle campaigns**. These associate the product with a desirable lifestyle. Many perfume ads have taken this approach, showing women leading interesting or exciting lives. Lifestyle campaigns are mainly about positioning the product in the consumer's mind and linking it to an aspirational group (see Chapter 3).
- **Rational campaigns** appeal to the consumer's cognition. These advertisements are heavy on facts and seek to persuade by rational argument. Often an authoritative figure (a doctor, dentist, scientist or inventor) appears in the ad to lend greater weight to the arguments. Typically, this style is used for medicated shampoos, over-the-counter medicines. Dyson and GTech have also used this approach by using the actual inventors of the product to explain the key features and unique benefits of their vacuum cleaners.

Advertising is mainly about getting the consumer's attention and arousing interest (the A and I of AIDA). To stimulate desire and action, marketers often link a special offer (sales promotion) to the advertisement.

Advertising can often be overused because firms place greater faith in it than is perhaps justified. There is an underlying assumption that a bigger advertising spend will inevitably lead to a greater sales volume. Figure 9.4 contains a checklist for making decisions about advertising.

Of course, the checklist in Figure 9.4 should also include a monitoring and review procedure to ensure that the advertising has achieved its objectives.

Figure 9.4 Advertising decision-making checklist

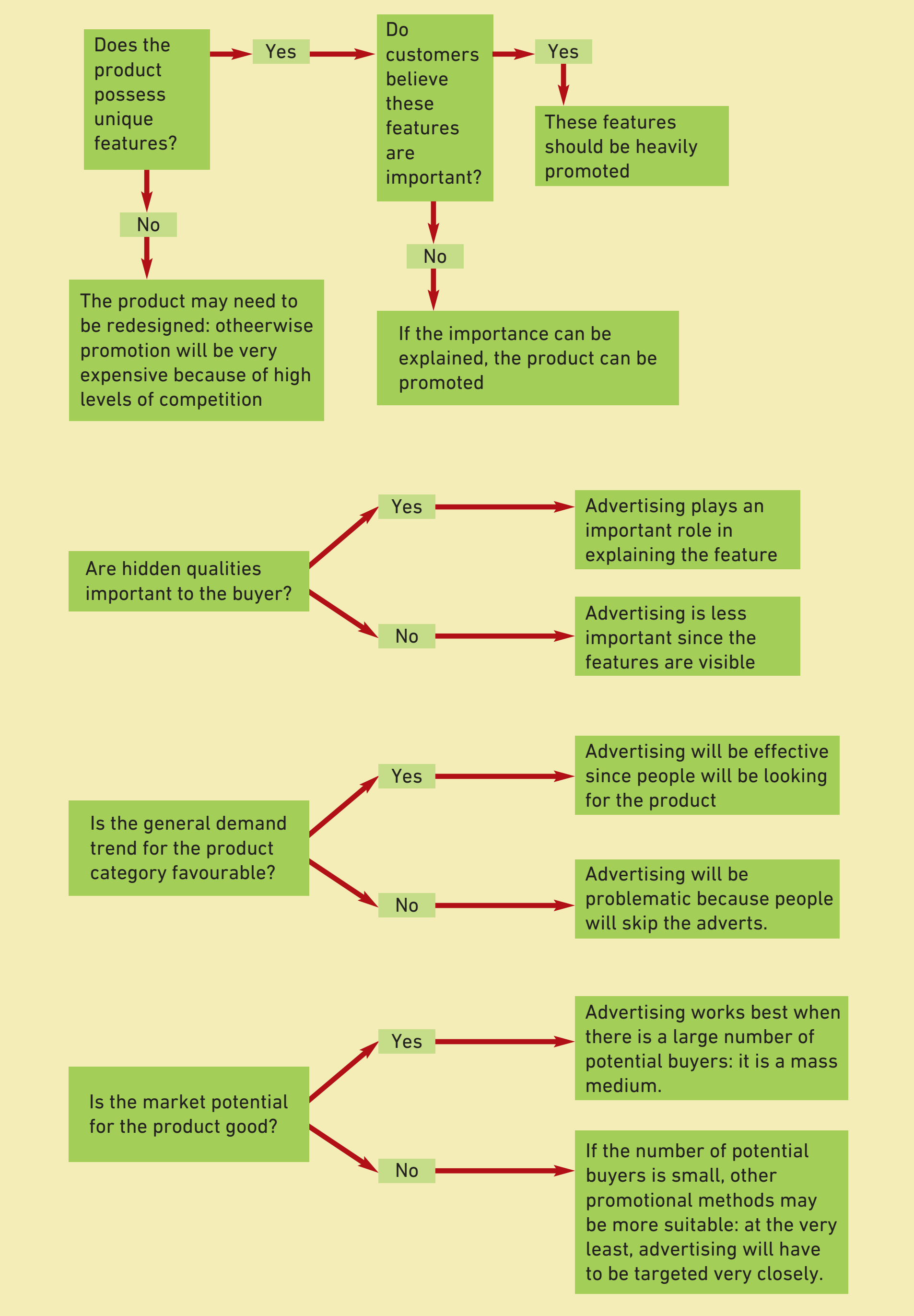


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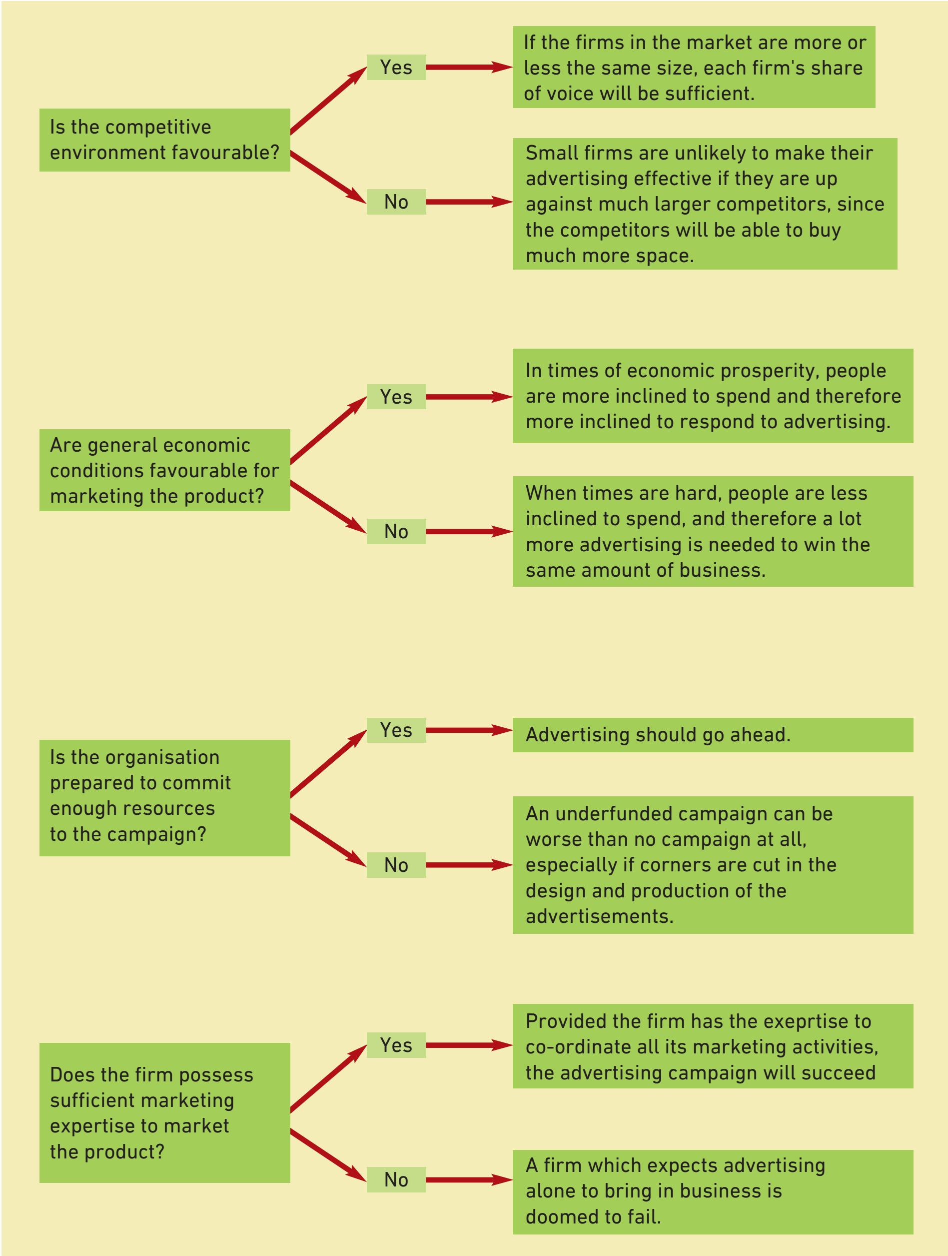
Figure 9.4 continued



Advertising can be used for the following purposes:

- *To help the salesforce to open sales.* For example, an advertisement may contain a reply coupon for a brochure or request an email address, which the salesperson can follow up.
- *To stimulate demand for the product category.* This is often used by institutions, or firms that have a large market share.

- *To promote specific brands.* This accounts for most advertising activity.
- *To counteract competitors' promotional activities.* Often used to counteract a possible loss in market share owing to a new competitor entering the market.
- *To suggest new ways to use the product.* Knorr hired chef Marco Pierre White to demonstrate the use of their stock cubes as an 'instant marinade' for chicken, mixing the cube with olive oil rather than water.
- *To remind consumers about the product.* For example, advertisements for traditional Christmas foods are run during December. Fairy Liquid occasionally runs TV ad campaigns to remind customers that the product is still available and 'washes more dishes than competing products'.
- *To reinforce consumers' good feelings about the product.* For example, chocolate advertising typically emphasises the 'reward' and 'pleasure' aspects of eating chocolate.
- *To support the value of the company's shares.* There is evidence that advertising expenditure helps reduce the risk of a fall in share values and maintains the firm's value overall (Ma *et al.* 2017; McAlister *et al.* 2007).

Advertising can also be used to improve awareness of the company itself. This type of advertising is called **institutional advertising** and is commonly carried out by very large firms such as BP or Ford. It is almost a public relations activity, but the media space is paid for. Most advertising is **product advertising**, which means that the products are the main part of the advertisement.

Since advertising is a paid-for medium, there will be a budgetary constraint on the management as well as a creative constraint. The advertising manager must therefore carry out the planning functions shown in Table 9.1.

Following on from the planning stage, the advertisements themselves will need to be produced. Some firms do this themselves, but most large firms will use specialist advertising agencies. Ad agencies are paid via discounts from the media so, provided that the advertising budget is big enough to interest an agency, their services cost the advertiser nothing. Typical agency discount is 15 per cent.

Producing advertisements

Advertisements contain three key elements: the brand itself, the pictorial element and the text. The pictorial element is superior for capturing attention and can often convey information much more effectively than text, as it can display the key features of the product or brand (Wu *et al.* 2016). The text element captures attention proportional to its size and the brand element transfers attention to the other elements (Pieters & Wedel 2004).

When writing advertising **copy** the primary rule is to keep it short and simple. This is because people will not normally read a lengthy advertisement. Equally, the headline of the advertisement is important because people frequently read only the headline, quickly skipping on as they realise it is an advertisement. Declining literacy skills also play a role – many people are actually unable or unwilling to read and

Table 9.1 Advertising planning functions

Planning function	Explanation
Setting the budget	This can be done in four ways. First, the objective and task approach involves setting objectives, and setting aside an appropriate amount of money to achieve the objectives. This method is difficult to apply because it is difficult to assess how much will be needed to achieve the objective. Second, the percentage of sales approach sets the budget as a percentage of sales. This is based on the false idea that sales create advertising and usually results in less being spent on advertising when sales fall, thus reducing sales further. Third, the *competition matching approach* means that the company spends the same as the competition; this means that the firm is allowing its budgets to be set by its enemies. Fourth, there is the *arbitrary* approach whereby a senior executive (usually a finance director) simply says how much can be allowed within the firm's overall budgets. This does not take account of how the firm is to achieve the objectives.
Identifying the target	Deciding to whom the ad is to be directed. It is better to approach a smaller segment of the market than try to use a 'scattergun' approach on everybody (see Chapter 4).
Media planning	This is about deciding where the ads are going to appear. There are two main decision areas: the **reach** (number of potential consumers the ad reaches) and the **frequency** (number of times each consumer sees the ad) of coverage. The decision is frequently made on the basis of cost per thousand readers/viewers, but this does not take into account the impact of the ad, the degree to which people are able to skip past it or how much 'word of mouth' promotion will take places as a result of viewing the ad.
Defining the objectives	Deciding what the ads are supposed to achieve. It is essential here to give the advertising agency a clear brief: 'We want to raise awareness of the product to 50 per cent of the adult population' is a measurable objective. 'We want to increase sales as much as possible' is not measurable, so there is no way of knowing whether it has been achieved.
Creating the advertising platform	Deciding the basic issues and selling points that the advertising must convey. This clarifies the advertising agency briefing or at least clarifies the thinking on producing the advertising materials.

understand a long and complicated message. Furthermore, the average attention span of millennials is about eight seconds, so it is important to consider this when developing advertising campaigns.

For example, Figures 9.5 and 9.6 show two fictitious advertisements for a surfboard. The first is written factually, the second is written as an advertisement. The first ad clearly contains more information and is really much more use to the consumer, but the second ad is much more likely to be read and acted upon because it has a more lively **execution format**. What the **copywriter** wants the consumers to do is go to the surfboard retailer and look at the SurfKing (this could be linked with a sales promotion). There is no need to tell the readers everything in one advertisement. A surprising number of advertisements are written in the first style because the advertisers are trying to communicate everything about the product to potential consumers without having first ensured that people will read the advertisement.

Artwork should be eye-catching and relevant to the purpose. It is usually a good idea to include a picture of the product where this is possible, since it aids

Figure 9.5 Factual advertisement for a surfboard

Figure 9.6 Simpler advertisement for a surfboard

recognition when the consumer sees the product on the store shelf. Much artwork is available off-the-shelf for smaller businesses, either from computer clipart folders or from books of non-copyright artwork.

Memory, interest and attention is stimulated by emotion-arousing advertisements, but it appears that women are more affected by this factor than men (Majeed *et al.* 2017; Cheng 2014). The reasons for this are obscure.

Creating annoying or irritating copy or using several variants of a slogan also helps to fix an advertisement in people's memories as well as helping in matching the slogan to the brand (Rosengren & Dahlen 2006).

Assessing advertising effectiveness

Four elements appear to be important in the effectiveness of advertising:

- Awareness
- Liking
- Interest
- Enjoyment.

There is a high correlation between brand loyalty and brand awareness (Zhao *et al.* 2017); likeability appears to be a strong predictor of sales effectiveness and brand performance (Narteh 2018), interest clearly relates to likeability (Stapel 1991) and enjoyment appears to be a good indicator in advertising pre-tests (Brown 1991). People's responses to advertising can be positive or negative; recent research shows that people who complain about advertising fall into four groups, as follows (Volkov *et al.* 2006):

1. *Advertising aficionados.* These people believe that, in general, advertising is a good thing, paints a fair picture and is a good source of information.
2. *Consumer activist.* These people are on a mission to protect other people and will complain to the manufacturer or through the press.
3. *Advertising moral guardians.* These people believe advertising is creating a materialist society and that it appeals to people's baser instincts.
4. *Advertising seeker.* This type of person watches a lot of TV advertising and enjoys it as entertainment.

Clearly, people will complain about advertising that offends them; in the UK, such complaints are regulated by the Advertising Standards Authority (see Chapter 12).

It is worthwhile making some efforts to find out whether the advertising has been effective in achieving the objectives laid down. This is much easier if clear objectives were set in the first place, of course, and if the advertising agency was given a clear brief.

Advertising effectiveness can be assessed by market research, by returned coupons and online voucher codes in the case of digital marketing, Return on Investment (ROI) and (sometimes) by increased sales. The last method is somewhat risky, however, since there may be many other factors that could have increased sales of the product. Table 9.2 shows some common techniques for evaluating advertising effectiveness.

Obviously, it is important to distinguish between remembering the advertisement and remembering the product. Research shows that humour in advertising frequently results in people remembering the advert but failing to remember the product (Eisend 2018; Poku & Owusu 2014).

Table 9.2 Advertising effectiveness

Technique	Description and explanation
Pre-tests	These are evaluations of the advertising before it is released. Pre-tests are sometimes carried out using focus groups or online consumer panels (see Chapter 5).
Coupon returns or enquiries	The advertiser counts up the number of enquiries received during each phase of an advertising campaign. This allows the marketing management to judge which advertisements are working best, provided the coupons have an identifying code on them.
Post-campaign tests (post-tests)	The particular testing method used will depend largely on the objectives of the campaign. Communications objectives (product awareness, attitude change, brand awareness) might be determined through surveys; sales objectives might be measured according to changes in sales that can be attributed to the campaign. This is difficult to do because of other factors (changes in economic conditions, for example) that might distort the findings.
Recognition tests and recall tests	In recognition tests, consumers are shown the advertisement and asked whether they recognise it. They are then asked how much of it they actually recall. In an **unaided recall** test the consumer is asked which advertisements he or she remembers seeing recently; in an **aided recall** test the consumer is shown a group of advertisements (without being told which one the researcher is interested in) and is asked which ones he or she has seen recently.

Sales promotion

Sales promotions are short-term activities designed to generate a temporary increase in sales of a product.

A sales promotion has many guises, from money-off promotions to free travel opportunities. The purpose of sales promotion is to create a temporary increase in sales by bringing purchasing decisions forward and adding some immediacy to the decision-making process. Sales promotions have four characteristics, as follows (D'Astous & Landreville 2003):

1 *Attractiveness*. This is the degree to which the customer perceives the promotion as being desirable.
2 *Fit to product category*. A promotion which has no relationship with the product is less likely to appeal to customers.
3 *Reception delay*. If the promotional gift or discount will not arrive for some time, it is less attractive.
4 *Value*. High-value promotions work better than low-value ones, but it is the value as perceived by the customer that is important.

These characteristics interact with each other, so that an unattractive offer may still work if it is a good fit with the product category (for example).

Table 9.3 Sales promotion techniques

Sales promotion technique	When to use to best effect
Free 'taster' samples in supermarkets	When a new product has been launched on the market. This technique works by allowing the consumer to experience the product first-hand and also places the consumer under a small obligation to buy the product. The technique is often very effective but can be costly.
Money-off vouchers in press advertisements	This has the advantage that the company can check the effectiveness of the advertising by checking which vouchers came from which publications, websites or apps. It tends to lead to short-term brand switching; when the offer ends, consumers frequently revert to their usual brand.
Two for the price of one	May encourage short-term **brand switching**. Appeals to the price-sensitive consumer, who will switch to the next cheap offer next time. Can be useful for rewarding and encouraging existing customers.
Piggy-backing with another product, e.g. putting a free jar of coffee whitener onto a jar of instant coffee	Good for encouraging purchasers of the coffee to try the whitener. Can be very successful in building brand penetration, since the consumer's loyalty is to the coffee, not to the whitener. Will not usually encourage brand switching between the 'free sample' brand and its competitors. Can also use vouchers on the backs of labels of other products (see co-marketing in Chapter 8).
Instant-lottery or scratchcards	Commonly used in petrol stations. The intention is to develop a habit among motorists of stopping at the particular petrol station. In the United Kingdom, for legal reasons, these promotions cannot require a purchase to be made or be linked to spending a specific amount, but few people would have the courage to ask for a card without buying anything.
Free gift with each purchase	Sometimes used for children's cereals. Can be good for encouraging brand switching and is more likely to lead to permanent adoption of the brand because consumers do not usually switch brands when buying for children. This is because the children are not price-sensitive and will want their favourite brand.

Table 9.3 shows some of the techniques of sales promotion, and when they should be used to greatest effect.

Sales promotion will often be useful for low-value items and is most effective when used as part of an integrated promotion campaign. This is because advertising and PR build sales in the long term, whereas sales promotion and personal selling tend to be better for making quick increases in sales.

Care needs to be taken with sales promotions. First, a sales promotion that is repeated too often can become part of the consumer's expectations: for example, many chain restaurants continually issue discount vouchers with a percentage off the total food bill. A number of customers will not think about going to these chains unless they have a discount code, so these consumers will always expect to pay less for their meal and will never pay full price. UK furniture retailer Court's had a near-permanent 'sale' on with large discounts – eventually, customers would not buy anything unless it was heavily discounted and the company eventually went bankrupt.

Second, brand switching as a result of a sales promotions is usually temporary, so it is unlikely that long-term business will be built by a short-term sales promotion.

Third, the promotion will benefit consumers who would have bought the product anyway, so a proportion of the spend will have been effectively wasted (though this is true of most promotional tools). Good targeting can help overcome this, but care should be taken that existing customers do not feel that they have been unfairly dealt with because they did not receive the promotional offer.

Fourth, discounting on price can seriously damage brand values because the product becomes perceived as being cut-price. Since price is widely used as a signal for quality, the potential for damage is obvious.

Sales promotions can be carried out from manufacturer to intermediary (*trade promotions*), from retailer to consumer (retailer promotions) or direct from the manufacturer to the consumer (manufacturer promotions).

Trade promotions can be used for the following purposes:

- *To increase stock levels.* The more stock the intermediary holds, the more commitment there will be to selling the stock and the less space there is for competitors' stock. (See push strategies in Chapter 10.)
- *To gain more or better shelf space.* The more eye-catching the position of the product in the retail shop, the more likely it is to sell.
- *To launch a new product.* New products always carry an element of risk for retailers as well as manufacturers (see Chapter 6). This means that the manufacturer may need to give the retailer an extra incentive to stock the product at all.
- *To even out fluctuating sales.* Seasonal offers may be used to encourage retailers to stock the products during slack periods. For example, the toy industry sells 80 per cent of its production over the Christmas period, so it is common for firms to offer extra incentives to retailers to stock up during the rest of the year.
- *To counter the competition.* Aggressive sales promotion can sometimes force a competitor off the retailer's shelves, or at least cause the retailer to drive a harder bargain with a competitor.

Retailer promotions are used for the following purposes:

- *To increase store traffic.* Almost any kind of sales promotion will increase the number of people who come into the shop, but retailers commonly have special events or seasonal sales.
- *To increase frequency and amount of purchase.* This is probably the commonest use of sales promotions: examples are two for one offers, buy one get discount off another product, and so forth.
- *To increase store loyalty.* Loyalty cards are the main example of this (although these have other uses – see Chapter 8). Using the loyalty card enables the customer to build up points, which can be redeemed against products.
- *To increase own-brand sales.* Large retailers have their own brands, which often have larger profit margins than the equivalent national brands.

- *To even out busy periods.* Seasonal sales are the obvious examples, but some retailers also promote at busy times to ensure a larger share of the market.

Manufacturer promotions are carried out for the following reasons:

- *To encourage trial.* When launching a new product the manufacturer may send out free samples to households or may give away samples with an existing product. (See Chapter 10 for pull strategies.)
- *To expand usage.* Sales promotion can be used to encourage reinvention of the product for other uses (see Chapter 6).
- To attract new customers.
- *Trade up.* Sales promotions can encourage customers to buy the larger pack or more expensive version of the product.
- *Load up.* Encouraging customers to stock up on a product effectively blocks out the competition for a period.
- To generate a mailing list for direct marketing purposes (for example, by running an on-pack competition).
- *To enhance brand values* by (for example) running some type of **self-liquidating offer**. For example, a promotion offering a discounted wristwatch that carries the brand logo might encourage sales of the product as well as ensuring that the brand remains in the forefront of the consumer's attention.

Often, the gains made from sales promotions are only temporary, but in many cases this is acceptable since a temporary shift in demand is all that is required to meet the firm's immediate need. Also, much sales promotion activity is carried out with the intention of spoiling a competitor's campaign; using sales promotion to respond to a competitive threat, particularly by offering a price incentive, can be very fast and effective.

Managing personal selling

Selling is probably the most powerful marketing tool the firm has. A salesperson sitting in front of a prospect, discussing the customer's needs and explaining directly how the product will benefit him or her, is more likely to get the business than any advertising, PR or sales promotion technique available. Unfortunately, selling is also the most expensive promotional tool for the firm. On average, a sales representative on the road will cost a firm around £70,000 per annum and will probably call on only 1,600 prospects or so in that time at best. A new salesperson can take almost a year to become fully productive. Selling is therefore used only for high-order-value or highly technical products that need a lengthy decision-making procedure.

Some retail shop assistants are trained in selling techniques, in particular in shops where the customer needs advice, such as electrical goods outlets or shoe shops. In these cases the retailer may spend considerable time and effort in training salespeople both in the technicalities of the product range and in selling techniques. Selling is learned – there is no such thing as a 'born' salesperson, although (as is true of any skill) some people have a greater aptitude for selling than do others.

Salespeople fall into four categories:

- **Order takers**, who collect orders for goods from customers who have already decided to buy
- **Order getters**, who find solutions for new and existing customers and persuade them to buy
- **Missionaries**, who seek out new customers and prepare them to buy
- *Support staff* such as technical salespeople, who demonstrate technical products and persuade users to adopt them.

What the firm expects of its salespeople is that they will close business by persuading customers to buy the firm's products rather than a competitor's products. The firm wants its salespeople to be able to explain the benefits of the products in terms of the customer's needs, then ask for the order – in some industries (though by no means the majority), this results in a better than 50 per cent success rate, which is, of course, vastly greater than the best advertising responses.

Salespeople have a bad reputation, largely undeserved, for being pushy and manipulative. In practice, successful salespeople know that they are as much there to help the customer as to help the firm achieve its sales objectives. It is a common saying among salespeople that it is easier to get another company than it is to get new customers, so salespeople find it pays to look after the customer's interests. Many salespeople regard themselves as managers of the firm's relationships with the customers; however, some will inevitably develop inappropriate attitudes to their role and may need some careful management or retraining (Davies *et al.* 2010).

Good salespeople begin by finding out the customer's needs, and go on to decide which of the company's products will best meet those needs. The next stage is to give an explanation of the product's benefits to the customer, connecting these to the customer's needs. Finally, the salesperson closes the deal by asking for the order. The process is the same as that conducted by marketers generally, except that the salesperson is dealing on a one-to-one basis rather than with a mass market. In this sense, selling can be seen as micro-marketing.

This means that the customer can 'pick the brains' of the salesperson, who presumably has superior knowledge of the products that are available. This can cut a lot of the effort out of the search for the most suitable product and the salesperson can also help people through the decision-making barrier. Experienced salespeople often say that the hardest part of the job is to get a decision, not necessarily to get a sale.

The salesperson therefore combines knowledge of the product (obtained beforehand) with knowledge of the customer's needs (obtained during the presentation) and knowledge of sales techniques (which are aids to decision-making) to help the customer arrive at a decision.

Managing the salesforce

Possibly the most expensive marketing tool the company has, the salesforce is in some ways the hardest to control. This is because it is composed of independently minded people who each have their own ideas on how the job should be done, and who are working away from the office and out of sight of the sales managers.

Sales managers are responsible for recruitment, training, motivation, controlling and evaluating salesforce activities, and managing sales territories.

Recruitment

Recruitment is complicated by the fact that there is no generally applicable set of personality traits that go to make up the ideal salesperson. This is because the sales task varies greatly from one firm to another, and the sales manager will need to draw up a specific set of desirable traits for the task in hand. This will involve analysing the company's successful salespeople and also the less successful ones to find out what the differences are between them.

Some companies take the view that almost anybody can be trained to sell, and therefore the selection procedures are somewhat limited, or even non-existent; other companies are extremely selective and subject potential recruits to a rigorous selection procedure. Research by Loveland *et al.* (2015) suggests that selection of staff is actually more important than training. Sources of potential recruits are advertising, employment agencies, recommendations from existing sales staff, colleges and universities, and internal appointments from other departments.

Training

Training can be long or short, depending on the product and the market. Table 9.4 illustrates the dimensions of the problem. The role the salesperson is required to take on will also affect the length of training: missionary salespeople will take longer to train than order takers, and closers will take longer than telephone canvassers.

Typically, training falls into two sections: *classroom training,* in which the recruits are taught about the company and the products and may be given some grounding in sales techniques; and field training, which is an ongoing training programme carried out in front of real customers in the field. Field training is often the province of the sales managers, but classroom training can be carried out by other company personnel (in some cases, in larger firms, there will be specialists who do nothing else but train salespeople).

People tend to learn best by performing the task, so most sales training programmes involve substantial field training, either by sending out rookies (trainees) with experienced salespeople or by the ‘in-at-the-deep-end’ approach of sending rookies out on their own fairly early in their careers. The latter method is indicated if there are plenty of possible customers for the product; the view is that a few

Table 9.4 Factors relating to length of training of sales staff

Factors indicating long training	Factors indicating short training
Complex, technical products	Simple products
Industrial markets with professional buyers	Household, consumer markets
High order values (from the customer's viewpoint)	Low order values
High recruitment costs	Low recruitment costs
Inexperienced recruits – for example, recruited direct from university	Experienced recruits from the same industry

mistakes (lost sales) will not matter. In industrial selling, though, it is often the case that there are very few possible customers and therefore the loss of even one or two could be serious. In these circumstances it would be better to give rookies a long period of working alongside more experienced salespeople.

Ultimately, of course, salespeople will lose more sales than they get. In most industries, fewer than half the presentations given result in a sale; a typical proportion would be one in three.

Payment

Payment for salespeople traditionally has a commission element, but it is perfectly feasible to use a straight salary method, or a commission-only method. Although it is commonly supposed that a commission-only salesperson will be highly motivated to work hard, since otherwise he or she will not earn any money, this is not necessarily the case. Salespeople who are paid solely by commission will sometimes decide that they have earned enough for this month and will give themselves a holiday; the company has very little moral power to compel them to work since there is no basic salary being paid. Conversely, a salesperson who is paid a salary only may feel obligated to work to justify the salary.

Herzberg (1966) said that the payment method must be seen to be fair if demotivation is to be avoided; the payment method is not in itself a good motivator. Salespeople are out on the road for most of their working lives and do not see what other salespeople are doing – whether they are competent at the job, whether they are getting some kind of unfair advantage, even whether they are working at all. In these circumstances a commission system does at least reassure the salesperson that extra effort brings extra rewards. Table 9.5 shows the trade-offs between commission-only and salary-only; of course, most firms have a mixture of salary and commission.

Table 9.5 Trade-offs in salespeople's pay packages

Mainly salary	Mainly commission
Where order values are high	Where order values are low
Where the sales cycle is long	Where the sales cycle is short
Where staff turnover is low	Where staff turnover is high
Where sales staff are carefully selected against narrow criteria	Where selection criteria for staff are broad
For new staff or staff who have to develop new territories	For situations where aggressive selling is indicated (e.g. selling unsought goods)
Where sales territories are seriously unequal in terms of sales potential	Where sales territories are substantially the same

Salespeople tend to judge whether their pay is fair or not by looking at factors other than the actual money. They tend to look at such factors as the fairness of their supervision, trust between themselves and the sales manager, and interactional fairness (negotiation and explanation). This is perhaps not surprising; the implication is that people only become concerned about their salary levels if they feel they are being unfairly dealt with or are unhappy in the job.

Motivation

Motivation, perhaps surprisingly, tends to come from sources other than payment. The classic view of motivation was proposed by Abraham Maslow (1954). Maslow's hierarchy of need theory postulates that people will fulfil the needs at the lower end of a pyramid (survival needs and security needs) before they move on to addressing needs at the upper end (such as belonging needs, esteem needs and self-actualisation needs). Thus, once a salesperson has assured his or her basic survival needs, these cease to be motivators; the individual will then be moving on to esteem needs or belonging needs. For this reason, sales managers usually have a battery of motivational devices for which salespeople can aim.

For rookies (new salespeople), the award of a company tie might address the need to belong; for more senior salespeople, membership of a Millionaire's Club (salespeople who have sold more than a million pounds' worth of product) might address esteem needs. Many sales managers offer prizes for salespeople's spouses or partners. This can be a powerful incentive since salespeople often work unusual hours and thus have disrupted home lives; the spouse or partner is sometimes neglected in favour of the job, so a prize aimed at them can help assuage the salesperson's natural feelings of guilt.

There is some evidence to suggest that salespeople perform better if they are allowed to manage themselves within a team environment. Control of teamwork facilitates performance on the team level; performance at the individual level is influenced more by control of selling skills (Lambe *et al.* 2009).

Sales territory management

Sales territory management involves ensuring that members of the salesforce have a reasonably equal chance of making sales. Clearly a home-improvement salesperson in a major city will have an easier task than one in a rural area, simply because of the shorter distances between **prospects**; such a salesperson would spend more time in presentations and less time driving. On the other hand, the city salesperson would probably face more competition and might also have to cover poorer homes which would be less likely to spend much money on improvements.

Territories can be divided *geographically* or by industry; IBM divides territories by industry, for example, so that salespeople get to know the problems and needs of the specific industry for which they have responsibility. IBM salespeople might be given responsibility for banks, insurance companies or local government departments. This sometimes means that salespeople have greater distances to travel to present IBM products, but are more able to make sensible recommendations and give useful advice. Geographical territories are more common, since they minimise travel time and maximise selling time.

It is virtually impossible to create exactly equal territories. Thus it is important to discuss decisions with salespeople to ensure that people feel they are being treated fairly. For example, some salespeople may be quite happy to accept a rural territory because they like to live and work in the country, even if it means earning less.

Managing PR

PR, or public relations, is about creating favourable images of the company or organisation in the minds of consumers. PR officers and marketers often have differing viewpoints: PR people tend to see their role as being about image-building with everybody who has anything at all to do with the firm, whereas marketers are concerned mainly with customers and consumers.

PR managers have the task of coordinating all the activities that make up the public face of the organisation, and will have some or all of the following activities to handle:

- Organising press conferences
- Staff training workshops

- Events such as annual dinners
- Handling incoming criticisms or complaints
- Grooming senior management for the press or for TV appearances
- Internal marketing; setting the organisation's culture towards a customer orientation.

The basic routes by which PR operates are word of mouth, press and TV news stories, and personal recommendation. The aim is to put the firm and its products into people's minds and conversations in a positive way. PR is not advertising; advertising is aimed at generating specific behaviour (usually a purchase), whereas PR is aimed at creating a good impression.

Here are some examples of good PR activities:

- A press release saying that a company has developed a way of recycling garbage from landfills to produce plastics
- The company sponsors a major charitable or sporting event (e.g. the London Marathon or a famine-relief project)
- An announcement that one of the firm's senior executives has been seconded to a major government job-creation programme
- The Body Shop requires all their franchise operations to run projects to benefit their local communities. This gives a positive image of the company to the community and also gives the staff pride in working for a caring firm. Such initiatives are not always exportable, however; McDonald's ran into difficulties in Norway when it tried to establish a Ronald McDonald House, with strong resistance from political parties, academics and others (Brønn 2006).

These examples have in common that they are newsworthy and interesting, that they put the companies concerned in a good light, and that they encourage people to talk about the companies in a positive way.

Public relations and staff

PR is largely concerned with creating favourable impressions in people's minds. It is rarely, if ever, connected with directly bringing in business, and in this respect it differs from the other tools in the promotional mix. Although most of the time and for most activities PR will be the responsibility of a press agent or PR officer, PR is the responsibility of everybody who comes into contact with people outside the organisation. This will include the 'front-liners', the people whose day-to-day work brings them into contact with outsiders. For example:

- Receptionists
- Telephonists
- Truck drivers
- Warehouse staff
- Serving staff in the canteen.

This is apart from the marketing staff, such as salespeople, who come into contact with outsiders. In a sense, everybody in the organisation must take some responsibility for PR since everybody in the organisation goes home after work (and discusses their company with their friends).

In this context, a bad approach to PR (but one that is all too common) is to hire somebody with a nice smile and a friendly voice to sit by the telephone to handle complaints and smooth over any problems that arise. This is a *fire-fighting* or **reactive** approach.

A good PR approach is to make all the staff feel positive about the company. This is done by ensuring that everybody knows what the organisation is doing, what the policies are and what the company's overall aims are, in simple language. Most people would like to think that they are working for a good, responsible, successful organisation; it is part of the job of PR to ensure that this is communicated to staff. This is sometimes done by using a slogan or company motto to sum up the company's main aim. Some examples are given in Table 9.6.

Internal PR uses staff newsletters, staff training programmes and staff social events to convey a positive image. Intranet-enabled PR can include emailing staff about corporate developments, forums and blogs to encourage discussion of issues of interest, and there is also the capacity for direct contact with senior management. Such systems can be abused, but in most cases they are a force for good in helping to develop the corporate culture.

Because most of the front-liners are working away from the company's headquarters, the PR process has to be handled by persuasion, not by command. It would be impossible for the PR staff to be everywhere at once, following people around to ensure that they say and do the 'right' things.

PR has a role in conciliation and internal arbitration, although much of this will be handled by human resources departments. Because internal conflict can lead to bad feeling towards the organisation, part of the PR role is to provide a clear lead in terms of corporate culture.

Table 9.6 Examples of company slogans

Example	Explanation
We're Number Two, So We Try Harder (Avis)	This communicates to staff that the company is among the biggest, but that their efforts to 'try harder' are recognised and appreciated. It also conveys a valuable image to the customers. This slogan has become so well known that Avis have now reduced it to 'We try harder'.
We cross the Ts, dot the Is and put U in the middle (TUI)	The travel company TUI UK Limited completed its rebrand from Thomson to TUI in the UK in 2017. The advertising campaign supporting the rebrand used this slogan. It suggests that they make sure everything is in order when you book your holiday from start to finish, so you can relax and know that everything is taken care of and that the customer is at the centre of everything they do.

Public relations and the press

Usually, PR communicates through the news media. Newspapers and magazines earn their money mainly through paid advertising, but they attract readers by having stimulating articles about topics of interest to the readership.

Press releases

PR often involves creating a news story or event that brings the product or company to the public attention. A news story is more likely to be read than an advertisement and is also more likely to be believed. A press release differs from advertising in that the message is not paid for directly; the newspaper or magazine prints the story as news, and of course is able to slant the story in any way it wishes. PR people are often ex-journalists who have some contacts with the news media, and who know how to create a story that will be printed in the way the company wants it to be done. Newspaper editors are wary of thinly disguised advertisements and will only print items that are really newsworthy.

Good press releases can be much more effective than advertising for the following reasons:

- The press coverage is free, so there is better use of the promotional budget.
- The message carries greater credibility because it is in the editorial part of the paper.
- The message is more likely to be read, because, while readers tend to skip past the advertisements, their purpose in buying the paper is to read the news stories.

Table 9.7 shows the criteria under which the press stories must be produced if they are to be published.

The news media will, of course, reserve the right to alter stories, add to them, comment on them or otherwise change them around to suit their own purposes. For

Table 9.7 Criteria for successful press releases

Criterion	Example
Stories must be newsworthy, i.e. of interest to the reader	Articles about your new lower prices are not newsworthy; articles about opening a new factory creating 200 jobs are.
Stories must not be merely thinly disguised advertisements	A story saying your new car is the best on the market at only £10,999 will not go in. A story saying your new car won the East African Safari Classic Rally or the British Rally Championship probably would.
Stories must fit the editorial style of the magazine or paper to which they are being sent	An article sent to the *Financial Times* about your sponsored fishing competition will not be printed; an article about the company's takeover of a competitor will.

example, a press agent's great little story on the launch of Britain's most powerful sports car may become part of an article on dangerous driving. There is really very little the firm can do about this.

For this reason, a large part of the PR manager's job lies in cultivating good relationships with the media. Sometimes this will involve business entertaining, but more often it will involve making the journalists' lives as easy as possible. A well-written press release will often be inserted in the paper exactly as it stands, because the editorial staff are too busy to waste time rewriting something that is already perfectly acceptable.

The journals and newspapers gain as well. Normally editors have to pay for editorial, either paying freelance writers to produce articles or paying the salaries of journalists to come up with interesting stories. A good press release can go in with little or no editing, and no legwork on the part of journalists, so it fills space with minimal cost to the paper.

Media events

Often companies will lay on a **media event**, a launch ceremony for a new product or to announce some change in company policy. Usually this will involve inviting journalists from the appropriate media, providing a free lunch with plenty of free drinks and inviting questions about the new development in a formal press conference. This kind of event has only a limited success, however, unless the groundwork for it has been very thoroughly laid.

Journalists tend to be suspicious of media events, sometimes feeling that the organisers are trying to buy them off with a buffet and a glass of wine. This means they may not respond positively to the message the PR people are trying to convey, and may write a critical article rather than the positive one that was hoped for.

To minimise the chance of this happening, media events should follow these basic rules:

- Do not call a media event or press conference unless you are announcing something that the press will find interesting.
- Check that there are no negative connotations in what you are announcing.
- Ensure that you have some of the company's senior executives there to talk to the press, not just PR people.
- Only invite journalists with whom you feel you have a good working relationship.
- Do not be too lavish with the refreshments.
- Ensure that your senior executives (in fact, anybody who is going to speak to the press) have had some training in doing this. This is particularly important for TV.
- Be prepared to answer all questions truthfully. Journalists are trained to spot lies and evasions.

Journalists much prefer to be able to talk directly to genuine corporate executives rather than being allowed only to talk to the PR department; however, care should be exercised in ensuring that the executives spoken to are able to handle this type of questioning. It is also a good idea to have a press office that can handle queries from journalists promptly, honestly and enthusiastically and can arrange interviews with senior personnel if necessary.

PR and the Internet

It goes without saying that a good, interactive website is an essential component for effective PR. Most people considering doing business with a company will want to check the website first, if only to find out what the company can offer. Since people will probably check several websites, the PR people need to ensure that the company's website presents a fair but positive image of the company.

A good corporate website will include the following features:

- *Company history.* The background to the company's foundation and development is an important factor for people in deciding how solid the firm is.
- *Mission or vision statement.* This tells prospective customers what the company is all about: in other words, its guiding philosophy.
- *Profiles of senior management.* This puts a human face on the company.
- *Any sponsorship or charitable activities undertaken by the firm.* Apart from the opportunity to increase the effectiveness of those activities, their inclusion on the website shows that the company takes its corporate responsibilities seriously.
- *A contact point for comments about the company or its products.* This should be an email address, but a telephone number should also be included since a lack of a contact point may make it seem that the company has something to hide or is not prepared to speak to its customers.
- *A press page.* This should include latest press releases and contact details for the press officer or PR manager.

All of the above features should be included purely from a PR perspective. Obviously the website will also have sections aimed at increasing business: for example, product descriptions and pictures, contact details for salespeople and retailers and possibly online ordering facilities.

PR and other publics

PR involves dealing with the company's other publics, apart from the consumers. These are typically the following groups:

- Shareholders, for whom the company will produce end-of-year reports, special privileges and so forth
- Government departments, with whom the company will liaise about planned legislation or other government activities
- Community groups
- The workforce
- External pressure groups such as environmentalists or lobbyists.

Pressure groups can cause problems for companies by producing adverse publicity, by picketing company plants or by encouraging boycotts of company products. This can usually be dealt with most effectively by counter-publicity.

Sometimes adverse publicity from pressure groups is dealt with by advertising, publicity and promotion. For example, increasing pressure from a number of environmental groups has resulted in major brands looking at plastic consumption. In 2018 Bacardi teamed up with the non-profit organisation Lonely Whale to devise 'The future doesn't suck' campaign. This is to reduce the number of plastic straws used worldwide by one billion by 2020. The campaign consists of a range of illustrations using plastic straws as weapons to highlight the damage that they do in the oceans around the world. Part of the campaign included a 'city take-over' in London and collaboration with a number of large hospitality brands to get them to commit to removing plastic straws from their sites.

Usually a journalist who is offered a story from a pressure group will respond by trying to get the other side of the story from the firm. This is partly for legal reasons, since newspapers can be sued for libel if they print stories that turn out to be untrue, but it is also because most journalists want to ensure the accuracy and fairness of their stories. This means that a firm's press office, a PR manager or even a senior executive may be asked for comment with little or no prior warning. It is therefore advisable to be as prepared as possible beforehand and to answer as fully as possible in the event of being asked questions. However, it is better to delay comment than to say something that will make matters worse.

In these circumstances, it is better to use a phrase such as 'I'm sorry, I'll have to look into that and get back to you later' than to use the standard 'No comment'. The former phrase at least gives the impression that you are trying to help, whereas 'No comment' gives the impression that you are trying to hide something.

Defensive PR

Defensive PR is about responding to attacks from outside the firm and counteracting them as they arise. The attacks might come from pressure groups, from investigative reporters or from Members of Parliament. The safest way to handle this type of attack is to begin by trying to understand the enemy and, to this end, the following questions should be asked:

- Are they justified in their criticism?
- What facts do they have at their disposal?
- Who are they trying to influence?
- How are they trying to do it?

If the pressure group is justified in its criticisms, it may be necessary to help them to effect the changes in the organisation to quell the criticism. Otherwise the problem will simply continue. Good PR people will always respond in some way; however, as anyone who watches investigative reporters on TV will know, the company managers and directors who flee with a hasty 'No comment' always look guilty, whereas the ones who are prepared to be interviewed always appear honest (until the reporter produces the irrefutable evidence, of course).

During such a crisis, the news media can greatly increase the negative effects on the brand image, as compared with the effects that would occur purely through consumers' direct experience (Yannopoulou *et al.* 2011).

Another aspect of defensive PR is crisis management. Some industries (for example airlines) are more prone to crises than others, but any company can be subject to bad publicity of one sort or another. British Petroleum faced a crisis when an explosion occurred on its Deepwater Horizon drilling rig in 2010. The company's profits reduced dramatically, and much of the blame for this was attributed to the poor management of its PR in the immediate aftermath of the disaster (Valvi & Fragkos 2013). A good approach to handling crises is to be prepared beforehand by establishing a crisis team who are able to speak authoritatively to the media in the event of a problem arising. The crisis team should meet regularly and should consider hypothetical cases and their responses to them. They should also ensure that they are immediately available in the event of a crisis occurring.

Proactive PR

Proactive PR means setting out deliberately to influence opinion, without waiting for an attack from outside. Here the manager will decide on the following:

- Who to influence
- What to influence them about
- How to influence them
- How to marshal the arguments carefully to maximise the impact.

Overall, it is probably better to be proactive rather than defensive (or reactive) because that way the PR office is in control of the process and is better prepared. If the firm is planning on dumping toxic waste in a beauty spot, for example, it is better to contact Greenpeace beforehand and get its opinion rather than suffer the inevitable protests afterwards and take a chance on being able to patch up any problems.

What PR will do

Good PR will achieve the following outcomes for the firm:

- Help to build a positive image
- Counter bad publicity
- Improve employee motivation
- Improve the effectiveness of both advertising and the salesforce.

On the other hand, here are some of the things that PR will *not* do for the firm:

- Directly increase sales
- Cover up something adverse to the company
- Replace other promotional activities.

Ultimately, PR works best as part of a planned and integrated programme of promotional activities which include advertising, sales promotion and personal selling. It works worst when used only occasionally and in isolation.

Word of mouth

Word of mouth is probably the most powerful communication medium in existence and can be used by marketers to good effect. The reasons for the power of word-of-mouth whether online or person to person, are as follows:

- It is interactive, involving a discussion between the parties. This forces the recipient to think about the communication. The problem for marketers is that the interaction takes place between parties who are not usually under the control of the firm.
- It allows for feedback and confirmation of the messages.
- The source, being a disinterested friend or acquaintance, carries a lot more credibility than any marketer-generated communication.

People often discuss products and services, particularly on review websites such as TripAdvisor or Trustpilot; they like to talk about their own recent purchases, to advise people considering a purchase, to show friends and family their latest acquisitions and even to discuss controversial or interesting marketing communications. The problem for marketers is that people will talk about products and companies whether the firm likes it or not, and there is very little that firms can do to control the process. Word-of-mouth communications can therefore be positive or negative, and it often appears that bad news travels twice as fast as good news, so that much word of mouth is negative. Interestingly, some word of mouth is more effective before the initiator has experienced the product; there is evidence that word of mouth is most active before a movie is released rather than afterwards. It is also critical to enhance the staying power of the movie and its financial success, with microblogging word of mouth (MWOM) on platforms such as Twitter being an important element of movie success (Zimbra *et al.* 2017). The richness of the message and the degree of implied or explicit advocacy of the product are key themes in the success of positive word of mouth (Mazzarol *et al.* 2007).

Table 9.8 shows some of the ways that marketers can increase positive word of mouth. Part of the problem for the marketer lies in identifying the opinion leaders in a given market. Journalists, influential individuals and organisations in industry, and some prominent TV pundits, are obviously easy to identify, but among the general public it usually takes careful research to identify the people who are likely to be opinion leaders regarding a particular product. The main characteristics of influentials are shown in Table 9.9.

Much word-of-mouth communication is, unfortunately, negative. Some authorities state that dissatisfied customers tell between nine and fifteen people about a bad experience with a product or service, whereas satisfied customers may only tell three or four people about their positive experience. Obviously, this number can increase quite significantly with online word of mouth. If true, this means that preventing negative

Table 9.8 Ways to encourage positive word of mouth

Method	Explanation and examples
Press releases	A press release with a good, newsworthy story will usually stimulate discussion, particularly if it is linked to another promotion. For example, a press release announcing a sports competition for school football players will generate word of mouth among football players.
Bring-a-friend schemes	In these schemes an existing customer is invited to recruit a friend in exchange for a small reward. In some cases, the reward is given to the friend rather than to the introducer – some people feel uncomfortable about accepting a reward for 'selling' to a friend. For example, a health club might have special 'bring a friend' days when the friend is allowed to use all the facilities free for a day. This gives the member a chance to show off his or her club, and encourages the friend to join.
Awards and certificates	Trophies and certificates are sometimes displayed, and often talked about. For example, Laphroaig Whisky distillery has a Friends of Laphroaig club, in which the members (regular drinkers of the whisky) are given a square foot of land on the island of Islay and a certificate of ownership. The proud owners of this little piece of Scotland frequently mention it to their friends, especially when offering them a glass of the whisky itself. The distillers also occasionally invite the Friends of Laphroaig to nominate a friend to receive a free miniature of the whisky, on the grounds that the 'Friend' could be sure of a 'dram' when calling on the 'friend'.
T-shirts	Promotional clothing often excites comment from friends: designer labels, names of bands, names of tourist destinations and names of concert venues all provoke comment from friends and acquaintances.
Viral marketing	Some websites and social media sites include games, jokes or interesting images which visitors are invited to 'email to a friend'. In most cases, the web link would only be sent on to those friends the original visitor thinks might be interested in the product category. Note: this is entirely different from the unsolicited emails called 'spam' which are sent out indiscriminately.

Table 9.9 Characteristics of influentials

Characteristic	Description of influential
Demographics	Wide differences according to product category. For fashions and cosmetics, young women largely dominate. For self-medication, women with children are most influential. For electronics and technological items, men tend to be the main influencers. Generally, demography shows low correlation and is not a good predictor.
Social activity	Influencers and opinion leaders are usually sociable and outgoing.
General attitudes	Generally innovative and positive towards new products.
Personality and lifestyle	Low correlation of personality with opinion leadership. Lifestyle tends to be more fashion conscious, more socially active, more independent.
Product-related	Influencers are more interested in the specific product area than are others. They are active searchers and information gatherers, especially from the mass media.

word of mouth is actually a more pressing problem for marketers than is generating positive word of mouth. Complaint handling is therefore a key issue (see Chapter 3).

The electronic version of word of mouth, word of mouse, has become vastly more important with the advent of social networking sites. Astute marketers have tapped into this; most corporations now have pages on Facebook and other major social media sites and the use of free games on corporate websites has encouraged people to email their friends with links to the site. There is more on social networking in Chapter 12.

People who are knowledgeable about products and like to advise other people are called mavens. They often have a higher need for variety than opinion leaders and are often less involved with the product categories; however, both groups have high levels of satisfaction with the products they use and recommend (Zhang & Lee 2015).

Sponsorship

Sponsorship of the arts or of sporting events is an increasingly popular way of generating positive feelings about firms. Sponsorship has been defined by the International Chamber of Commerce as

> **'any commercial agreement by which a sponsor, for the mutual benefit of the sponsor and sponsored party, contractually provides financing or other support in order to establish an association between the sponsor's image, brands or products and a sponsorship property, in return for rights to promote this association and/or for the granting of certain agreed direct or indirect benefits'** (International Chamber of Commerce 2011).

Sponsorship in the United Kingdom grew from £4 million in 1970 (Buckley 1980) to £35 million by 1980 (Mintel 1990) and £400 million by 1993 (Mintel 1993). By 2014 this much was being spent on football sponsorship alone and by 2017 approximately 17 per cent of ad spend was being spent on sponsorship (just over £3.5 billion), according to Strivesponsorship.com. Much of this increase in expenditure initially came about because tobacco firms are severely restricted in what they are allowed to advertise and where they are allowed to advertise it; thus sponsorship of Formula One racing and of horse racing and cricket matches by tobacco firms became commonplace. This source of sponsorship has now ceased, because tobacco firms are no longer allowed to sponsor events; in some cases this has forced events to cut back or even disappear altogether.

In 2018 it was estimated that the overall global sponsorship market was worth more than $62 billion (www.statista.com) and this is expected to continue to increase.

Companies sponsor for a variety of different reasons, as Table 9.10 shows.

Sponsorship links beliefs about the sponsoring organisation or brand and connects them to an event or organisation that is highly valued by target consumers, in order to develop brand image and promote customer affiliation (Toscani & Prendergast 2018). The success of a sports team has a significant effect on fans' purchase of sponsors' products (Lings & Owen 2007). The quality of the brand and the perceived fit with the team is also an important issue, 'as the fans are the main consumers of sport teams and because a good perceived fit can lead to better brand

Table 9.10 **Reasons for sponsorship**

Objectives
Put your business in the spotlight
Build brand awareness
Enhance brand positioning
Increase brand loyalty
Change, enhance and/or reinforce image and reputation
Gain respect and credibility
Enhance community relations and demonstrate community responsibility
Drive excitement around the brand/product/service
Drive website visits and social media views
Press/TV/radio coverage/exposure/opportunity
Launch new products
Target new customers or a specific customer base
Increase sales of product/service
Entertain clients
Benefit employees
Match competition/gain competitive advantage
Encourage positive word of mouth

related sponsorship outcomes' (Tsordia *et al.* 2018). So it is worthwhile spending some time choosing the correct team to back – it is also worthwhile being loyal to a team, as audiences become increasingly aware of the sponsor's brand the longer the sponsorship continues (Mason & Cochetel 2006; Lacey *et al.* 2007).

Sponsorship is not adequate as a stand-alone policy. Although firms can run perfectly good PR campaigns without advertising, sponsorship will not work effectively unless the sponsoring firm is prepared and able to publicise the link. Some researchers estimate that two to three times the cost of sponsorship needs to be spent on advertising if the exercise is to be effective. In most cases it is necessary to spell out the reasons for the firm's sponsorship of the event to make the link clear to the audience; merely saying 'Official snack of the Triathlon' is insufficient. Since the audience is usually interested in anything about the event, it is quite possible to go into a brief explanation of the reasoning behind the sponsorship: for example, to say 'Our snack gives energy – and that's what every triathlete needs more than anything. That's why we sponsor the Triathlon.'

Sponsorship appears to work best when there is some existing link between the sponsoring company and the event itself. In other words, a company that manufactures fishing equipment would be more successful sponsoring a fishing competition than it would in sponsoring a painting competition. More subtly, a bank would be better off sponsoring a middle-class, 'respectable' arts event such as an opera rather than an open-air rock concert.

Many large organisations such as British Airways and Barclays have their own specific criteria which they apply when considering sponsorship. However, the following areas are normally taken into account by most organisations when considering sponsorship:

- Is it economically viable/cost effective? Will there be more exposure or better targeted exposure from the sponsorship compared to other marketing channels?
- The event, organisation, team, individual being sponsored should be consistent with the brand image and overall marketing communications plans. Is the sponsorship a good fit with the brand? Do the values of the event, organisation, team or individual fit with the company's values?
- Does it reach the desired target audience?
- How many other sponsors will there be? Clearly a company will gain more exposure the fewer the sponsors there are per event, team etc.

Occasionally a competitor will try to divert the audience's attention to themselves by implying that they are sponsoring the event: this is called ambushing (Bayless 1988). For example, during the 2010 World Cup it was common for firms to use World Cup events in their advertising or sales promotions without actually sponsoring anything to do with the event itself.

Another risk in sponsoring an individual (say, a sportsperson) is that there may be a negative incident such as a drugs conviction. Brand managers may respond to these events in many different ways, depending on attribution of blame, societal norms, zone of tolerance and perceived severity of the event (Westberg *et al.* 2011). If a cultural event has been sponsored for some time, ending the relationship can be difficult for the staff who have been involved in the sponsorship programme – in some cases they may try to continue with relationships established with the other organisation during the sponsorship period despite management attempts to prevent this (Ryan & Blois 2010).

Critical thinking

If it's so easy to ambush an event, why would anybody pay to be a sponsor? After all, ambushing is easy – all the firm has to do is put ‘Olympic-size offers!’ on its publicity to cash in on the Olympic Games, or ‘Marathon guarantees!’ to ride piggy-back on the London Marathon. In fact, the London Olympics organisers came down heavily on any firm that tried to do this – much to the disgust of many sports fans, who saw this as heavy-handed.

On the other hand, maybe supporters and fans of these events can see through that kind of ploy – and react accordingly. Being exposed as a bit of a liar is hardly good for the corporate image.

Sponsorship is likely to grow in importance in the foreseeable future. More credible than advertising, it is often cheaper and has important effects on both brand and corporate image; given the restrictions being imposed on advertising, sponsorship has much to offer.

Digital marketing

While all of the methods of communication and promotional tools discussed so far usually incorporate elements of technology and digital communication, some methods are very much more concentrated within the discipline of digital marketing.

> **Digital marketing is the process of using electronic channels such as the Internet, social media sites, e-mail and SMS to communicate with customers and enable them to purchase products through electronically-mediated channels. From a marketer's viewpoint, digital marketing has the great advantage that it can be monitored directly, in real time, and approaches can be tailored accordingly.** (https://marketingexpert.cim.co.uk/glossary/)

Some digital marketing methods have been discussed throughout this chapter within the various sections on the promotional mix. However, two key areas which deserve further attention are the Internet and social media.

Internet marketing

Nobody owns the Internet; it is a communications medium spread across billions of computers worldwide, which operates independently of the telephone companies that supply its Internet connections, of the governments in whose countries it resides, and even of the computer owners in whose machines data are stored. The Internet therefore operates under its own rules; there is little enforceable international law to govern its use (or abuse). This means that consumers have the power to communicate bad experiences with companies very quickly – most major companies' websites are shadowed by anonymous counter-culture sites known as McNitemares, after the McSpotlight site which shadows McDonald's and which carries derogatory stories about McDonald's products and restaurants.

This type of website plays a major role in PR and news gathering. Environmental pressure groups, charitable organisations, self-help groups and others have all used websites to raise the profile of their causes, and some have had remarkable successes as a result. All in all, the consumer has most of the real power on the Internet. Online virtual communities, established through chatrooms, forums and review websites, have replaced some sources of information (such as salespeople and mailings) with eight out of ten millennials never buying anything without first reading a review (Williams 2018). Communication via such forums and via email is known as word of mouse, and the evidence is that opinion leaders are most effective when they post information about their own experiences (Huang 2010).

Online communities have also developed around some brands. For example, Harley Davidson has an online membership forum. Online communities are valuable to companies in the following ways (Kim *et al.* 2008):

1. Building brand awareness and image
2. Providing access to the voice of loyal consumers

Table 9.11 Characteristics of the Internet as a marketing tool

Characteristic	Explanation
Communication style	The style is interactive and is either synchronous (happens immediately) or asynchronous (there are significant time delays between message and response).
Social presence	The feeling that the communications are taking place at a personal level. Internet communications have relatively high social presence if they are synchronous, particularly as the recipient is usually within his or her home environment when the communication takes place.
Consumer control of contact	Because consumers are able to control the time and place at which they access the information, they are more willing to participate in the process of getting information from a machine. Websites are interactive so that customers can control the information-gathering (and buying) process.
Consumer control of content	If consumers can control the content of the message to some extent, the communication becomes truly interactive. For example, a consumer accessing a website can use a hyperlink to move to another page or can skip past information. An email address allows customers to ask specific questions and thus tailor the communications.

3. Increasing supplier commitment
4. Generating revenue from new and existing customers.

Further research shows that online community members tend to have stronger brand commitment than non-members (Kuo & Hou 2017), whether they are active users of the brand or not. Often people use these online communities to enhance their personal identities or to feel close to others with similar interests and needs (Kuo & Hou 2017).

Internet marketing has the characteristics outlined in Table 9.11.

The Internet is vital for any business in today's marketplace, although there are still a number of small businesses that still do not have their own website. The website increases visibility and enables a company to connect and engage with actual and potential customers. The website is the shop front for any business, so it is important to get it right.

Website design

Below is a checklist for establishing a successful website:

- The objectives for establishing the site must be clear from the outset.
- The site itself should be informative: does it contain all the relevant information that your customer might be looking for?
- Keep it simple: only show text and visual elements that need to be there. Clutter will only detract from your message and turn the customers off. Make it easy to find what they are looking for.

- Use the right language – speak the audience's language, use words and phrases that they will be familiar with and avoid technical jargon.
- The site must be integrated with other communications; cross-marketing will encourage subscribers to visit the site.
- The site should be set up to gather information from those who visit it, either through requesting contact details from visitors or through downloading a tracking cookie onto the visitor's computer.
- The site should encourage interactivity by the use of offers, competitions, sales promotions and other incentives; people will stay on your website longer and will be more likely to remember your brand if you engage them and use some interactive communications.
- Hyperlinks need to be fast, so that users can access the information they really need quickly.
- The website should be consistent; don't change things for change's sake.

The Internet can be a useful tool for increasing customer intimacy, which involves moving beyond independent transactions to deep, long-term customer relationships, by better understanding, anticipating and fulfilling stated and latent customer needs. (Weinman 2013).

Because of the social presence effect, customers feel more comfortable in divulging information and feel closer to the website owner. There are five dimensions of service quality on the Internet (Jayawardena 2004):

1. *Access.* The website should be easy to access, quick to load and simple to understand.
2. *Website interface.* This should be informative, easy to navigate and engaging for the individual.
3. *Trust.* Establishing trust is particularly important, since ordering goods over the Internet involves divulging credit card details. Although security is constantly being tightened, fraudsters are also becoming more adept at breaching security.
4. *Attention.* Websites should attract attention and should also show that attention has been paid to customer needs.
5. *Credibility.* Exaggerated claims, small print and unverifiable statements are likely to detract from the overall credibility of the site.

Security is a key issue in adoption of Internet purchasing by consumers. Many people are put off buying online because of the perceived risk (Jordan *et al.* 2018). This may be affected by the types of product being purchased (Coker *et al.* 2011) and can be even more apparent in the international context (Wang *et al.* 2018). The effects are strongest if the website is located in a country where the rule of law is weak (Steenkamp & Geyskens 2006), but also people from countries with a strong national identity give a great deal of weight to cultural similarities between the website and their own culture (Steenkamp & Geyskens 2006; Wang *et al.* 2018). In general, people tend to prefer websites that are linked to their local culture (Singh *et al.* 2006).

People enjoy sensory stimuli from online retailers as much as they do from bricks-and-mortar retailers. This means that good graphics, perhaps with an element of humour attached, will go down well with online consumers. People become frustrated and leave the website early if information is inaccurate, poorly presented, insufficient or of doubtful credibility (Grant *et al.* 2007). Trust is clearly an issue – if people trust the website, this will overcome the potential risk of buying online (Izogo & Jayawardhena 2018).

According to Flax (n.d.), the factors influencing website traffic are as follows:

- Search engine ranking: most consumers will find a website by using a search engine such as Google or Bing. The higher your page ranks on these search engines, the more traffic your website is likely to see. So it is important to think about the keywords customers may be using when they are searching and undertake other activities to increase search engine optimisation.
- Loading times: customer attention is short; if your website takes too long to load your customers may not wait around. They will spend roughly 30–40 seconds on a website before moving on.
- Website layout: keep your website simple, easily accessible, with engaging content. The number of visitors to a site is influenced by the quality of the offering, the level of interactivity, the accessibility and the relevance of the site to the individual. The number of page views (i.e. the length of time the individual stays on the site) is influenced by credibility, interactivity, personalisation and navigation issues. Poorly designed websites will impact on your website traffic and your search engine rankings.
- Content: visitors to your site want fresh, up-to-date, relevant content, so it is important to review this regularly and use social media, blogs etc. to encourage engagement.

The increased use of the Internet for marketing purposes has led to a new environment for marketing. The speed of information flow within firms, especially those operating globally, has offered greater possibilities for real-time negotiations between firms. The rapid growth in online shopping means that consumers can buy goods anywhere in the world and have them shipped – or, in the case of computer software and apps, simply downloaded – which means that global competition has reached unprecedented levels, particularly among small firms which, until relatively recently have been unable to access global markets. Many of these firms use the Internet to create closer collaboration with other firms as well as to create greater value for customers (Bell & Loane 2010). Virtual shoppers are able to access high-quality pictures of products, holiday destinations and even pictures of restaurant food before committing to a purchase.

Online consumers can be seen as co-creators of brand value (Christodoulides *et al.* 2006). The brand value of an online retailer has five dimensions:

1. *Emotional connection*. Because the buying situation is usually taking place within the customer's home environment, there is an emotional element involved, and the brand should reflect this.
2. *Online experience*. This is a quality of both the retailer and the consumer – a consumer with very little online experience might have entirely different feelings about a website than would a more experienced online shopper.
3. *Responsive service nature*. If the service is poor or unresponsive, the brand will suffer.
4. *Trust*. Online consumers need to feel trusted and need to feel that the website is trustworthy.
5. *Fulfilment*. The delivery of the order, or the successful outcome of the sale, is a strong indicator of brand quality.

It is, of course, important to remember that Internet users are still individuals; segmenting the market can be difficult because the Internet and its users have gone through so much change in recent years. A suggested segmentation was proposed in 2007; the researchers categorised Internet users as risk-averse doubters, open-minded online shoppers and reserved information seekers. The doubters would be unlikely to have much to do with the Internet and could be called laggards, the online shoppers are clearly heavy Internet users and the information seekers use the Internet to find out about products, but then buy from traditional bricks-and-mortar retailers (Barnes *et al.* 2007).

Social media

The use of social media has grown greatly in recent years. Rapid developments of the Internet and mobile technology have resulted in an enormous number of people having instant access to social networking sites.

Xie and Stevenson (2014) define social media as 'a means of communication through the internet that enables social interaction'. Typically this interaction would be undertaken through a range of social networking sites such as the following:

- Facebook. In the first quarter of 2018, Facebook had 2.9 billion monthly active users worldwide (statista.com). Facebook dominates the social landscape with 90 per cent of social media users using at least one Facebook service (www.globalindex.com).
- YouTube is the top site for visitation usage (www.globalindex.com).
- Instagram has 1 billion monthly active users (statista.com). Instagram is ahead of Twitter for 16–44-year-olds (www.globalindex.com).

- Twitter has more than 337 million monthly active users (www.internetlivestats.com) and 500 million tweets are sent every day (Aslam 2018).
- LinkedIn is the most popular professional networking site with over 500 million users (O'Donnell 2018), 250 million of which are active monthly (Aslam 2018) and over 18 million businesses with a company page (Smith 2018). Over 40 million students and recent graduates are on LinkedIn (Aslam 2018).

Despite the vast numbers of people already signed up to social networks, numbers continue to grow. The number of social media users worldwide in the first half of 2018 was 3.196 billion, which represents a growth rate of about 13 per cent year on year (Chaffey 2018).

Furthermore, these social networking sites are no longer dominated by a younger market. In 2017, 82 per cent of over 55s utilised social networks and spent 27 hours per week online (Aden 2017).

Marketers need a social networking presence in order to remain competitive and to maintain brand awareness. Therefore, more and more organisations are looking to social media to promote their services and interact with their customers.

Social networking sites allow information to be shared very quickly, so are an ideal vehicle for word-of-mouse marketing. On the other hand, the impact may be negative if the customer is dissatisfied with a company's products or services since it is easy for negative comments to be spread very quickly.

Social networking sites also offer opportunities for researching actual and potential customers. Marketers can gain instant access to customer views and ideas. As social networking is a two-way process, marketers can create a dialogue with their customers, which offers huge potential for capturing and maintaining customer attention, building relationships and encouraging brand engagement on an ongoing basis.

Tafesse and Wien (2018) discuss research undertaken by Stephen and Bart which highlights three main types of information flow with social media which companies need to understand:

1. *Firm to consumer* – this is done through social media ads and brand advertising
2. *Consumer to firm* – the company can gain valuable information and insights as customers offer comments, reactions and opinions to products, brands and services
3. *Interaction among consumers* – for example, this may happen through word of mouth and brand communities.

It is important for companies to be aware of the various interactions in order to understand customers and create engaging content to encourage customer interactivity and engagement. Despite the fact that companies know how important this is, many still struggle with implementing an effective social media marketing campaign, with social media platforms being used in an ad-hoc way rather than as part of a holistic promotional strategy (Tafesse & Wein 2018; Parsons & Lepkowska-White 2018).

Therefore, it is important for a company to develop a social media marketing strategy. Rauschnabel (2016) and Felix *et al.* (2017) suggest this consists of four dimensions:

1. *Scope.* Which stakeholders does the company use social media to reach – a few or many?
2. *Culture.* The extent to which internal stakeholders buy into the idea of social media as an approach to getting the message out to the customer
3. *Structure.* How is social media marketing organised in the firm? Is there a person or team responsible? Or is it the responsibility of all?
4. *Governance.* The rules and guidelines as to how social media is organised within the organisation.

It is useful for a company to think about where it sits within each of these dimensions in order to pave the way for a clear, holistic social media marketing strategy.

Research by Parsons and Lepkowska-White (2018) focuses on the actions managers undertake when implementing and encouraging interaction with social media. They have developed a useful tool to help firms implement and maintain social media marketing. It helps to identify actions that managers may need to take when developing their social media marketing strategy.

Once a social media marketing strategy has been implemented, companies need to know whether it is working and how customers have responded to various campaigns and content posted on different social media platforms. Measuring **Return on Investment (ROI)** is crucial to ensure that you are managing time and resources effectively and efficiently. Return on Investment in the context of social media marketing refers to how motivated customers are to use social media to engage with your brand. Firstly, it considers measurement of areas such as number of visits to a social media site, the number of Facebook likes and retweets on Twitter etc. and reviews key marketing outcomes such as increases in awareness or word of mouth (Hoffman & Fodor 2010).

Secondly, this information then needs to be evaluated in terms of how it contributes to your sales, conversions, meeting your overall revenue or company goals.

ROI is a concept that a large number of organisations struggle to deal with. Within many companies, there is a significant gap in knowledge as to how to calculate social media ROI (Michopoulo & Moisa 2018) as it can be a complex process. However, when done correctly, ROI measurement can be an important tool in developing a well-designed social media marketing campaign.

In summary, Tafesse and Wien (2018) propose that firms need to create a formal strategy when developing a social media campaign, which should clearly set out the campaign goals, key target segments and relevant communication channels. This should, in turn, align with the overall marketing strategy. Finally, they suggest that good-quality social content, an active presence and encouragement of customer engagement is the key to a successful social media marketing strategy.

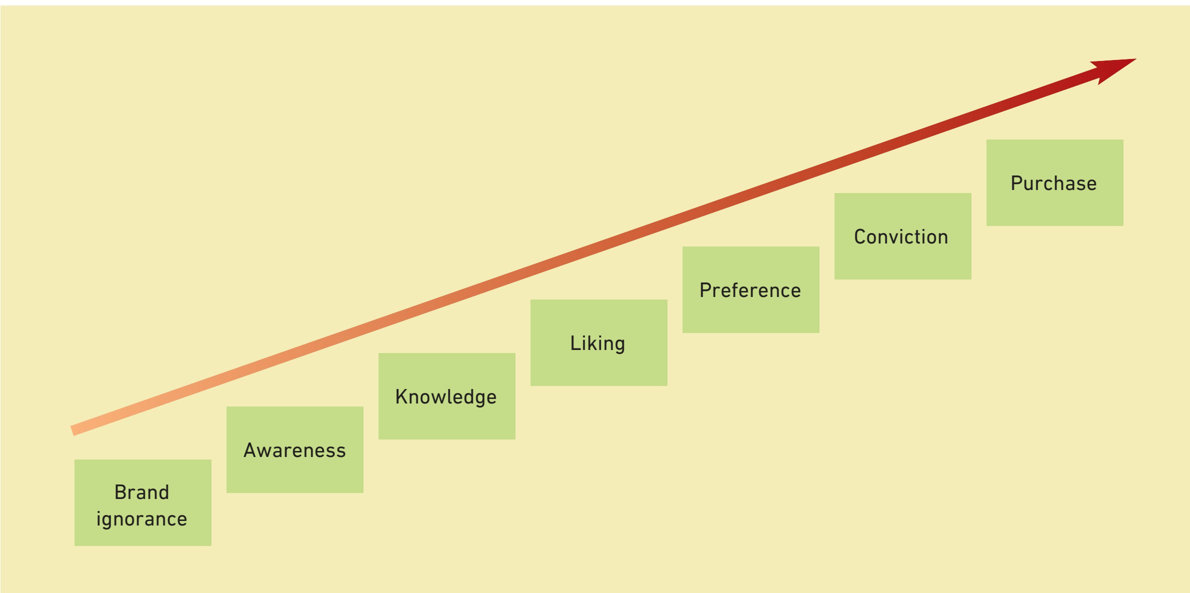
Integrating the promotional mix

Communication does not necessarily create all its impact at once. A series of communications will move the recipient up a 'ladder' of effects, as shown in Figure 9.7. At the bottom of the ladder are those consumers who are completely unaware of the product in question; at the top of the ladder are those who actually purchase the product.

Given the differing nature of the consumer's involvement at each stage of the hierarchy, it is clear that no single communication method will work at every stage. Equally, not every consumer will be at the same stage at the same time; therefore it follows that several different communications approaches will need to run at once if the communications package is to work effectively.

- In the early stages of a product launch, moving consumers from *brand ignorance* to *brand awareness* will be largely the province of advertising. At first, the marketer needs to get the consumers' attention and prepare them for the more detailed information which is to follow. A teaser campaign is almost entirely concerned with creating awareness.

Figure 9.7 The hierarchy of communications effects



- Having made the target audience aware of the product, the next stage is to build *knowledge.* Again, mass advertising will play a major role, but if the product is complex it may be necessary to use **mailshots**, **social media** or other more personal communications. This is because the emphasis is on providing information about the product: what it is, what it does, how it works and even that it works at all. In some cases an element of prior knowledge can be assumed: for example, most people would already know that fluoride is a good thing to have in toothpaste; not quite so many would know that it helps prevent tooth decay; and very few would know how it works.
- *Liking* for the product might come from trying it (perhaps through a sales promotion), from reading positive news stories about it (PR and/or social media) or from persuasive advertising. Liking is an attitude towards a product, and therefore has elements of affect, cognition and conation (see Chapter 3).
- *Preference* for the product implies comparison with other brands, so is very much concerned with positioning. An important point to note is that preference will come about only if the product matches up to (or exceeds) the claims made for it in the earlier advertising; if the claims made were inaccurate, unrealistic or simply misunderstood, the consumer will be disappointed and will not buy the product again. Also, preference implies that the consumer will need to have sufficient knowledge of the pros and cons of other brands; salespeople will play a role in this part of the process if the product is a high-value one, since they will often be able to point out the drawbacks of competing brands.
- **Conviction** may come about only after several trials of the product (if it is a fast-moving consumer good) or after a lengthy discussion with a salesperson if the product is a high-value or high-involvement item. **Adoption** is the final stage of the process, when the consumer builds the product into his or her daily life.

There is likely to be some 'slippage' because it is not possible to expose all the target audience to the communication at the same time. Also, some consumers will already know more than others about the product category. Marketers will need to overlap the promotional effort to give maximum coverage.

One of the problems with the hierarchy of communications effects is that it implies that the process is invariably linear. This is not necessarily the case; an individual can become aware of a product and form an instant liking for it without having detailed knowledge of the product. Equally, it is perfectly possible for a consumer to buy a product on impulse and form an opinion about it afterwards.

Having said that, the hierarchy of effects model is helpful in planning communications campaigns, since different communications methods and styles can be used according to the consumer's level on the hierarchy. For example, when a new product is introduced (or a product is introduced into a new market), few of the target audience will know anything about it.

CASE STUDY 9 BMW

Bayerische Motoren Werke was founded in 1916, in the middle of the First World War. The company's purpose at that time was to manufacture military aircraft engines: its Illa engine was known for good fuel economy and high-altitude performance, so orders from the German Government meant that the company expanded very rapidly.

Following the end of the war, the Treaty of Versailles forbade Germany from producing weapons of war. At first, the company switched to producing farm machinery and household equipment, but in 1923 (as the Versailles restrictions were beginning to ease) the company began production of motorcycles, and in 1928 it took over another company which was manufacturing copies of the British-designed Austin 7 under licence.

By 1933 the company was designing its own vehicles, and as Germany re-armed during the 1930s the company went back to aircraft engine manufacture. Aircraft engines require a very high degree of engineering skill in both design and manufacture, since they have to be extremely reliable, lightweight and powerful.

After the Second World War ended, BMW were again forced to cease manufacture of engines and revert to making pots and pans. However, the restrictions were soon lifted and the company could return to making cars – despite having its East German facilities confiscated by the Russians, and the designs for its cars confiscated by the British (the Bristol Aircraft Company began making cars in the UK using designs pinched from BMW's offices at the end of the war).

By 1959 the company was in debt and in serious trouble – the new models were not popular, people were moving away from motorcycles and towards cars as the German economy began to boom, and BMW's flagship cars were too expensive to sell well.

In the early 1960s BMW began to run advertising which explained why the cars were more expensive than others. These adverts were often very 'wordy', with technical explanations. Here's a brief quote from one that ran in the USA:

> Recently we brought out a new BMW, the newest in a line that stretches back through fifty years of producing great automobiles: the model 1600. That's it on the left. When Car and Driver tested the 1600, with its magnificent engineering, superb appointments, and 100-mile-an-hour cruising speed, they called it the best $2500 sedan they'd ever driven.

The advertisement continues for another half a page, describing both the 1600 and the larger-engined two-litre version (this at a time when US cars were described in terms of cubic inches).

BMW changed advertising agencies at the end of the decade, and the new agency came up with the slogan 'The Ultimate Driving Machine'. The aim was to position the car in terms of quality of engineering, comfort, styling and of course price, without the long-winded explanations and endorsements from car magazines.

To celebrate the company's 100th birthday, BMW commissioned a number of creative film and print ads. FCB Inferno designed a series of print ads which used staggered print so that the reader's eyes would have to move back and forth in order to read the ad: the copy said 'A car that never wanders even if your eyes do'. The ad shows a winding road, but does not show the actual car. Another FCB Inferno creation was a one-minute film called 'Ode to Tarmac', which focuses on the tyres' connection with the road, and has a voice-over extolling the virtues of the road, rather than the vehicle.

This somewhat quirky approach to advertising has served BMW well. Its annual April Fools' Day spoof advertisements in the UK have proved popular – the idea that such a serious company does, after all, have a sense of humour appeals to the British mindset.

Online, BMW continues to use the 'Ultimate Driving Machine' strapline, but of course can allow visitors to its site to search for technical details on specific models. The company has a social media presence, and this helps drive people to the website: however, the brand itself is strong enough that those who are interested seek out the site anyway.

BMW is now one of the largest car manufacturers in the world, and consequently has very large advertising budgets. These are largely directed to traditional media: print, TV and cinema. As time goes by, it's likely that the company will move more of its effort to online advertising, but in the meantime it continues to rely on creative, even quirky advertising.

Case study questions

1. Why would BMW move away from adverts which describe the cars more fully?
2. Why might BMW have a small Web presence?
3. Why might the 'Ultimate Driving Machine' strapline have been so successful?
4. What is the importance of the company's background in aircraft engine manufacture?
5. How might BMW increase its online presence in future?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

High-profile celebrity chefs such as Jamie Oliver and Hugh Fearnley-Whittingstall have called for food companies to think about how they advertise junk food in a bid to improve children's eating habits and childhood obesity.

In 2018 the Government proposed its Childhood Obesity Strategy, which included a ban on price promotions such as buy one get one free offers, a 9 pm watershed for junk food adverts on TV and restrictions on point-of-sales promotions such as sweets at the till and end of aisles in order to tackle the issue of pester power.

Many see this as a positive step to improving the health of children. However, there has been much concern from food and drink manufacturers about the impact that the Childhood Obesity Strategy will have on how the food and drinks industry operates. Some are worried that it will prevent such companies from being able to promote their healthier options and ultimately impact on sales.

Is this fair on the food and drink manufacturers?

Should these companies be given the opportunity to take more responsibility for promoting healthier choices?

Is it unethical to promote food and drinks that are deemed to be less healthy than other options?

Should it be the consumer's choice?

Should it be down to parents and/or schools to educate children about their eating habits?

Summary

This chapter has been about the ways companies communicate with their publics. In it we have looked at the main promotional tools that marketers have at their disposal, and at the strengths and weaknesses of each of those tools.

Here are the key points from this chapter:

- Communications work best when there is feedback.
- It is essential for the sender of the message to have a common field of experience with the receiver.
- The AIDA model can rarely be achieved with one form of communication.
- The promotional mix is a recipe; the ingredients are not interchangeable.
- Publicity and PR are probably the most cost-effective promotional tools available.
- The media are interested only in newsworthy items, not in thinly disguised advertisements. PR works best when used as part of an integrated programme of activities.
- PR requires a long-term commitment to cultivating the media.
- It is advisable to invest in training anybody who may have to deal with the press, and even more so with TV.
- PR will only help publicise your good points; it will not give you what you have not got.
- Advertising is not the only way to increase sales, and may not even be the best way.
- Advertising needs to be planned and targeted to the right segment to avoid wasting money and effort on people who will not buy the product.
- People will not read long-winded advertisements.
- Artwork is more memorable than copy.
- Selling is about meeting the customer's needs with a suitable product from the range.
- Selling is learned, not somehow magically inborn.
- Sponsorship tends to have strong positive effects on both brand and corporate images.
- The Internet is not without its problems, but Internet marketing is likely to continue to grow in the future.
- Social media is rapidly changing, but it is a vital tool for marketers to maintain brand awareness and build relationships with their customers and potential customers.
- A formal social media strategy is important to ensure success. It should include relevant communication channels and consider Return on Investment.

Chapter questions

Understanding the basics

1. How can sales promotions help a company's production planning process?
2. What are the main advantages of PR over advertising?
3. Which part of the AIDA model does personal selling best achieve?

4 What is the purpose of sponsorship?

5 What are the key issues in establishing a website?

6 What are the benefits and disadvantages of using social media sites when developing marketing campaigns?

7 What is Return on Investment in the context of social media marketing?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1 'The aim of marketing must be to make selling superfluous.' Discuss.

2 'Traditional advertising methods are no longer relevant.' Critically evaluate this notion.

3 'It is often suggested that social media is instrumental in developing strong WOM (word of mouth).' Critically discuss this statement.

Action learning

1 a Select your favourite brand and have a look at what methods of social media it uses. See if you can find them on any review sites, blogs etc.

b Make a note of any positive and negative comments that have been posted by customers.

2 Now, think about your chosen company and make some recommendations as to how the company might improve its social media campaign. Some areas you might want to consider are listed in the table below:

The message	Who is the target audience(s)? Is the content appropriate for the target market? Do the social media platforms encourage two-way conversation/interactivity?
Monitoring online activity	How should your company monitor online activity? From the evidence gathered in your research, can you build a picture of customer needs and preferences? Are there any insights into competitor activity?
Evaluating the social media campaign	How can the information you have gathered be used to strengthen competitive position? Which messages do you think need to be responded to? How would you address them?
Actions to be taken	Should responses to the information you have gathered be individual or should they reach a wider audience? What responses would you give to the customer comments? What would your responses look like? (Give some examples.)

Further reading

***Marketing Communications: Discovery, Creation and Conversations*, 7th edn by Chris Fill and Sarah Turnbull** (Pearson, 2016) gives a very good, readable overview of marketing communications. Chris Fill is a Fellow and former Senior Examiner for the Chartered Institute of Marketing, and the book certainly covers all the necessary ground.

***Marketing Communications: Offline and Online Integration, Engagement and Analytics*, 6th edn by Z. Zook and P.R. Smith** (Kogan Page, 2016) looks at strategic marketing frameworks, addresses social media approaches and considers analytics, as well as including some real-world examples and case studies from a range of recognised brands, which helps to put the key concepts into a relevant context.

***Marketing Communications: A European Perspective*, 6th edn by Patrick De Pelsmacker, Maggie Geuens and Joeri van den Bergh** (Pearson, 2017) is a comprehensive text which looks at communications from a consumer behaviour and branding perspective, within a European context. A wide range of brands are used as examples, which helps the reader to understand the key concepts discussed.

***Digital Excellence: Planning, Optimizing and Integrating Online Marketing*, 5th edn by D. Chaffey and P.R. Smith** (Oxon, Routledge, 2017) is a comprehensive book that looks at social media and digital marketing. It's an engaging read and is a practical, easy-to-follow text.

There is an endless list of journal articles surrounding the topic area of marketing communications and promotional tools, making it difficult to select a small number for this section. However, there are some really useful and informative articles in the area of social media marketing listed below:

Alghamdi, F., Papagiannis, F. and Michaelides. Z.: 'The marketing value of social media tools to business level strategy', *Journal of Media Critiques*, **3** (11) (2017) offers a basic overview of social media tools, considering the advantages and disadvantages of each.

Felix, R., Rauschnabel, P. and Hinsch, C.:' Elements of strategic social media marketing: A holistic framework', *Journal of Business Research*, **70** (2017), pp. 118–26. Rauschnabel is a key researcher in the field of social media marketing. The framework discussed in this article has been used as the basis for discussion in a range of research and a number of journal articles.

Parsons, A. and Lepkowska-White, E.: 'Social media marketing management: a conceptual framework', *Journal of Internet Commerce*, **17** (2) (2018), pp. 81–95. The article is referred to in this chapter. The framework that the authors have devised is discussed in the section on social media.

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10

Marketing planning, implementation and control

Objectives

After reading this chapter you should be able to:

- Analyse the firm's current situation and develop a forward strategic plan
- Explain the difference between strategy and tactics
- Explain the main issues surrounding budgeting
- Describe the basic approaches to budgeting
- Set up systems for the monitoring and control of your plans
- Develop strategic approaches to integrating a firm's marketing activities.

Introduction

This chapter is about integrating and coordinating the firm's marketing efforts, producing marketing plans and ensuring that the plans are carried out in a cost-effective manner. In most cases, marketing planning takes place in the context of overall corporate strategy, which may or may not be market-oriented; in any event, marketers have to decide where the organisation's resources need to be directed to ensure customer satisfaction and maximise opportunities for exchange.

The marketing planning process

The basic process of planning is as shown in Figure 10.1. Strategic decisions concern the overall direction of the organisation. **Strategy** is about where we want to be; decisions on **tactics** are about how we are going to get there.

Strategic decisions tend to be difficult to reverse; they usually involve a rejection of other strategic options and they generally involve strong personal commitment on the part of the decision-maker. Tactical decisions are relatively easy to change, involve less commitment and can often run alongside other options. A comparison of strategic and tactical decisions is given in Table 10.1.

Figure 10.1 The marketing planning process

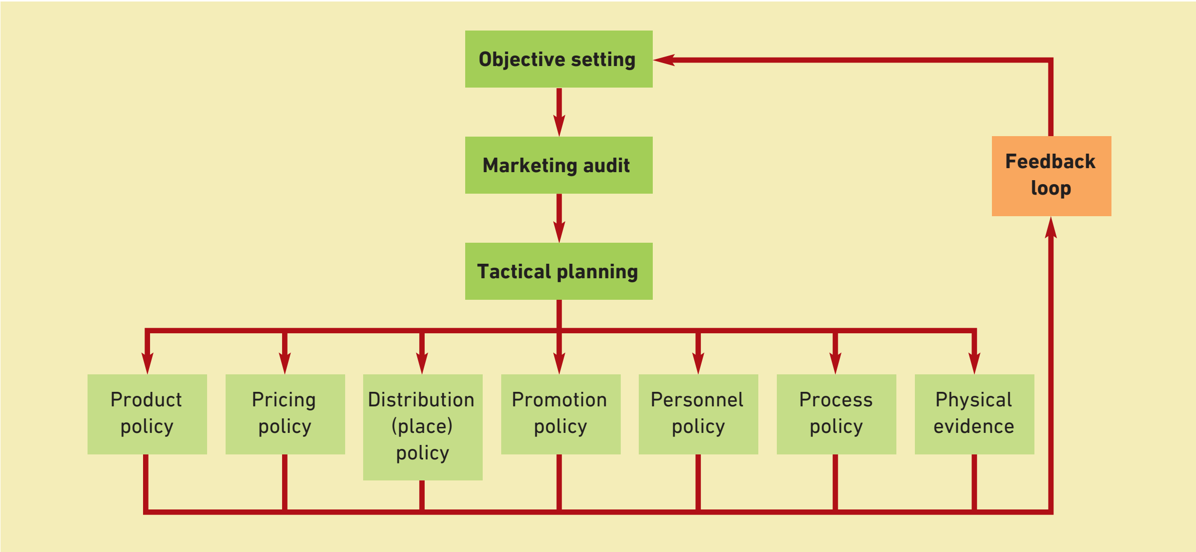

Table 10.1 Comparison of strategic and tactical decisions

Strategic decisions	Tactical decisions
Concern overall direction	Concern methods of achievement
Difficult to reverse	Relatively easy to change
Involve rejection of alternatives	Allow combination of alternatives
Long-term view	Shorter-term view

Strategy must be integrated across the whole range of marketing activities; it must be formulated in the light of good analysis of the environment and it must include a feedback system so that the strategy can be adapted in the light of environmental changes. Strategy is influenced by organisational objectives and resources, competitor activities, the structure of the market itself and the firm's willingness to make changes and take risks.

From an overall strategic perspective, marketers need to decide on the following issues and formulate strategies for coping with them:

- Which market should the firm be in?
- What strengths and weaknesses is the firm bringing to the marketplace?
- Where does the firm intend to be in the long term, i.e. in 5–30 years' time?
- What will the firm's competitors do in response to the market?
- Does the firm have sufficient resources to achieve the objectives decided upon?

The first stage in the planning process is to determine where the firm is now. This can be determined by carrying out a marketing audit.

The marketing audit

In marketing, strategic planning revolves around issues such as launching new products, changing brand names, deciding which segments to target and designing new promotional campaigns. The **marketing audit** is a review of the firm's current objectives, strategies, organisation, performance and activities, and its primary purpose is to pick out the firm's strengths and weaknesses so that managers can improve on them in future. It evaluates how effectively the organisation is performing its marketing tasks within the context of the seven Ps – products, price, place, promotion, people, processes and physical evidence (Parmerlee & American Marketing Association 2000).

The marketing audit is a snapshot of what is actually happening in the firm now. It should therefore be carried out on a fairly regular basis – within the limits of the amount of money that can be allocated for the task and the amount of time that can be spared from doing the marketing tasks at hand.

Table 10.2 shows an overview of the scope of the marketing audit. Such an audit encompasses the SWOT and STEP analyses introduced in Chapter 2, but goes into considerably more detail. Once the exercise has been carried out, managers will have a very clear idea of what needs to be changed to meet the firm's objectives.

Table 10.2 The marketing audit

Main areas	Subsections	Issues to be addressed
Marketing environment audit		
Macro-environment	Economic–demographic	Inflation, materials supply and shortages, unemployment, credit availability, forecast trends in population structure
	Technological	Changes in product and process technology, developments in online communications and mobile marketing, generic substitutes to replace products
	Political–legal	Proposed laws, national and local government actions
	Cultural	Attitude changes in the population as a whole, changes in lifestyles and values, general demographic trends
	Ecological	Cost and availability of natural resources, public concerns about pollution and conservation
Task environment	Markets	Market size, growth, geographical distribution, profits; changes in market segment sizes and opportunities
	Customers	Attitudes towards the company and competitors, decision-making processes, evolving needs and wants
	Competitors	Objectives and strategies of competitors, identifying competitors, trends in future competition
	Distribution and dealers	Main trade channels, efficiency levels of trade channels
	Suppliers	Availability of key resources, trends in patterns of selling
	Facilitators and marketing firms	Cost and availability of transport, finance and warehousing; effectiveness of advertising (and other) agencies
	Publics	Opportunity areas, effectiveness of PR activities
Marketing strategy audit	Business mission	Clear focus, attainability
	Marketing objectives and goals	Corporate and marketing objectives clearly stated, appropriateness of marketing objectives
	Strategy	Core marketing strategy, budgeting of resources, allocation of resources
Marketing organisation audit	Formal structure	Seniority of marketing management, structure of responsibilities
	Functional efficiency	Communications systems, product management systems, training of personnel
	Interface efficiency	Connections between marketing and other business functions
Marketing systems audit	Marketing information system	Accuracy and sufficiency of information, generation and use of market research
	Marketing planning system	Effectiveness, forecasting, setting of targets
	Marketing control system	Control procedures, periodic analysis of profitability and costs
	New product development system	Gathering and screening of ideas, business analysis, pre-launch product and market testing
Marketing productivity audits	Profitability analysis	Profitability of each product, market, territory and distribution channel. Entry and exit of segments
	Cost-effectiveness analysis	Costs and benefits of marketing activities

(*continued*)

Table 10.2 continued

Main areas	Subsections	Issues to be addressed
Marketing function audits	Products	Product portfolio; what to keep, what to drop, what to add, what to improve
	Price	Pricing objectives, policies and strategies. Customer attitudes. Price promotions
	Distribution	Adequacy of market coverage. Effectiveness of channel members. Switching channels
	Advertising, sales promotion, PR	Suitability of objectives. Effectiveness of execution format. Method of determining the budget. Media selection. Staffing levels and abilities
	Salesforce	Adequate size to achieve objectives. Territory organisation. Remuneration methods and levels. Morale. Setting quotas and targets

Source: From Kotler, P., *Marketing Management*, 11th edn © 2003. Reprinted by permission of Pearson Education Inc., Upper Saddle River, NJ.

Corporate objectives

Corporate objectives are the strategic statements of where the company wants to be. The objectives might be as follows:

- *Financial:* market share, sales, profit, return on investment, etc.
- *Philosophical:* perhaps a mission statement expressing the core values of the organisation
- *Qualitative:* service levels, innovation etc.

Corporate objectives often involve trade-offs, since all firms have limited resources and can concentrate on only one area at a time. In some cases the trade-offs involve diametrically opposed objectives. Weinberg (1969) proposed a set of eight trade-offs in setting objectives, as follows:

1. Short-term profit versus long-term growth
2. Profit margin versus market positioning
3. Direct sales effort versus **market development**
4. Penetrating existing markets versus developing new ones
5. Profit versus non-profit goals
6. Growth versus stability
7. Change versus stability
8. Low-risk versus high-risk environments.

Setting the overall corporate objectives may indicate strategic sub-objectives; Table 10.3 contains some examples of strategic objectives.

Table 10.3 Strategic alternatives

Strategic objective	Explanation
Backward integration	Taking control of suppliers, either by purchase or by merger
Forward integration	Taking control of customers (in industrial or commercial markets)
Horizontal integration	Taking control of competitors
Concentric diversification	Developing new products that fit well with the existing product range, but delivering them to new markets
Conglomerate diversification	Developing new products that are unrelated to the firm's existing technology. This is a high-risk strategy (see Chapter 6)
Horizontal diversification	Introducing new products (unrelated to the present range) into existing markets. For example, Virgin markets everything from CDs to life insurance to the same target group of consumers

As a general rule, most firms want to grow. Growth increases the firm's security in the market; it increases the power and influence of managers (not to mention their salaries) and it reduces costs. There are four main advantages to growth, as shown in Table 10.4.

Table 10.4 Advantages of growth

Advantage	Explanation
Protection against competition	If the firm becomes the largest in the industry this can create a barrier to entry, therefore competitors find it harder to enter the market. Growing firms are able to apply more resources to the market and take away market share from their competitors, thus reducing their competitors' ability to compete effectively.
Improved economies of scale	Greater size means greater efficiency in the purchase of raw materials, use of employee skills and use of corporate resources. This eventually results in higher profit margins, and consequently a greater ability to survive if business worsens.
Better control of distribution networks	Growing firms are attractive to distributors and suppliers because they will provide more business in the future. This gives the firm a negotiating advantage.
More opportunities for career advancement	Managers and staff have better opportunities for promotion when working for a growing firm. This means greater motivation, which in turn means improved working practices.

Growth in growing markets is likely to happen in any case, even without any formal strategic attempts to encourage it; the key to success here lies in measuring whether the company is growing faster than the market, slower than the market or at the same pace as the market. Often firms that express their growth objectives in financial terms fail to notice that they are growing more slowly than the market and are thus (in effect) losing ground to competitors. Expressing growth targets in terms of market share will avoid this pitfall, although obviously a reliable measure of the overall size of the market needs to be available.

Once managers have a clear picture of where the company is and where they wish it to be, it is possible to move on to planning the tactics.

Internationalisation strategy

Although governments encourage firms to internationalise (and in particular to export), this is not in itself enough reason to seek markets overseas. Table 10.5 shows some of the other reasons that firms have for becoming international.

Table 10.5 Rationale for international marketing

Reason	Explanation
Small or saturated domestic markets	If the firm cannot expand any further in its domestic market, further growth can occur only by internationalising. In fact, most firms would go international long before the domestic market is saturated, if only because it would be easier to enter the overseas markets than to extract the last possible sales from the domestic market.
Economies of scale	For many industries, notably the electronics industry and the chemical industry, the cost of initiating a new product is so huge that it needs to be spread across a very large production run. Automation of production lines is making this more of an issue for more and more firms; recouping the capital cost of automation almost forces the firm into global markets.
International production	The capacity to source components and assemble finished products on a global scale means that the firm can take advantage of the most competitive prices worldwide. Shipping costs are relatively low compared with the savings made.
Customer relationships	Manufacturers who supply multinational firms must themselves be able to deliver worldwide and price in any currency to supply assembly plants in different countries.
Market diversification	The broader the range of markets served, the less likely that the firm will suffer if one market fails. For example, recessions do not usually happen in all countries at the same time; a truly multinational company will be able to make up losses in one market with gains in another. This was even true during the world financial crisis of 2008–12: Australia, China, Brazil, Russia and many other countries continued to grow throughout the crisis.
International competitiveness	No firm is immune from competitors coming in from outside. If a firm is to remain viable in the long run, it may be forced to meet foreign competition on their own ground before having to meet it in the domestic market.

A further reason for internationalising is that the product life cycle will vary from one country to another. What is a mature product in one country may be at the introduction stage in another, so that the firm gains all the advantages of introducing new products to the market without the costs of research and development that would result from developing new products for the domestic market.

When dealing with foreign markets, marketers will meet barriers that would not be present in domestic markets. In addition, of course, marketers will sometimes find advantages that would not be present in the domestic market. Table 10.6 shows

Table 10.6 Internationalisation and the seven Ps framework

Element of the marketing mix	Effect in international markets
Product	Different cultural, climatic, technical or economic issues will affect product design. Modification of product policy ranges from the obvious issue of electricity supply to more subtle cultural differences (e.g. Americans prefer top-loading washing machines; Europeans prefer front-loaders). Chinese consumers do not like very sweet flavours in comparison to Europeans, so manufacturers may reduce the sugar content in food products. Japanese people desire beautiful packaging, so many companies adapt their packaging for this market. Car manufacturers often use different types of filters and clutch systems when producing vehicles in the Middle East due to the hot, dusty climate and in lesser developed countries and those countries where a large proportion of the population is very poor (e.g. India), manufacturers of products such as sweets, shampoo and coffee will package these items into small, single units to make them more affordable.
Place	Distribution systems vary internationally. There are relatively few hypermarkets in Italy compared with Spain. Forty-two per cent of consumers from France, Germany, the UK and Sweden used click & collect in 2017 (Ecommerce News 2017). Research shows that British consumers are spending significantly more online than most other countries (Peachy 2017), they display the highest frequency of online shopping and buy more food online than anywhere else in the world (Gerrard 2017).
Promotion	Clearly, promotion issues are deeply affected by cultural differences. This is why advertisements shown on foreign TV stations often seem humorous.
Price	Pricing is usually done in the currency of the target country. This leads to problems with exchange-rate fluctuations, which can be overcome by buying or selling currency on the futures markets; most banks can arrange this. Price image is also important, for example using an 'everyday low price' works in the UK and US, but in Japan this is often associated with poor quality, making Japanese shoppers wary!
People	Employing foreign sales staff, for example, can lead to problems in motivation, communication and control.
Processes	In Brazil it is normal for patrons of bars and restaurants to pay the cashier for meals or drinks, receive a receipt, then order the items from the waiters. In Spain it is normal to pay for drinks only when leaving a bar. Processes do not necessarily cross national boundaries.
Physical evidence	Refers to tangible elements and servicescapes which enhance customer experience and make the brand memorable. Airlines pay a lot of attention to design with distinctive uniforms and aircraft colours so that they stand out from their competitors, as well as logos printed on seats, food packaging, in-flight brochures, etc. Disneyland uses physical evidence such as colourful signage, brand logos, branded goods and costumed staff to create a magical, fun and exciting atmosphere as well as to create happy memories to remind customers to come back!

how internationalisation affects the seven Ps. The basic problem for companies who seek to internationalise is that nothing can be taken for granted in a foreign country. This places a heavy premium on forward planning.

Overall, a firm's internationalisation strategy decisions will depend on the following factors:

- The size of the firm in its domestic market
- The firm's strengths compared with overseas competitors
- Management experience of dealing in other countries
- The firm's objectives for long-term growth.

Having chosen a target country, the marketer is in a position to decide which market entry tactics are appropriate to the case. There are five basic strategies for entering foreign markets, as shown in Table 10.7.

Once the approach to the promotion and product development strategies has been decided, the firm needs to choose an entry strategy. The **stages of development** model suggests that firms seeking to internationalise go through a series of stages.

Table 10.7 International market entry strategies

Strategy	Explanation
Keep product and promotion the same worldwide	The advantage of this is that it minimises entry costs. Coca-Cola often uses this approach, using basically the same advertising worldwide but translating any voice-overs into the local language. The major drawback of the approach is that it takes no account of local customs and attitudes, and tends to lead to a 'lowest common denominator' advertisement which can be understood by everybody and offends nobody.
Adapt promotion only	The product remains the same, but the promotion is adapted to local cultural norms. This is a fairly common approach, since it enables the marketing communications to reach the consumers more effectively while at the same time avoiding a redesign of the product itself. This approach is often used within the cosmetics industry where certain products may be used in different ways and by different targets markets within international markets.
Adapt product only	This is less common, but has been done by some detergent manufacturers to allow for differences in local water supplies and washing machines. Likewise, the supposedly 'global' Ford Focus is substantially modified for different markets to meet local emissions standards and road safety laws. The redesigned Ford Focus launched in 2019 has altered body styles and a 'sporty' look for the European and Chinese market, and the engine sizes in Europe are slightly larger than those for the Chinese market (Thibodeau 2018).
Adapt both product and promotion	Sometimes it is necessary to adapt both the product and the promotion, as in the case of Cheer washing powder, a Procter & Gamble product marketed in Japan. Cheer was reformulated to allow for the extra fabric softeners the Japanese use, and the promotion emphasised that the powder worked well in cold water (since most Japanese wash clothes in cold water).
Invent new products	If the existing products cannot meet the conditions in the new market, a new product must be invented. For example, the clockwork radio was invented for use in countries where there is no mains power supply and batteries are difficult to obtain.

- *Exporting* implies the smallest commitment to the foreign market. Here the manufacturer sells the firm's products to a foreign importer, who then handles the marketing of the product. The advantage of this approach is that it involves the least cost; the disadvantage is that the exporting firm has little or no control over the way the product is marketed or used in the foreign market. This could lead to problems later on as the firm's reputation may be adversely affected. **Export agents** bring together buyers and sellers and are paid on commission; **export houses** buy goods for export to foreign countries. Sometimes foreign buyers will deal direct with companies, and some major stores maintain buying offices in foreign capitals.
- *Establishing a sales office* in the foreign market might be a next stage. This implies a greater financial commitment, but also gives more control. **Joint ventures** involve collaborating with a same-nationality firm that is already in the target market or with a foreign firm in its own country. A joint venture could involve a **piggy-backing** arrangement, under which one firm agrees to market the other firm's product alongside its own. This works best if the firms have complementary, non-competing products. For example, a cosmetics firm may agree to carry a perfumer's products. **Licensing** agreements allow a foreign manufacturer to use the firm's patents: for example, designer brand sunglasses such as Dior, Gucci, Prada, Armani and Versace are not made by the companies themselves; they license their brand to an eyewear manufacturer who produces the sunglasses for them. **Franchising** is similar; the franchisee agrees to run the business to a specific format. McDonald's restaurants are an example.
- *Overseas distribution* would involve establishing a warehousing and distribution network in the foreign country. This gives strong control over the marketing of the product, but still relies on importing from the home country.
- *Overseas manufacture* includes warehousing and distribution, but allows the firm to shorten the lines of supply and to adapt the product more easily for the overseas market. In some cases the manufacturing costs are lower in the foreign market, so there will be further economies made.
- Finally, the firm might become a true **multinational marketer**. The true multinational firm manufactures and markets in those countries that offer the best advantages. Although such a company may have originated in a particular country, it may well employ far more foreigners than it does its own nationals, and will think in global terms rather than national terms.

Broadly speaking, a firm can decide on a **globalisation** strategy, by which the company's products and attitudes are basically standardised throughout the world (examples are Coca-Cola and IBM), or a **customisation** strategy, where the company adapts its thinking and its marketing to each fresh market (examples are Nestlé and Procter & Gamble). As global barriers to trade break down, more and more companies will be taking an international view of their marketing opportunities and will be seeking to do business across national borders and cultural differences.

An alternative view of internationalisation strategy is the **eclectic theory** proposed by Dunning (1993). Broadly, this theory supposes that the firm will look at its specific advantages over other firms both at home and overseas, and will plan its market entry strategies accordingly without necessarily going through a series of stages. For example, a firm with a strength in franchising is likely to use franchising as a market entry method into overseas markets, rather than begin by exporting, then setting up a salesforce and so forth. The eclectic paradigm also has implications for production, since a true multinational will produce in whichever country offers the best advantages. Ford, for example, produces many of its petrol engines for its European cars in Wales, exporting them for assembly into car bodies in Germany and elsewhere, and perhaps later re-importing them back into the UK. Since transport costs are relatively low compared with the final price of the car, Ford deems it worthwhile to centralise production of the various components. In addition, the company can take advantage of government incentives to locate in high unemployment areas and can also use transfer pricing to minimise its tax liabilities.

Whether firms adopt the 'born global' approach of Dunning or the incremental approach does not appear to be dependent on the characteristics of the firms themselves. Most characteristics of 'born global' firms are shared with those taking an incremental approach, the difference between them depending on the attitudes of the managers rather than the nature of the firm (Chetty & Campbell-Hunt 2004).

In practice, of course, the Internet has made most firms global. Any firm with a website can be accessed from anywhere in the world, and in many cases orders for products can be placed on the website; whether delivery is achievable is, of course, another question.

Tactical planning

Because marketers are usually looking for a competitive edge, they will usually try to offer their customers something that is unavailable elsewhere. In this respect, marketing differs from the other main business disciplines. If the legal directors were swapped over from one competing firm to another, they would have no trouble in carrying on with their jobs; the law remains the same for firms in the same industry. If the finance directors or the production managers were exchanged they would simply carry on working, because each industry operates with its own financial structure and production techniques. If the marketers were swapped, though, they would probably be completely lost for the first few weeks, because each would be addressing a different segment of the market, dealing with different distributors, different clients, different overall philosophies and different promotional campaigns.

For example, cosmetics are traditionally sold in pharmacies and department stores. Yet Avon Cosmetics became one of the world's largest cosmetics companies by breaking the rules and selling the cosmetics door to door, training millions of women worldwide in sales techniques and then sending them out to sell to family, friends, neighbours, work colleagues and strangers. Even though the original door-to-door approach is not as popular as it once was and online ordering has become more prevalent, the maverick approach still pays off.

There are three generic strategies (Porter 1980):

- **Cost leadership**, which is about keeping costs low enough to be able to maintain high profits even when competition is strong. There can only be one cost leader in the market, because only one firm can be the cheapest provider.
- **Differentiation**, which means distinguishing the firm and its products from all competitors.
- **Focus**, which is about concentrating on specific segments of the market.

Porter also identifies a fourth strategy, which is a strategy for failure: he says that a firm which tries to combine the above strategies will fail, because it is impossible to be the lowest cost provider while offering a range of products or while concentrating on a small part of the market, owing to the lack of economies of scale.

Competitive tactics will depend largely on the company's current product portfolio and on the activities of competitors. The Boston Group matrix (see Chapter 6) will help in making strategic decisions about which products to keep and which to discard, but the tactical problem still remains of approaching the appropriate markets.

Critical thinking

If Porter was right and there are only three strategies available, how do low-cost airlines figure in the equation? They all try to compete by being the cheapest, yet at the same time they differentiate by flying different routes. It could even be argued that, by flying into and out of obscure regional airports, they are operating on a focus basis.

Maybe they aren't as low-cost as they pretend to be – after all, such airlines should be looking for economies of scale, yet they do not own the largest, most economical aircraft.

The tactical possibilities in a marketing campaign are huge in number. Most of the tactics of marketing involve creativity on the part of practitioners, so it is virtually impossible to lay down any hard and fast rules about approaching different marketing problems. However, the following might prove to be useful guidelines:

- Try to do something that the competition has not thought of yet.
- Always consult everybody who is involved in the day-to-day application of the plans. Salespeople in particular do not like to be told what to do by somebody back at head office.

- Do not expect instant results from anything you do – but monitor the results anyway.
- Ensure that the messages you give the consumers, the middlemen, the suppliers and all your other publics are consistent.
- Be prepared for a response from your competitors – try to anticipate what it might be when you are formulating your plans.
- Communications tools cannot be used to achieve marketing objectives; they can only achieve communications objectives. Marketing objectives may well follow on from this, but this is not a good way to judge a communications medium.

Cost-effectiveness will always be an issue in promotional campaigns, and it is for this reason that there has been a growth in direct marketing worldwide (see Chapter 12). The accurate targeting of market segments made possible by computer technology has enabled marketers to refine the approach, and hence increase the response rate. Marketers now talk in terms of response rates from promotions, not in terms of contact numbers.

When considering tactical options it is useful to remember that marketers talk about mixes: the marketing mix, the promotional mix and so forth. This implies that each area of marketing impinges on every other area and that decisions about (say) advertising tactics cannot be taken independently of decisions about pricing.

Having determined the details of what is to be done, the programme can be implemented. Sometimes the marketing managers will meet with resistance from colleagues from other disciplines (see Chapter 1) and sometimes the plan will need to be revised in the light of experience and later events. There will therefore need to be a degree of flexibility in the plan.

Organisational alternatives

In general, there are five broad ways to organise marketing tasks (see Table 9.2 in Chapter 9).

An extension of the matrix organisation structure is the **organismic** structure. Unlike the traditional **mechanistic** (or **bureaucratic**) pyramid, there is no clear 'boss'. Each individual contributes expertise (and effort) towards achieving the **corporate objectives**. The leader for each task is determined by the project being tackled at the time. This type of structure is typical of small consultancy firms who may be dealing with a wide range of disparate tasks, but can be found in larger organisations or departments of larger organisations. The main advantage of the organismic structure is that it is extremely flexible, which makes it a more appropriate structure for dealing with changing environments. On the other hand, there is some evidence that organismic structures may not be effective in relationship marketing, because of the difficulties inherent in maintaining relationships when people change roles frequently (Desmond 2004).

In smaller firms there may be no specific marketing department, and of course in some firms marketing is not very high on the agenda because the firm has little control over the variables of the marketing mix. Such firms may have a marketing department, but it may be concerned only with running the occasional advertisement, creating social media posts or organising trade fairs.

Promotional strategies

Formulating a promotional strategy is concerned with deciding overall aims and objectives. The aims of the promotion strategy can be selected from the following:

- *Category need* is the aim of persuading consumers that the product will meet a need. This can be difficult when the product is first introduced, particularly if it is a novel product.
- *Brand awareness* is the process of fixing the brand and its characteristics in the consumer's mind. The brand must be made to stand out from the competition and must be positioned accordingly.
- *Brand attitude* leads on from brand awareness. Here the marketer is trying to build a favourable attitude in the consumer's mind; merely being familiar with the brand is only part of the story. (See Chapter 3 for an overview of attitude.)
- *Brand purchase intention* is a positive conation on the part of the consumer. Here the marketer is suggesting that the consumer should 'get some today!'
- *Purchase facilitation* is the part of promotion geared to ensuring that the product is readily available, and the consumer knows where to go to get it.

The above five aims have been presented in sequence, but there is not always a necessity for a promotion strategy to follow exactly this order. Sometimes the earlier stages will already have been covered by other earlier marketers. For example, when Radion washing powder was launched in the UK, the promotion strategy omitted the first stage and went straight to brand awareness. This was achieved by using Day-Glo billboard advertisements with the brand name in one-metre high letters. Having established the brand name, the company could then go on to develop positive brand attitudes, but there was little need to tell the consumers where to buy the product, since they would naturally expect to buy washing powder in a supermarket. Unfortunately, although the brand was recognisable, the product features and benefits were not, and the brand was first withdrawn and then amalgamated into Unilever's better established brand, Surf.

Regarding distribution channels, marketers need to decide whether to adopt a push strategy or a pull strategy, or rather to decide what the balance will be between the two.

Push strategies

Push strategies involve promoting the product only to the next link down the distribution channel; this means selling hard to the wholesalers and letting the wholesalers in their turn sell hard to the retailers, who then push the product out to the consumers. This method has the advantage of being cheap and relatively straightforward, and could be justified on the grounds that each member of the distribution chain is most familiar with the ways of marketing to the next member down the chain. On the other hand, it really cannot be said to be consumer-oriented.

Pull strategies

Pull strategies involve focusing effort on the consumer, on the basis that an increase in consumer demand for the product will pull it through the distribution chain.

A push strategy emphasises personal selling and advertising aimed at the members of the distribution channel. A pull strategy is aimed at the final consumers and emphasises consumer advertising and strong merchandising. Most launch strategies would involve elements of both push and pull. For example, retailers tend to be positive about TV advertising and will stock a product if they know there is to be a TV campaign aimed at consumers. The retailers believe that the campaign will stimulate demand for the product, thus generating sales; it is equally possible that the act of displaying the product prominently is what generates the sales, however.

If the distribution channels are properly managed and are cooperating well (see Chapter 8), a pull strategy is indicated: in other words, greater effort can be devoted to stimulating consumer demand, since the other channel members are likely to cooperate anyway. If the channel is uncoordinated or is dominated by the wholesalers or retailers, a push strategy is more likely to work since the channel members will need to be convinced to carry the product line. Again, there will always be elements of both push and pull in any promotional strategy, because channel members and consumers both need to move up the hierarchy of communications effects.

From a tactical viewpoint, the promotional mix should be carefully monitored to ensure that the right things happen at the right times.

Tactical approaches

In the real world, marketers will adopt a combination strategy for setting budgets using several of the methods outlined in Table 10.8. Even an objective and task approach might begin by looking at what the competition is spending (comparative parity approach), if only to determine what the likely spend would have to be to overcome clutter. Likewise, a marketer may be part-way through a campaign and be told by the finance department that no more money is available (or perhaps be told that more than anticipated is available) and will switch to an all-you-can-afford policy.

Setting the right objectives is an essential part of any planning. Without objectives, the organisation as a whole has no clear direction to follow – objectives are what hold organisation members together in achieving success. It is important to distinguish between aims and objectives. An aim is a general statement about the

Table 10.8 **Advertising planning functions**

Planning function	Explanation
Setting the budget	This can be done in four ways. First, the objective and task approach involves setting objectives and setting aside an appropriate amount of money to achieve the objectives. This method is difficult to apply because it is difficult to assess how much will be needed to achieve the objective. Second, the percentage of sales approach sets the budget as a percentage of sales. This is based on the false idea that sales create advertising and usually results in less being spent on advertising when sales fall, thus reducing sales further. Third, the competition matching approach means that the company spends the same as the competition: this means in effect that the firm is allowing its budgets to be set by its enemies. Fourth, there is the arbitrary approach, whereby a senior executive (usually a finance director) simply says how much can be allowed within the firm's overall budgets. This does not take account of how the firm is to achieve the objectives.
Identifying the target	Deciding to whom the ad is to be directed. It is better to approach a small segment of the market than try to use a 'scattergun' approach on everybody (see Chapter 4).
Media planning	This is about deciding where the ads are going to appear. There are two main decision areas: the reach (number of potential consumers the ad reaches) and the frequency (number of times each consumer sees the ad) of coverage. The decision is frequently made on the basis of cost per thousand readers/viewers, but this does not take into account the impact of the ad or the degree to which people are able to skip past it.
Defining the objectives	Deciding what the ads are supposed to achieve. It is essential here to give the advertising agency a clear brief: 'We want to raise awareness of the product to 50 per cent of the adult population' is a measurable objective. 'We want to increase sales as much as possible' is not measurable, so there is no way of knowing whether it has been achieved.
Creating the advertising platform	Deciding the basic issues and selling points that the advertising must convey. This clarifies the advertising agency briefing, or at least clarifies the thinking on producing the advertising materials.

type of things we want to do as an organisation: for example, 'We aim to be the best in our field'. This is not an objective, because there is no way of measuring whether we have achieved it – if only for the reason that we have not specified a timescale. An objective, on the other hand, is a statement of something that we can measure: for example, 'We intend to be the largest supplier in our industry within five years.'

Objectives need to be SMART – in other words:

- *Specific.* The objective needs to be stated precisely, with a clear boundary. Vague statements such as 'being the best' are fine as aims, but since they are likely to be defined differently by different people they are open to misinterpretation.
- *Measurable.* Planners need to have some way of knowing whether the objective has been reached, and if the objective has been missed they need to be able to say by how wide a margin. Many objectives will be expressed numerically (for example, 'We want this campaign to increase brand recognition to 40 per cent of the population'), which is helpful in deciding how far the campaign met, or exceeded, expectations.
- *Achievable.* If the objective is unrealistic, staff will not 'buy into' it and will not try to achieve it. This is especially important when setting objectives for salespeople,

since they can easily decide not to do more than the minimum needed to maintain their standard of living.

- *Realistic.* Planners need to take account of the marketing environment, particularly competitive responses. For the same reasons that an objective must be achievable, planners need to ensure that what they are proposing is realistic within the constraints of the business environment.
- *Time-bound.* Without a timescale, there is no way of measuring whether an objective has been missed. Rather like making a decision to lose weight or give up smoking, unless we say by what date we will do these things the resolution is meaningless. Obviously, if the objective is achieved the timescale is irrelevant, but business objectives should always include a timetable.

Deciding the type of campaign

Whether this stage comes before or after the budget-setting will depend on whether the marketer is adopting an objective and task policy or not. In most cases, though, planning the campaign in detail will come after the budget is known and agreed upon; few companies give the marketing department a blank cheque for promotional spending. Campaigns can be carried out to achieve many objectives; a new product launch was used in the example given earlier, but in most cases the products will be in the maturity phase of the product life cycle (see Chapter 6).

- Image-building campaigns are designed to convey a particular status for the product and to emphasise ways in which it will complement the user's lifestyle. For example, Volvo promotes the reliability and engineering of the car rather than its appearance, thus appealing to motorists who prefer a solid, reliable vehicle.
- **Product differentiation** campaigns aim to show how the product is better than competitors' products by emphasising its differences. In most cases this will take the form of the **unique selling proposition**, or **USP** for short. The USP is the one feature of the product that most stands out as different from the competition, and is usually a feature that conveys unique benefits to the consumer. Mature products often differ only very slightly from each other in terms of performance, so a USP can sometimes be identified in terms of the packaging or distribution. Of course, the USP will only be effective if it means something to the consumer – otherwise it will not affect the buying decision.
- Positioning strategies are concerned with the way consumers perceive the product compared with their perceptions of the competition. For example, a retailer may claim 'lower prices than other shops', or a restaurant may want to appear more upmarket than its rivals. Positioning can be achieved in many different ways, focusing on areas such as price, target market, size, shape, etc.
- **Direct response** campaigns seek an immediate response from the consumer in terms of purchase, or request for a brochure, or a visit to the shop. For example,

a retailer might run a newspaper campaign that includes a money-off coupon. The aim of the campaign is to encourage consumers to visit the shop to redeem the coupon, and the retailer can easily judge the effectiveness of the campaign by the number of coupons redeemed, as well as possibly building a database of more personal customer information that can be used when developing future campaigns.

Putting it all together

To make the best use of the promotional effort, it is worth spending time planning how it will all fit together. The recipe will need to be adapted according to what the product is and how the company wants to promote it.

The elements that marketers need to consider are:

- Size of budget
- Size of individual order value
- Number of potential buyers
- Geo-demographical spread of potential buyers
- Category of product (convenience, unsought, shopping, etc.)
- What it is the firm is trying to achieve.

It is impossible to achieve everything all at once, so marketers plan the campaign as an integrated package. For example, Table 10.9 shows a product launch strategy designed to maximise penetration of a new food product.

Table 10.9 Example of a promotional calendar

Month	Activity
May	Press release to the trade press and retailers.
June	Sales campaign to persuade retailers to stock the product. Aim is to get 50 per cent of retailers stocking the product, so the salesforce tells them a big ad spend is forthcoming. Run teaser campaign.
July/August	Denouement of teaser campaign. Promotion staff appear in major retail outlets offering free samples. Social media posts on Twitter, Instagram and Facebook to create some 'buzz'. Press releases to cookery writers, possibly reports on daytime TV if product is newsworthy enough.
September/ October	Once 50 per cent retailer penetration has occurred, start TV and social media campaign. Brief ad agency to obtain maximum awareness.
January/February	Begin new campaign to *inform.* Possibly use money-off sales promotion, linked promotions etc. Review progress so far using market research. Possibly some press releases, if the product is innovative enough, to the business/cookery press.

Carrying out this kind of planning needs the cooperation of all the members of the marketing team. It is no use having the PR people doing one thing and the salesforce doing something else that negates their efforts. If the campaign is to be effective, it is important that all the team members are involved in the discussions so that unrealistic demands are not made of the team members.

Although this section has used promotional campaigns as an example, the same principles apply to other marketing mix elements. New product development needs to have objectives in place, as does developing a new distribution network.

Monitoring and evaluating marketing performance

Once the plan has been implemented, managers need to make sure it works in practice. Feedback is essential for monitoring performance, and (in an ideal world) no marketing activity would be undertaken without having a monitoring and evaluation system in place beforehand.

There are three basic groups of approaches for performance analysis:

- **Sales analysis**, which looks at the income generated by the firm's activities
- **Marketing cost analysis**, which looks at the costs of generating the income
- Return on Investment analysis, which looks at the responses to digital marketing, social media and online campaigns.

Table 10.10 illustrates some sales analysis measures.

Considerable amounts of information will be needed if the firm is to make effective use of sales analysis to monitor activities. This may involve the firm in substantial market research expenditure since market research is the cornerstone of monitoring and evaluation (see Chapter 5).

Evaluating customers is a particularly important exercise in a relationship marketing scenario. Estimating customer equity (the value of the customers) can be complex; it is a combination of deciding on the profitability of the customer (i.e. a comparison between the cost of serving the customer and the revenue that will result), lifetime value of the customer (how long the relationship is likely to last, coupled with frequency and quantity of purchase) and likely loyalty of the customer (if the customer is likely to defect to a competitor, the customer's value will be low). Once calculated, however, customer equity can be used to focus marketing efforts on the most valuable customers (Kumar & Shah 2015).

The second part of the picture is to examine the cost of achieving the objectives that have been specified. *Marketing cost analysis* is a set of techniques for breaking down the costs of the firm's activities and associating them with specific marketing objectives. Costs can be broken down (broadly) into:

- **Direct costs** such as salespeople's salaries, which can be directly attributable to a given activity

Table 10.10 Methods of sales analysis

Analysis method	Explanation
Comparison with forecast sales	The firm compares the actual sales achieved against what was forecast for the period.
Comparison with competitors' sales	Provided the information is available, the firm can estimate the extent to which marketing activities have made inroads into competitors' business. The problem here is proving that the difference has been caused by the high quality of the firm's marketing activities rather than by the ineptness of the competitors.
Comparison with industry sales	Examination of the firm's performance in terms of market share. This is commonly used in industries where a relatively small number of firms control the market – for example, the car industry.
Cash volume sales analysis	Comparison of sales in terms of cash generated. This has the advantage that currency is common to both sales and costs; it has the disadvantage that price rises may cause the company to think it has done better than it has.
Unit sales analysis	Comparison of sales in terms of the number of units sold, or sometimes the number of sales transactions. This is a useful measure of salesforce activities but should not be taken in isolation; sometimes the figures can be distorted by increased sales of cheaper models.
Sales by geographic unit	Sales are broken down regionally so that the firm can tell whether one or two regions are accounting for most of the sales, and whether some less productive regions are not worth what they cost to service.
Sales by product group or brand	This is particularly important for judging the product portfolio (see the BCG matrix in Chapter 6). This serves two purposes: it is possible to identify products that should be dropped from the range, and it is also possible to identify products that are moving into the decline phase of the product life cycle and should therefore be revived.
Sales by type of customer	This can reveal, for example, that most effort is being expended on a group of customers who make relatively few purchases. May reveal that the firm's customers tend to be ageing, and may therefore be a declining group in years to come.

- **Traceable common costs** such as costs of advertising that can be traced back to specific products
- **Non-traceable common costs** such as the cost of PR or corporate advertising that cannot be allocated to any particular product range or brand.

The main problem with marketing cost analysis lies in organising the firm's accounting systems in such a way as to permit analysis. For example, payroll records may not be easily broken down by job function; it may be difficult to sort out which of the administration staff spend most of their time on marketing-related tasks, or even to find out what the pay bill is for the salesforce. Likewise, defining which jobs constitute marketing jobs and which do not also presents problems.

Clearly, the cost of servicing customers in remote areas is a marketing cost – so should transportation costs be taken into account as well as the salesforce mileage costs? Also, if a given product is not performing well, should we be looking at the costs of production?

Return on Investment analysis is becoming an increasingly important metric on which to analyse marketing campaigns, particularly as so much effort is being placed on online and digital platforms. Return on Investment is about setting realistic, measurable goals for a digital marketing campaign and then analysing the traffic to websites and social media pages, the number of click-throughs, the leads generated and the conversion rates, that is how many people actively engaged with the brand. It's not always about sales, it is about focusing on how engaged the customers are with the brand and the digital content.

For the dyed-in-the-wool customer-oriented firm these answers are obvious, since all the activities of the firm are regarded as marketing activities. In other firms, not all managers agree with the basic premises on which marketing is based. At the very least, many people find it difficult to translate the theory into practice and to gear the organisation's activities towards a consumer orientation (as seen in Chapter 1).

Feedback systems

When a discrepancy appears between the expected performance and the actual performance, the marketing manager will need to take action. This will usually take the following sequence:

1. *Determine the reason for the discrepancy.* Was the original plan reasonable? Have the firm's competitors seized the initiative in some way so that the situation has changed? Is someone at fault?
2. *Feed these findings back to the staff concerned.* This can be in the form of a meeting to discuss the situation, or in the form of memos and reports.
3. *Develop a plan for correcting the situation.* This will probably involve the cooperation of all the staff concerned.

Feedback should be both frequent and concise, and any criticisms should be constructive; managers should never (for example) go to a sales meeting and offer only criticisms since this sends the salesforce out with negative feelings about themselves and the company.

Marketing strategy and planning is much like any other planning exercise; it relies on good information, a clear idea of where the organisation is going and regular examination of both outcomes and methods to ensure that the plan is still on target.

CASE STUDY 10 Pandora

Pandora is a Danish-owned jewellery manufacturer and distributor. The company is headquartered in Copenhagen, but its main manufacturing is based in Thailand, and it markets its products in over 100 countries.

The company's roots go back to 1982, when Per and Winnie Enevoldsen opened a small jewellery shop in Copenhagen. They often travelled to Thailand to source hand-made jewellery for their store, and after a few years they began to supply jewellery wholesale to other stores. In 1987, the company moved to larger premises, a full-time designer was brought in and the company began manufacturing on a larger scale in Thailand.

In Pandora's corporate statement they make clear their commitment to responsible sourcing of gemstones, responsible employment practices, and the idea that the company should benefit all its stakeholders, not least the customers.

In 2005, the company opened its own dedicated factory in Thailand, taking advantage of the lower labour costs there: jewellery manufacture is, of course, labour-intensive and depends on a skilled workforce. Business was so good the company opened more manufacturing facilities in the same area, and now employs almost 14,000 people in Thailand. Employees have free meals, a career path, and paid holidays.

Low production costs and an efficient supply chain mean the company has been able to grow rapidly, and it is now the world's third largest jewellery company (in terms of sales) after Tiffany and Cartier. The jewellery is priced at the lower end, and the company's signature charm bracelet plays a large role in its success. An attempt to move upmarket in 2011 proved disastrous – the company's sales dropped dramatically as it alienated its core customers. Performance returned after the firm returned to the more affordable mass market.

At first the company remained (essentially) a jewellery wholesaler, marketing its branded goods through jewellery outlets owned by others. In the early part of the century, however, Pandora opened its own concept stores, but in 2009 it introduced a franchise system in Australia, and this has now become the main model for physical stores. The company now has 7,700 outlets worldwide, 2,200 of which are its concept stores.

In 2011, Pandora unveiled its online platform for Europe, and thus began to sell the jewellery direct to the end customer via the Internet. E-commerce is now a substantial part of the business, but the majority of Pandora customers still like to visit a store and browse: the online platform allows potential customers to find the nearest store.

Ninety per cent of Pandora's sales are made in the USA and Europe. The company employs 27,000 people worldwide, half of them in Thailand. Managing the logistical problems of shipping such large numbers of valuable goods is a task in itself, as is ensuring the security of the distribution chain.

Case study questions

1 What type of organisation structure should Pandora adopt for its international markets?

2 What problems might there be in adopting the distribution policy that Pandora currently has?

3 Why did the move upmarket fail?

4 What might have prompted the move to franchising?

5 What does the firm's corporate statement tell us about its focus?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

In this day and age, when litigation against companies has become commonplace and social media encourages the spread of not only positive but negative word of mouth, it is becoming increasingly important to consider the ethical stance of an organisation.

Companies should be setting codes of conduct and principles and standards for their marketing decisions when planning and implementing marketing activities.

It has become evident that those companies that include guidelines and structures for ethical issues in their planning process often demonstrate high levels of success, as such activities can help to create a level of trust, making it clear for all stakeholders involved what the company values are. This, in turn, very often helps to enhance corporate image, brand perception and reputation, crucial to today's businesses that are operating in such a competitive environment.

Monitoring and maintaining ethical issues is not always easy, but there may be significant consequences if it is not undertaken. With the introduction of stricter controls through GDPR and more and more pressure being placed on organisations by government bodies and pressure groups, ignoring ethics when implementing a marketing strategy may have severe financial and reputational consequences.

Summary

This chapter has been about the ways in which marketers assemble the elements of marketing into a coherent whole.

Planning is not necessarily a tidy process; there will be many iterations of the plan, and much discussion. The difficulties of foretelling the future and of anticipating competitor response will always militate against a perfect planning scheme, yet the evidence is that companies that plan effectively tend to be more successful than those that do not; if we don't know where we are going, then any road will do to take us there.

Here are the key points from the chapter:

- Marketing is harder than not marketing, but it works better.
- The marketing audit will tell us where we are now; we need to know this to plan our route to where we want to be.
- Objectives are the route map to where we are going as a company, and they need to be SMART (specific, measurable, achievable, realistic and time-bound).
- When considering tactics, be creative. Success in marketing lies in doing something the competitors are not doing.
- Feedback is essential if the plan is to remain on course.
- Plans need to be sufficiently flexible to allow for the unexpected.

Chapter questions

Understanding the basics

1. What is the difference between strategy and tactics?
2. Who should be consulted when setting objectives?
3. Describe three main methods of sales analysis.
4. What is the purpose of integrating marketing tactics?
5. What organisational structures might a multinational computer manufacturer (e.g. IBM) use?
6. Compare Dunning's eclectic theory of internationalisation with the stages of development approach.
7. How has the development of technology and the Internet impacted on the development of strategy?
8. Why is it important to consider Return on Investment when analysing performance?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1. As digital platforms and social media are rapidly becoming a key element of promotion within many organisations, critically evaluate why digital marketers are focusing on Return on Investment to analyse marketing success.
2. 'The concept of the marketing audit was devised over 50 years ago and has little changed over the decades.' Critically assess this notion, commenting on the value and currency of the marketing audit as a strategic tool.

Action learning

1. Identify a company with which you are familiar – perhaps it is an organisation that you have worked for or one that you find interesting. Using the marketing audit framework discussed in this chapter, undertake an audit of your chosen company. You may be able to find useful information on the company website or on databases such as Marketline, Mintel or similar, as well as in trade press and general news websites.

2. Assume the role of Marketing Manager for a mid-size regional retail clothing store. As the high street is becoming a challenging environment to work in, your Director has asked you to undertake an audit and develop a marketing plan for the next five years, to ensure that the company survives. You will need to identify some of the key trends and environmental issues that are affecting the retailing industry and then develop a marketing strategy.

   For this task, you will not have any real internal information to work with (as this is a hypothetical company – although you may wish to identify a small retail chain and use this as your example), but you do need to bear in mind that as a smaller regional chain, you may not have as many resources as many of the major retailers on the high street.

   So, once you have undertaken the audit, you will then need to take this information into account and devise a suitable strategy to ensure that the company can compete and survive in the medium to long term.

   You should present this in report format for your Director.

Further reading

***Marketing Strategy and Competitive Positioning*, 6th edn by Graham Hooley, Nigel Piercy, Brigitte Nicolaud and John Rudd** (Pearson, 2017). This book is written by some of the leading thinkers on marketing strategy and gives a comprehensive account of the development and implementation of a complete strategic plan.

Marketing Strategy: Based on First Principles and Data Analytics is a relatively new text by **Robert Palmateier and Shrihari Sridhar** (Palgrave, 2017). It is based on four key marketing principles: (1) All customers differ; (2) All customers change; (3) All competitors react; (4) All resources are limited. It then uses real-world examples and includes analytical tools and frameworks to makes sense of marketing strategy.

***Marketing Plans: How to Prepare Them, How to Profit from Them*, 8th edn by Malcolm McDonald and Hugh Wilson** (John Wiley & Sons, 2016) gives a practically oriented approach to planning.

***Strategic Marketing Management*, 9th edn by Alexander Chernev and Philip Kotler** (Cerebellum Press, 2018) is a clear concise text which looks at how marketing managers make strategic decisions.

For a B2B approach to marketing management, ***Business to Business Marketing Management: A Global Perspective*, 3rd edn by Alan Zimmerman and Jim Blythe** (Routledge, 2017) is a comprehensive, easy-to-read text which considers the challenges that B2B markets pose and offers a global viewpoint.

Gadau, L.: 'Marketing audit and its importance in achievement of marketing objectives of a company', *Journal of Advanced Research in Management*, 8 (1) (2017), pp. 38–43 effectively explains the layout of a marketing audit and discusses some key reasons as to its importance within the organisation.

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11

Services marketing

Objectives

After reading this chapter you should be able to:

- Explain the role of people, process and physical evidence in service provision
- Describe how empowerment of employees can enhance service provision and improve complaint handling
- Explain the role of risk on consumer decision-making about services
- Describe ways of improving customer loyalty in services
- Appreciate the importance of services in the economy
- Show how to motivate employees in service industries
- Describe the consumer decision process as it applies to service products.

Introduction

In recent years services markets have reached greater prominence in industrialised countries. In part this is because of increased automation, which has meant that physical products are cheaper and easier to produce with fewer employees, and in part it is because there is a limit to how many physical products an individual might want to own. Service industries employ a far higher proportion of the workforce than does manufacturing; 81 per cent of the workforce in the UK are employed in the service sector (ons.gov.uk). In London alone in 2016 (Rhodes 2016), only 2 per cent of employees worked in manufacturing and 94 per cent worked in the services sector. The services markets account for a far higher proportion of GDP than manufacturing – for example, 83.4 per cent GDP for the service sector in the UK in 2018 (ons.gov.uk).

Services versus physical products

For many marketers, the difference between services marketing and the marketing of physical goods is negligible. This is for the following reasons:

- The marketer's definition of a product as being a bundle of benefits. An individual seeking to be cheered up may achieve this by going to a good movie (a service) or by buying a new shirt (a physical product). The benefit is basically the same.
- Difficulties of definition. Most physical goods contain a service aspect and most services contain a physical product. In other words, most products lie somewhere along a continuum between purely service and purely physical products.
- Consumer orientation means that we should be looking at what the consumer thinks, needs and wants, not at defining our product in terms of its characteristics.

Some authors go even further: Vargo and Lusch (2017, 2004) postulate that all products are actually providing a service – a customer buying an electric drill is not buying a drill, nor even buying holes, but is buying a hole-drilling service which is co-created in the interaction between the customer and the physical product. This perspective, called service-dominant logic, has received increased interest in recent years and may well become the dominant view of how marketing works.

Having said that, there are clearly products where the service element is the major part of the cost of the product: for example, a restaurant meal. Here the cost of the raw materials (the ingredients of the food served) is only a tiny part of the overall cost of the meal. A gourmet dinner costing a week's wages may have been made from ingredients costing a tenth of the final bill; the diner is paying for the skill of the chef, the time and efforts of the serving staff, and the pleasure of dining in luxurious surroundings (not to mention not having to do the washing-up). The main differences between service products and physical goods are shown in Table 11.1.

Successful brands in service industries have the following characteristics (DeChernatony & Cottam 2006):

- The companies concerned have a holistic, consistent and integrated approach to branding.
- They focus on excellent customer service.
- They have an ethos which challenges the norm: in other words, they do things differently from competitors.
- They are responsive to change.
- They have a high level of brand literacy: in other words, they understand how branding works.
- There is synergy between the brand and the corporate culture.

Brand strength in service industries is linked to four factors: first, investment in marketing communications; second, contributing to the wider community; third, improving internal communication; and fourth, improving service quality (Grey 2006).

Table 11.1 Factors distinguishing services from physical products

Factor	Explanation and examples
Services are intangible	An insurance policy is more than the paper it is written on; the key benefit (peace of mind) cannot be touched.
Production and consumption often occur at virtually the same time	A stage play is acted out at the same time as the consumer enjoys the performance. Of course, the consumer also enjoys remembering the play and discussing it with friends for some time afterwards, so consumption does continue.
Services are perishable	An airline seat is extremely perishable; once the aeroplane takes off, the seat cannot be sold. Services cannot be produced in advance and stockpiled.
Services cannot be tried out before buying	It is not usually possible to try out a haircut before agreeing to have it done, nor will restaurants allow customers to eat the meal before committing to ordering and paying for it.
Services are variable, even from the same supplier	Sometimes the chef has a bad day or the waiter is in a bad mood; on the other hand, sometimes the hairdresser has a flash of inspiration that transforms the client's appearance.

Martin Strandvik and Heinonen (2013) add to this, suggesting that brand strength is also linked to how current, prospective and dormant customers about feel about a brand, based on their experiences.

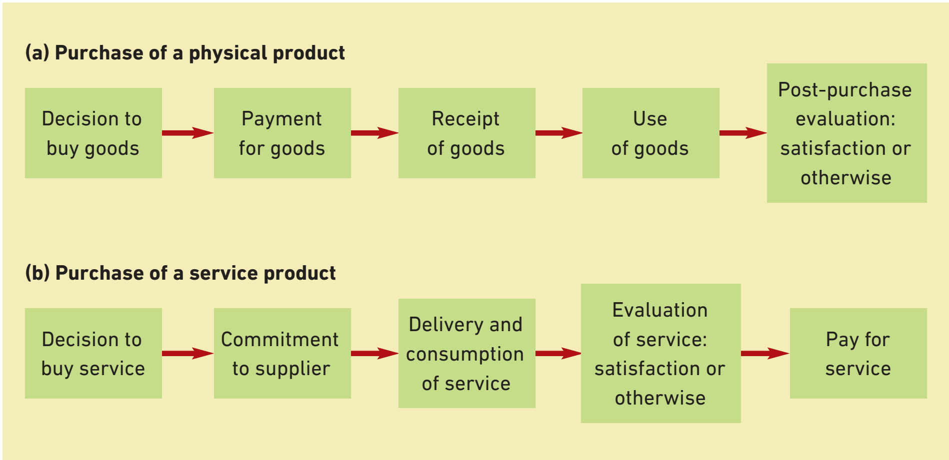
These factors affect staff working in the industries as much as they affect consumers and other stakeholders.

Services and consumer behaviour

From the consumer's viewpoint, the risk attached to buying a service will inevitably be higher than the risk involved when buying a physical product. Physical products are easily returned if they fail to satisfy; it is impossible to return a poor haircut and, unless the standard is very poor, it may even be difficult to avoid paying for it. Even a minor defect in a personal stereo can justify returning the item; an uncomfortable tram ride with a rude conductor will not result in a refund of the fare.

The result of this is that consumers are likely to spend more time on information-gathering and will rely more heavily on word-of-mouth recommendations than they would when buying a physical product. For professional services, the consumer is likely to examine the credentials and experience of the service provider. For example, a consumer looking for a dentist may want to know what experience and qualifications the dentist has to look after the individual's teeth; few car buyers would be interested in the qualifications and experience of Ford's chief design engineer.

Figure 11.1 **Service purchasing sequence compared with physical product purchasing sequence**



Service purchasing follows a slightly different sequence from purchase of a physical good, as shown in Figure 11.1. For a physical product, the experience of using the product (and consequently its evaluation) mainly occurs after purchase, in some cases over a period of years after purchase. For a service product, the consumption experience happens immediately, as does virtually all of the evaluation – one decides whether a meal was enjoyable while enjoying it, and one either enjoys a flight or one does not. Some post-purchase evaluation may happen through discussion or second thoughts for products such as hairstyles but, in the main, services are evaluated immediately. Equally, some services are paid for in advance (transport, for example), but many are paid for after evaluation. This creates a risk for the supplier.

In most cases, customer satisfaction has traditionally been measured immediately during or after the provision of the service, since the memory of being satisfied tends to decline over time. However, satisfaction is a poor predictor of future purchase intention. There is some evidence to show that people who still express satisfaction with a service quite some time after it was provided are much more likely to recommend the service or to purchase again (Koenig-Lewis & Palmer 2008).

Most of the risk attached to buying a physical product is limited to the purchase price (though no doubt there will be exceptions to this general rule). Services carry additional risks.

- *Consequential losses* arise when a service goes wrong and causes a loss to the customer. For example, a poorly handled legal case could result in the loss of thousands of pounds or even loss of liberty in a criminal case. Service providers are usually careful to explain the risks beforehand, use disclaimers in contracts and carry professional liability insurance. Consumers can sue for consequential losses.
- *Purchase price risk* is the possible loss of the purchase price when the consumer buys a service that does not work. The usual consumer response is to refuse to

pay for the service, so it is advisable for the supplier to check during the service process that everything is satisfactory. This is why serving staff will check that the food is satisfactory during a meal out, and why service stations call customers when they find something serious is wrong with the car. Checking during the service provision not only makes it easier to correct problems early, it also makes it harder for customers to claim that the service went wrong to avoid paying.

- *Misunderstanding* is common in service provision because of the inability to try out services (trialability). Particularly in professional services, the provider may feel that the customer would not understand the finer details of what is being done and may therefore not bother to explain properly. This can easily result in post-purchase dissonance and refusal to pay.

Because consumers are buying a promise, they are more likely to use indirect measures of quality such as price. Diners tend to assume that more expensive restaurants will provide better food and/or service, that expensive hairdressers will provide better hairdos and that expensive lawyers are more likely to win cases. Long-established firms tend to be trusted more than new firms, the assumption being that they must be good to have survived (Desai *et al.* 2008).

Having made a purchasing decision, the consumer is more likely to become *involved* with the service provider. Research suggests that the longer the relationship the customer has with the service provider and the number of times that they use that service, the less likely they will switch to a competitor's service (Yeh *et al.* 2017; Lopez *et al.* 2006). Consumers therefore tend to have favourite restaurants, hairdressers and family solicitors with whom the relationship might continue for a lifetime. Some customers are often reluctant to switch bank accounts, even when problems have become apparent; even though customers will readily change brands of canned tuna to save a few pence, they will still buy the tuna from the same supermarket as usual. This is because the customer knows where everything is kept in the supermarket, understands the store's policy on returned goods, knows which credit cards are acceptable and perhaps even knows some of the staff on the tills.

Obviously things can go wrong, and people will complain. Complaints about physical products are usually resolved fairly easily; a simple replacement of the faulty product will usually be sufficient, but it is always better to go a step further and provide some further recompense if possible. Services often require a more complex and extended complaint handling procedure.

Services fall into the following categories for the purpose of correcting complaints:

- Services where it is appropriate to offer a repeat service or a voucher. Examples are restaurants and takeaway food outlets.
- Services whereby giving the money back will usually be sufficient. Examples are retail shops, cinemas and theatres.
- Services where consequential losses may have to be compensated for. Examples are medical services, solicitors and hairdressers.

The above categories are not necessarily comprehensive or exclusive; sometimes it may be necessary to give back the consumer's money and also make some other redress.

People who complain have the following expectations of service employees (Gruber *et al.* 2006):

1 Positive non-verbal signals
2 Sufficient product and process knowledge to handle the complaint
3 Sufficient authority to resolve the issue (see the section on empowerment below)
4 That the employee should try hard to resolve the problem
5 For the employee to take the complaint seriously.

Providing services

In services markets there is more emphasis on Booms and Bitner's additional three Ps: people, process and physical evidence (see Chapter 1) (Booms & Bitner 1981). Because most services involve direct contact between the producer and the consumer, the attitude and behaviour of the *people* involved are an integral part of the product; a hairdresser's personality affects trade in a way that the personality of a production-line worker does not.

Since the consumer is usually present during all or part of the *process* of providing the service, process becomes as important as outcomes in a service market. Online check-in systems used by low-cost airlines greatly ease the service for people travelling with hand baggage only; conversely, some of these airlines do not allow, or charge for, the booking of seats, so there is often an unpleasant rush for good seats when the aircraft boards. These factors affect people's choice of airline in future.

Physical evidence gives the consumer something to refer to and show other people if necessary. Since service products are usually intangible, the consumer of (say) an insurance policy will need some written evidence of its existence to feel confident in the product. Physical evidence may not be as important as people; a study of Irish theme pubs showed that patrons and employees are at least as important as the rather expensive and contrived décor of the pub (Munoz *et al.* 2006).

In many ways services can be marketed in similar ways to physical products. In most cases there is no clear demarcation between physical products and services, so the techniques for marketing them will not differ greatly. However, the additional three Ps do require some changes in the way the firm operates, as the following sections show.

People

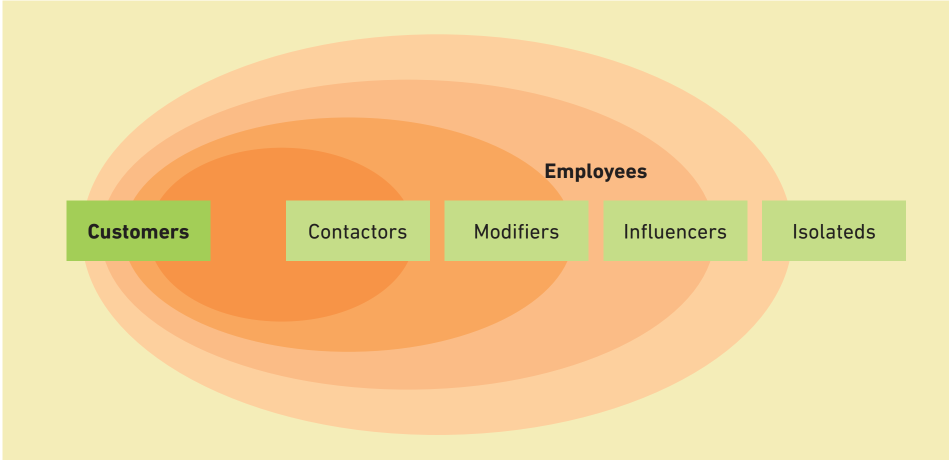
Employees can be categorised into four groups in terms of their contact with customers (Judd 1987).

1. **Contactors**. These people have frequent and regular contact with customers. Usually they are directly involved with marketing, as salespeople, call centre operators and customer service staff. They may need to be trained in customer relations because they are dealing with customers on a day-to-day basis, and they should be recruited on the basis of their social skills as well as on their business skills. They should also be the kind of people who enjoy dealing with customers – not always an easy task – and they should be genuinely interested in customers, not just trained to smile at everyone. In fact, some research shows that smiling has little or no effect on customers, probably because they believe the smiles to be false (Hennig-Thurau *et al.* 2006).
2. **Modifiers**. These people have no direct marketing role, but they deal with customers regularly. They are receptionists, truck drivers, switchboard operators and (sometimes) warehouse personnel or progress chasers. Modifiers need good social skills and training, and monitoring of performance regarding their customer contacts; they should be given a clear view of the organisation's marketing strategy and be aware of their own role within it.
3. **Influencers**. These people deal with some elements of the marketing mix, but have little or no contact with customers. In a service firm, influencers are in a distinct minority, whereas in a physical product company they may well represent the majority of staff. An example of an influencer in a service company might be a solicitor's clerk, who rarely meets clients but whose effectiveness at the task will affect the service level the customer receives. Many back-room staff in financial services also fall into this category.
4. **Isolateds**. Isolateds have no customer contact and very little to do with conventional marketing functions. Again, these people are rare in service industries, although in large financial services companies there may well be a number of people (such as canteen staff, cleaners and so forth) who fall into this category. Although they need to be alerted to the idea that their efforts are important in supporting the other staff, they do not need any specific training in dealing with customers. In essence, their role is to create the right conditions under which the customer-focused staff can do their jobs.

Figure 11.2 displays this graphically.

Of course, everyone goes home at the end of the day and talks to family and friends about the firm and, as such, everyone in the firm bears some responsibility for the corporate image and for marketing (see Chapter 9). Creating shared values and especially creating a feeling of corporate justice (that one is working for a fair-minded company) affects how employees deal with customers; the brand image of the firm also affects employees' desire to work for the company (Knox & Freeman 2006). This in turn affects customers' perception of the organisation (Maxham & Netemeyer 2003; Boukis *et al.* 2015).

Figure 11.2 Employees and customers



Critical thinking

So if we're all marketers now, where does that leave the marketing department? Are they out of work all of a sudden? The rest of the organisation doesn't expect the marketers to sweep the floor, make the product and do the accounts – so surely marketers can't expect everybody else to do the marketers' work for them.

Or maybe that's what marketers are for, to create the right conditions for people to say good things about the company – and thus improve the interface between the company and its customers.

In practice, no matter how hard companies try to deliver the perfect service, the natural variability of employee performance will mean that there will always be some occasions on which the service falls below standard. This means that firms need to concentrate on recovering from service mistakes when they do occur (Cantor & Li 2018). One of the first steps in this is to empower front-line employees.

Empowerment means giving employees the authority to sort out problems without having to refer to management. This implies making employees responsible for their own actions and, more importantly, makes them responsible for controlling the service delivery. The purpose of empowering employees is to ensure that problems are dealt with as they arise, without the customer (who is already irritated by the problem) having to wait for a decision from senior management. Because service provision is carried out largely by people who are dealing with customers on a one-to-one basis, managers cannot be expected to supervise every aspect of the process, so empowerment is important if the system is to operate smoothly. This differs from physical product manufacture; the efforts of a factory worker can be checked by examining the tangible output (a physical product), but because production and consumption of services take place at the same time, it is often not possible to check outputs and therefore the onus must be on the staff member to act professionally and on the employer to provide the staff member with the authority to do so.

The objectives of staff empowerment are:

- *To make the organisation more responsive to problems* and deal with them faster.
- *To remove levels of management to save costs.* Managers can spend less time on fire-fighting (dealing with day-to-day problems) and more time on supporting and coaching staff (providing the right conditions for staff to work effectively).
- *To create employee networks.* If employees work more closely together and develop social links, this will encourage collaboration, teamwork and horizontal communication. This tends to improve employee motivation.
- *To create job satisfaction.* When staff are empowered, this encourages them to grow and develop, thus making them happier and more enthusiastic. Happier employees often lead to happier customers.

In most cases, staff prefer to be empowered since otherwise they can feel like unimportant functionaries in a large corporate machine. Being part of a small, empowered team is a strong motivator because it makes the workplace more manageable, putting everything on a human scale. Empowerment is not always a good thing, however, especially if it is poorly managed. The following problems can arise:

- Some people are risk-averse and would prefer not to accept the responsibility that empowerment implies. Sometimes managers can give extra support to these staff and may be able to offer additional motivation.
- A culture of blame can develop in which staff are blamed for wrong decisions. If staff make mistakes, this should be seen as a learning experience, not an occasion for punishment. The occasional wrong decision is much better than a situation where staff are afraid to make any decisions at all.
- Empowerment should not be taken back as soon as any important or interesting decisions have to be made. This is extremely demotivating for staff.
- Employees can become afraid of making wrong decisions because the boundaries are not clear. Clear guidelines need to be given, but without having too many rigid rules; it is impossible to anticipate every possible situation, so fixed regulations are counter-productive.
- Communication can sometimes be poor within the group. Whether the communication failure is between management and employees or between employees, failure to communicate means that customer problems can be dealt with in wildly different ways, leading to further customer dissatisfaction.

Murphy (2001) warns that empowerment can become a negative factor for some employees, who feel that management is abnegating responsibility and expecting employees to carry out extra tasks for which they are not being paid. In some cases this can even lead to job 'burn-out' (Livne & Rashkovits 2018; Ghaniyoun *et al.* 2017). Employees who become alienated (for whatever reason) may act in ways that are detrimental to the firm or to customer relations. For example, an alienated employee might neglect a customer who is regarded as a nuisance, or be over-generous to a favourite customer. Figure 11.3 shows some of the trade-offs in staff empowerment.

Figure 11.3 Trade-offs in staff empowerment

		Customer contact	
		High	Low
Competitive environment	Highly structured, rigid with little change	Limited empowerment	No empowerment
	Unstructured, rapidly changing	High empowerment	Limited empowerment

Successful empowerment of staff can be achieved by following these policies:

- Empowerment needs to be kept in mind when selecting, training, motivating and coaching employees.
- Employees need to be given clear guidelines without being straitjacketed by rules which cannot, in any case, be designed to cover every eventuality.
- A team approach needs to be cultivated, since support of other team members offers reassurance. Often, an empowered employee will need to ask for a second opinion on a course of action – this is likely to be much more easily available from a colleague than from management.
- Employees should be rewarded appropriately for the extra responsibility that empowerment brings.
- There should not be a culture of blame. Mistakes are an opportunity to learn.
- Power is not being devolved from management to employees – rather, employees are being asked to use their initiative.

Team building is an important management role, whether in service industries or not. Effort on the part of employees is driven by their personal needs, not the needs of the organisation – the need for personal development, the need to belong to a group, the need for promotion and so forth (Cummings 1981). Successful teams should be allowed to develop shared objectives, preferably agreed within the group rather than imposed by management. Belbin (1981) suggested that teams should be allowed to perform the following tasks between them:

- Create useful ideas
- Analyse problems effectively

- Get things done
- Communicate effectively
- Have leadership qualities
- Evaluate problems and options logically
- Handle technical aspects of the job
- Control their work
- Report back effectively, either verbally or in writing.

Handy (1989) further suggested that leaders (managers) should be able to shape and share a vision which gives point to the work of others. This may be a difficult ideal to live up to.

Because people are an expensive part of any business, and even more so in the case of services, in recent years many service companies have tried to reduce the input of people, particularly for routine tasks which can be handled by computer – for example, booking hotel rooms or flights.

Process

A process is a series of actions taken to convert inputs to something of greater value (Finlay 2000). In services, the process by which the product is developed and delivered should always add greater value, otherwise it is neither efficient nor effective. For example, a chef might take flour, eggs, apples, butter and so forth, and create an apple pie, thus adding to the value of the ingredients. A master chef could take the same ingredients and create a work of art; a bad chef might take the same ingredients, which are already valuable, and end up with an inedible mess.

Every process combines the following basic resources:

- *Basic assets.* These include plant and equipment, cash in hand, work in progress, building, fixtures and fittings, and so forth (the tangible assets of the firm). Intangible assets include goodwill (which is an accountancy term for most intangible assets) and the reputation of the company and its brands.
- *Explicit knowledge.* This is knowledge that can be recorded, either in writing or otherwise. It includes intellectual property such as patents, market research information, customer databases and so forth.
- *Tacit knowledge.* This is knowledge that employees have in their heads, rather than written down. In service industries, this would include specific training (such as being a qualified hairdresser or chef) and, of course, experience built up over a number of years. In some cases, this tacit knowledge makes a key employee difficult to replace – a lawyer specialising in Lithuanian business law, for example, might be virtually irreplaceable.
- *Procedure.* This is the mechanism by which all the other resources are brought together to create a value proposition for customers.

In services markets, customers can sometimes be seen as co-producers of the product. For example, a bar relies on having the right type of customer to create an appealing ambience, and a theatre relies on having an audience to respond to the show. Without the other customers, the experience can seem bleak and uninteresting. At the extreme, a nightclub is an example of a service where the main product is the other customers – people go to nightclubs largely to meet new people. The same is true of dating services.

Service processes fall into three categories:

1. *Before-sales service processes.* These would include helpful staff, ready access to information and ensuring the availability of people to carry out the service.
2. *During-sales processes.* This is the actual provision of the service.
3. *After-sales processes.* Courtesy calls, prompt attention to complaints and careful record-keeping for future encounters are useful processes.

Because all these processes involve human interaction, they all provide opportunities to improve customer loyalty. There is a trade-off here between service level and cost; the level of service needs to be fixed at a point which provides value for money for the target audience, some of whom may be happy to pay more for a first-class service, while others might not be prepared to pay much at all and are happy with a basic service. Some firms (such as low-cost airlines) have created competitive advantage by reducing the service level to an absolute minimum, but being extremely cheap; other firms have built their success on luxurious service (for example, the Orient Express). The important point for the firm is to set the right level of service for the desired audience – too high and the costs will price the service out of reach of the target audience; too low and people will simply go elsewhere.

Some service processes are complex (for example, airlines). Several hundred different tasks need to be undertaken, and dozens of separate service processes need to be coordinated before the aircraft even takes off – quite apart from the services that are needed once the flight leaves. First, a travel agent needs to sell the ticket to ensure that the passenger is on the right aircraft at the right time, and leaves from the right airport. Second, the aircraft needs to be correctly serviced and fuelled by ground crews. Third, food and drink needs to be prepared for the passengers and delivered to the aircraft by yet another service company. Fourth, airports at either end of the journey need to be prepared to handle the aircraft on departure and arrival, and several air traffic control and advice agencies in different countries need to become involved. Fifth, passenger entertainment services, such as in-flight movies, music and games, need to be provided, and sixth, many service companies at the airport need to become involved in the process. In fact, almost every type of company, from Hollywood film studios to airport bookstalls, becomes involved in the process one way or another.

On the other hand, a flight is not a divergent service. The experience is much the same for all passengers, except for the differences between first class, business class and economy: the meals are the same, the flight attendants treat everyone the same and, of course, the start point and finish point of the flight is the same for everyone. Even the safety announcements are identical.

Hairdressing is a service that displays exactly the opposite characteristics. In most salons, only one or two people will deal with the client, and few (if any) other companies are involved. The process is therefore not complex. On the other hand, it is highly divergent – each person should leave the salon with a different hairstyle, produced to suit the individual's physical features and personal tastes. This variability of outcome does mean that things go wrong more often in hairdressing salons than they do on aircraft, of course.

The divergence and complexity of a service process can be adjusted to establish a competitive position, with the following consequences:

- Reducing divergence will reduce costs, improve productivity and make distribution easier. Fast-food restaurants offer limited menus of standardised food at low cost, for example.
- Increased divergence will offer more possibilities for customisation, greater flexibility and (usually) premium pricing. High divergency is what distinguishes *à la carte* restaurants, hairdressers and bespoke tailors.
- Reduced complexity means offering the core benefits of the product and not much else.
- Increased complexity increases customer choice by widening the range of products and the range of features on offer.

Process often becomes the main differentiator between services. Often the core product is the same from several suppliers – for example, air travel – but the process may be more or less straightforward, more or less efficient and more or less variable.

Physical evidence

Because services are often largely intangible, people often have little lasting evidence that the service ever took place; perhaps more importantly, there is very little evidence on which to base judgements about the quality of the service prior to actually committing to purchasing it. In some cases, physical evidence might be needed to demonstrate to others that the service has happened – a certificate from a training course, an insurance policy document or a medical certificate might all be needed for this purpose. Sometimes physical evidence acts as a reminder of the service; souvenirs from a holiday, a menu from a restaurant, a travel kit from an airline or even a simple business card might bring back happy memories or provide the means for repeating the experience.

As a way of assessing the likely quality of a service beforehand, aspects such as the décor of a bank, the menu in the window of a restaurant or the cleanliness of a supermarket all help. In some cases the service will have a substantial physical component anyway – restaurant meals fall into this category and, to an extent, hairdressing does as well. In both cases the physical element will not last long, but it is at least possible to observe other customers enjoying the physical aspects and thus be able to judge the probable quality of the service.

There are four generic ways to add value through physical evidence, as follows:

1 *Create physical evidence that increases loyalty.* Loyalty cards and frequent-flyer cards are typical of this, as are 'collectables' such as vouchers or ornaments. Some airline loyalty schemes include baggage tags which let the baggage handlers know they are dealing with an important suitcase; this probably has more effect on the customer than on the baggage handlers, of course.
2 *Use physical evidence that enhances the brand image.* Insurance companies convey a solid, respectable image by producing smart, glossy policy documents; low-cost airlines convey their thrifty image by requiring passengers to print off their own tickets on ordinary paper, download the ticket onto their mobile phone or by having no tickets at all. Most airlines allow online check-in, which means that customers choose their seats and print their own boarding cards as well.
3 *Use physical evidence that has an intrinsic value of its own.* This is common in the financial services sector: insurance companies give away pen sets, gift cards, cinema tickets and so forth to new customers. Obviously, very few people would take out an insurance policy just to be given a pen set, but the pen set does serve as a useful reminder of the policy's existence. Aleksandr, Sergei and Oleg, the meerkat characters from comparethemarket.com, are a good example of this, whereby thousands of customers are using the service largely to obtain a cuddly toy version of their favourite meerkat. Many of these toys have found their way onto eBay and other such sites as people are keen to get their hands on the complete set of characters, so the intrinsic value has greatly enhanced brand awareness, thus encouraging website users and repeat customers.
4 *Create physical evidence that leads to further sales.* This could include reminder cards sent out when the next service is due (many garages do this), a desk calendar or wall calendar (often supplied by take-away food suppliers), or notepads and pens (hotels supply these). Such reminders are helpful to consumers, but may also generate new sales because the service provider's telephone number and website address is convenient to hand when the need arises.

Physical evidence will not substitute for a poor service, of course. The core of a service will always be the intangibles, but it is important to remember that almost all products have both tangible and intangible elements; the intangibles are often as important as the tangibles.

Service quality

Under this regime, service quality can be defined as the ability of the organisation to meet or exceed customer expectations. The relationship marketer therefore needs to monitor the quality of the firm's output against two criteria: the customer's expectations and the firm's actual output. Parasuraman *et al.* (1985) developed a model of service quality which is discussed below.

The ServQual model seeks to integrate various aspects of the service experience, and in doing so highlights gaps in the understanding of the experience. The aspects identified are as follows:

1 Word-of-mouth communications. This would include word-of mouse, of course, and online reviews.
2 Personal needs of the consumer.
3 Past experience of the service, or of other similar services.

These three factors combine to create an expectation of the service, before actually experiencing it.

From the marketer's side, the following factors are taken into account:

1 Management of the consumer's perceptions. This will involve external communication.
2 Translation of perceptions into service quality specifications. This means that the existing perceptions of the consumers must be met or exceeded, and the marketer needs to design the service accordingly.
3 Service delivery, which includes both pre- and post-contracts.

These factors in turn feed back into both consumer perception, and expected service.

The model shows various gaps in the understanding of service quality. These are as follows:

- Gap 1: difference between actual customer expectations and management perceptions of customer expectations
- Gap 2: difference between management perceptions of customer expectations and service quality specifications
- Gap 3: difference between service quality specifications and the service actually delivered
- Gap 4: difference between service delivery and what is communicated about the service to customers
- Gap 5: difference between customer expectations and perceptions of what is actually received. This gap is influenced by the other four.

To close these gaps, marketers need to adopt a range of quality control procedures.

Benchmarking is the process of comparing everything the company does with the same activities carried out by competitors, and seeking to match the best of the competitors in each activity. For example, a manufacturer might decide which competitor is best at engineering, and seek to match that, while at the same time matching another competitor that is best at delivery reliability. By doing this, firms end up as 'the best of the best'. **Service-quality benchmarking** takes this a step further; the comparison is made with both competitors and non-competitors.

Defining the competitive arena is not as simple as it at first appears. For marketers, the question has to be who does the customer compare us with? A cinema-goer may well compare the service with other forms of entertainment. For example, are the sales staff on the confectionery counter as pleasant as the bar staff at the pub? Is the film on offer as entertaining as the band playing at the club? The real assessment of the service level takes place not against other firms in the same business, but against other services the customer buys.

In terms of physical products, customers who find that the vacuum-cleaner company is reluctant to honour the guarantee will compare this with the cable company that sent somebody round immediately to fix a problem, or with the car company that lent them a car to get around in while their own was being repaired under the warranty. Having had a good service from the TV company or car company tends to reduce the risk for the consumer and therefore increases the chances of a repeat purchase from the same company.

Regarding the key components of customer service, this again is too often left to executive judgement without reference to the customers. For example, a computer purchaser may regard on-site maintenance as being far more important than online assistance. A car owner whose car is in for servicing may regard the availability of a lift to the train station or the use of a courtesy car as being more important than the speed of servicing of the car.

Following on from establishing the key components, it is essential to establish the relative importance. This is simply because it is almost impossible, in a world with limited resources, to provide every customer with everything he or she wants. The firm therefore needs to concentrate on providing the most important aspects first.

Having found out where we want to be, we now need to find out where we are by establishing our position on service provision as compared with the competition. Again, we need to be careful who we are defining as competition and also be aware of the possibilities of comparing ourselves with firms that are not direct competition but who have something to teach us about service levels. This process is part of the marketing audit (discussed in Chapter 10).

This leaves the firm in a position to compare its service provision with the service priorities of its customers.

Loyalty in services

Many service industries engender strong customer loyalty, in particular personal services such as hairdressing and beauty therapy, food and beverage services such as pubs and restaurants, and some technical services such as car maintenance and building. Banks generate a spurious loyalty; people only remain loyal because switching banks can be time-consuming and risky, and also people often suppose that a long-term relationship with a bank will lead to special treatment in case they need an unexpected overdraft or loan.

Other services do not engender loyalty in themselves. Taxis and buses are examples; although people often use the same taxi firm when ordering a cab from home, they are unlikely to do so when arriving at a railway station or airport. It would be extremely rare for someone to use the same taxi driver on a regular basis, except in rural areas where there are few choices.

Generating loyalty carries distinct benefits for any organisation. There are six main benefits, as follows:

1. *Increased purchases.* Customers tend to increase their purchases when dealing with a firm with which they have a relationship. Naturally, people are prepared to spend money with firms they know and trust.
2. *Lower cost.* Attracting new customers is almost always more expensive than retaining existing ones, although there are exceptions to this general rule.
3. *Lifetime value of a customer increases.* Lifetime value is a key concept in relationship marketing; the value of a customer is measured by how much he or she will spend in a lifetime, rather than in a single transaction.
4. *Sustainable competitive advantage.* The intangible aspects of a service are often difficult to copy: a particular hairstylist or chef may be unique.
5. *Word of mouth.* Because services are intangible and often difficult to judge in advance, word of mouth plays a much stronger role than is the case for physical products. People rely heavily on the recommendations of friends when choosing a restaurant, a hairdresser or a builder, and loyal customers are more likely to make those recommendations. Decisions about life insurance are based first on previous experience and second on personal recommendation (Devlin 2007). Published performance and cost are of much less importance.

Critical thinking

If a customer remains loyal, do we really need to know the reason why? If they stay loyal because they love us, that's great of course, but if they stay loyal because it's too much hassle to switch to someone else, does it really matter?

We don't need to love our bank, surely. Provided they look after our money and don't charge too much, what else do we want? Of course, if another bank made it easy to switch, that might be different!

6 *Employee satisfaction.* Staff often prefer to work for a firm with a loyal customer base, since they have to deal directly with the customers. Dealing with strangers is stressful, whereas dealing with familiar customers is more likely to involve being praised. Regular complaints will demoralise staff very rapidly.

Lowering the rate of customer churn will cause a substantial rise in overall profits (Reichheld & Sasser 1990). Losing customers has serious implications for an organisation as it may impact on profitability and have a negative influence on new customer acquisition (Revilla-Camacho *et al.* 2017). Part of the process of reducing customer churn involves ensuring that complaints are handled properly, since the variability of services can lead to a higher rate of complaint and a more difficult process of resolution.

Customer loyalty in service industries appears to be related positively to technical service quality, functional service quality and customer education (Bell & Eisingerich 2007). This means that the loyalty function is not only related to quality of service, but also to customer characteristics; interestingly, the same authors found that customer expertise, i.e. skill and knowledge of the market, was not negatively related to loyalty, as had been expected. The assumption was that expert customers would be more likely to shop around for the best deals, but this turned out not to be the case. Price is generally not an issue – regular brand 'switchers' turn out to be more price-sensitive than loyal 'stayers' (Leong & Qing 2006).

With regard to online supermarkets, research into customer loyalty appears to show that people are attracted by price promotions (Huang *et al.* 2014) and speed of delivery rather than by price; also, people tend to be loyal to the online supermarket rather than to the brand of the product they are buying (Trinh *et al.* 2017; Cui & Wang 2010).

Loyalty is easily lost, however. For example, airlines frequently overbook aircraft by as much as 10 per cent to ensure full use of the aircraft; no-shows and last-minute cancellations usually take care of the surplus, and economy passengers can be upgraded into business class (or even first class) in the event that economy class is overbooked. Sometimes business or first class are overbooked or the aircraft is completely full, in which case some passengers might be downgraded or refused boarding. In those circumstances, airlines that downgrade passengers or are unable to carry them almost always lose the customer; upgrading, on the other hand, only creates marginally greater loyalty (Wangenheim & Bayon 2007).

In business-to-business markets loyalty can be very strong, since relationships between suppliers and customers can last for many years or even decades.

Consequently, a customer who switches to another supplier may well be indirect when asked for reasons. In some cases, customers who are perfectly satisfied with their existing suppliers may defect anyway – and may be reluctant to admit that they have defected because the new supplier is cheaper (Naumann *et al.* 2010).

CASE STUDY 11 Accor Hotels

Accor Hotels is a French-owned chain of hotels, operating in the hospitality business throughout the world. The company owns more than 4,000 hotels, and operates in 95 countries with more than a quarter of a million employees. It is the largest hotel group outside the USA.

The chain was founded in 1967 by Paul Dubrule and Gérard Pélisson, two Frenchmen who knew the hotel business. They opened the first Novotel outside Lille in northern France, and in 1974 they launched the Ibis brand. Ibis offers a no-frills franchised hotel: rooms are clean, comfortable, and have TVs and en-suite bathrooms. Ibis hotels usually have a small bar and simple food is available.

Later, the partners founded Ibis Budget (at first branded as Etap). These hotels are even more basic, with an absolute minimum of service level: check-in is automated, there are snack machines and coffee machines rather than a restaurant, and it is possible to stay at an Ibis Budget hotel without seeing a member of staff at all. These hotels are usually located next to motorways, often on industrial estates where land is cheap. They are aimed at travellers who simply want somewhere clean to sleep before continuing their journey in the morning.

The Accor chain also own an even more basic brand – Formule 1. These hotels consist of simple rooms with washbasins but no toilet or shower facilities (these are shared). Formule 1 hotels are located throughout France, and they are very popular with young people on a night out – the rooms are extremely cheap, and check-in is automated. It is possible to arrive at a Formule 1 or Ibis Budget hotel with only a credit card and get a room for the night, whatever time of night one arrives. Again, Formule 1 are usually in out-of-town locations.

At the other end of the scale, Accor owns and operates some of the world's most iconic hotels. In 2015, the company bought FRHI Hotels and Resorts, the owners of the Raffles Hotel in Singapore, the Savoy in London, and the Plaza Hotel in New York. The company also operates Mercure Hotels, Motel 6 and Fairmont hotels in the United States, and a range of different types of hotel, from Ibis Styles boutique hotels through to Mama Inns, which are intended to feel cosy and home-like. Accor has a loyalty scheme which covers almost all its brands, so that (for example) an executive who travels a lot and stays in Novotel or Mercure hotels can build up points to spend on taking his or her family for a weekend in a boutique hotel.
Service levels vary greatly between the hotel brands. At the upper end, Savoy and Raffles provide five-star service, with a concierge to arrange theatre tickets, limousines, airport transfers, courier services and dry-cleaning: these hotels have upmarket restaurants, luxurious bars, meeting rooms and function facilities. At the other end, Ibis Budget and Formule 1 provide none of these facilities – at most, Ibis Budget will sell guests a continental breakfast and provide a coffee machine in the entrance lobby. There is usually no reception area. In the mid-range, Novotel and Mercure provide three-star accommodation with restaurants and city-centre locations.

The company continues to look for new niche markets – a recent idea was to have extremely basic sleeping accommodation, without car parking, near major railway and bus stations. These hotels would be aimed at people who had missed the last train home, or who needed to catch a very early train. Rooms would be very small and basic, and of course cheap.

Having this very broad spectrum of brands and service levels has certainly worked well for the original partners. Accor Hotels is one of the world's largest hotel groups, one of the CAC 40 companies on the Paris Bourse, and is regarded as one of the world's most successful firms. A wide range of options allows the firm to ride out fluctuations in the economy and changes in circumstances; it also allows for changes in people's needs over time.

Case study questions

1 Why would someone prefer to stay in a hotel with a minimal service element?
2 What is the appeal of staying in a branded, standardised hotel chain such as Novotel?
3 How might Accor continue to expand?
4 What are the risks of choosing to stay in a Formule 1?
5 How might Accor cross-sell its different brands?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

Insurance companies, as well as telecommunications and TV providers, have all been accused of offering better deals and service agreements to new customers, with many long-standing, loyal customers feeling let down and disappointed.

While relying on inertia (customers who don't bother to update or change contracts) is one way to maintain sales in the short term, it is a disastrous strategy for brand building and maintaining long-term relationships with customers.

Should organisations be treating customers this way?

Is it fair for companies to focus on acquiring new customers with cheaper deals and better service agreements rather than offering equally as good, if not better, terms to long-standing, loyal customers?

Should everyone receive an identical service at an identical price?

Summary

Services are the major part of most economies in the industrialised world. Service provision relies on all elements of the marketing mix, but people, process and physical evidence become more important in service marketing than in physical product marketing.

Companies in service industries therefore rely heavily on staff, most (though not all) of whom are in the front-line of dealing with customers on a day-to-day basis. Therefore, motivating and looking after staff becomes of even greater importance than would be the case in physical product marketing.

The key points from this chapter are as follows:

- All products have some element of service and some element of physical product.
- From the consumer's viewpoint, buying a service is riskier than buying a physical product.
- Front-line employees should be empowered to deal with problems as they arise.
- Employees need to feel that they are working for a good company.
- Loyalty is more common in services as a way of reducing risk.
- Word of mouth is important in services, again to reduce risk.
- Physical evidence can be used to create more business.
- Process can be complex or simple, divergent or standard; each of these has implications for marketing.

Chapter questions

Understanding the basics

1 How might complaint handling be improved in the airline business?

2 What problems might arise from reducing staff levels in the hotel trade?

3 What are the implications of divergency and complexity in the fast-food business?

4 How does staff empowerment help in recruitment and staff retention?

5 What mechanisms account for complaint behaviour in services?

6 What impact has technology had on the delivery of services?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1 Critically evaluate the use of WOM (word of mouth) when developing customer service.

2 Develop a critical discussion which evaluates the importance of empowerment when developing the customer service process.

3 Using a company of your choice, evaluate their current service using the three Ps (people, process and physical evidence). Make recommendations as to how to develop these elements to enhance service and reduce customer defections.

Action learning

1 Using a service organisation of your choice, apply the service quality model (as discussed in this chapter). You should identify any gaps and/or potential gaps in the service offering, then make recommendations as to how those gaps could be eliminated and the service improved.

2 Select a service organisation that you are familiar with and analyse the service provided. Now, imagine you work for your chosen organisation and have been tasked with making recommendations to improve the people, process and physical evidence elements of the marketing mix. Write a report that focuses on how you could enhance and develop these areas within that service. You should use academic underpinning and practitioners' views to support your answer, as well as including some practical examples to illustrate your ideas.

Further reading

***Principles of Services Marketing*, 7th edn by Adrian Palmer** (McGraw-Hill, 2014) is a well-established, readable and comprehensive textbook. Now in its seventh edition, this book has become established as the leading text in the field.

***Services Marketing: Integrating Customer Focus across the Firm*, 3rd edn by Valerie Zeithaml, Mary Jo Bitner, Alan Wilson and Dwayne D. Gremler** (McGraw-Hill, 2016) is a useful text with a good pedigree. Zeithaml and Bitner almost invented services marketing between them, so the text is certainly definitive. It includes some interesting case studies on very familiar European brands, which put key issues into context. It also considers the role of digital marketing and social media within services marketing.

***Essentials of Marketing*, 3rd edn by Jochen Wirtz and Christopher Lovelock** (Pearson, 2017) is a clear, concise text, which effectively covers the basics in an easily digestible format.

There is a wealth of journal articles around services marketing and its application in a range of different industries, so there is plenty to get your teeth into around this subject. However, some stand-out research includes that undertaken by Stephen Vargo and Robert Lusch, who have done a lot of work around service-dominant logic which was introduced early this century.

Their original article **'Evolving to a new dominant logic for marketing',** *Journal of Marketing*, **68** (January 2004), pp. 1–17 is well worth a read. They have published a number of articles since which develop their ideas further, right up to one of their most recent: **'Service-dominant logic 2025',** *International Journal of Research in Marketing*, 34 (2017), pp. 46–67.

With massive growth and use of online services, there is now a huge amount of research that focuses on this area of services marketing. One such article is by **Salegna, G., 'Classification model and e-loyalty implications for online services',** *International Journal of Quality and Service Sciences*, **10** (1) (2018), pp. 72–83. He categorises a range of industries and considers the implications for each grouping.

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12

Sustainable marketing

Objectives

After reading this chapter you should be able to:

- Explain the role of quality in building long-term relationships
- Describe how relationship marketing builds long-term profitability
- Formulate strategies for developing customer loyalty
- Establish quality procedures within organisations
- Describe the basis for societal marketing
- Develop strategies for assessing responsibility towards stakeholders
- Establish ethical guidelines
- Take an ethical approach to marketing strategy decisions.

Introduction

Since the turn of the twenty-first century, marketing thinking has been undergoing some radical changes. Much marketing thinking in the past has concentrated on the single transaction between producer and customer, on the assumption that customers who like the product will continue to buy and that no one else has any right to an input into the exchange. This approach, while laudable, ignores the fact that some customers are more valuable than others, that some customers can become very loyal indeed and that marketers should also take into consideration the needs and attitudes of other stakeholders in society at large.

At the same time, the rapid growth of new technologies and communications media (the Internet, smartphones, mobile apps and so forth) have made previous marketing communications strategies almost obsolete. Falling birth rates and increased competition through globalisation have meant that consumers are fewer and more firms are chasing them; also, rising prosperity levels mean that the rewards for firms which get it right are much greater than ever before.

This chapter is about creating long-term relationships with customers – selling 'products that don't come back to customers that do' (Baker 1991). It is about ensuring that the marketing-oriented firm is sustainable in the long run, both in terms of use of finite resources and also in terms of ethical behaviour towards society at large. Finally, it is about the successful exploitation of new technology in a rapidly changing world.

Relationship versus traditional marketing

Traditional marketing is concerned with the exchanges between organisations and their customers. The emphasis has always been on producing products that will satisfy customer needs and the focus has tended to be on the single transaction. This has led to an overemphasis on acquiring new customers at the expense of ensuring that the firm keeps its old ones. Most of the marketing transactions in a traditional firm are undertaken anonymously and the customer is reduced from being an individual person, with needs and wants and problems, to being a member of a market segment.

Relationship marketing, on the other hand, looks at the customer as an individual and tries to establish a relationship. Relationship marketing is concerned with the lifetime value (LTV) of the customer. For example, over the course of a lifetime's motoring, a motorist might own 30 or more cars. This represents a total expenditure of perhaps hundreds of thousands of pounds on cars, yet car manufacturers and dealers don't always keep in touch with their customers in an organised way. The focus is on the single transaction, that of buying one (and only one) car at a time. A relationship marketing approach would seek to look at the customer in terms of his or her total value to the company over (potentially) 30 or 40 years.

This orientation values the loyal customer ahead of the one-off big deal and gives the firm more chance of maintaining its customer base in the long run. The concepts of customer service, quality and marketing come together to establish a relationship marketing orientation.

The key to relationship marketing is understanding that customers are buying a bundle of benefits, some of which include such factors as product reliability and an efficient service from the company with which they are dealing. Increasingly, customers expect suppliers to value their custom; during the nineteenth century, every shopper would expect shopkeepers to know them by name, to be respectful and polite, to anticipate their needs and to arrange delivery, or otherwise show that they regarded the customer as important to the firm. As firms have grown bigger, this level of personal attention has largely disappeared. Economic forces have removed the old systems from grocery shops, so that customers are now expected to find the goods themselves, carry them to the checkout, pay for them and carry them home. Supermarkets now have self-service checkouts and online ordering so that a customer can go through the entire shopping experience having little or no contact with the store's employees.

This increasingly impersonal and functional view of marketing is now being questioned, and relationship marketing seeks to address this issue by encouraging firms to treat customers as individuals, with individual needs and aspirations. This goes beyond the 'have a nice day' approach of the fast-food restaurant, replacing it with a genuine interest and concern for the customer.

In fact, business relationships do not divide entirely into **transaction** or relationship marketing – relationships develop and can range from a single exchange

Critical thinking

This idea of being looked after on a personal basis looks really good on paper. Having the shop assistants smile at us, having somebody thinking about our every need, having them wish us to come back soon – it's like having an extra mother, but better!

Do we really want all this attention, though? Wouldn't it be better if everything just worked properly first time, without all the soft soap? Or maybe we expect things to work as well as having the attention. We're just getting spoilt rotten!

through to a fully developed cooperative system. The comparison between traditional, or transactional, marketing and relationship marketing is discussed below.

Although many firms have adopted the relationship approach, some firms still keep to the traditional view. This tends to lead to the following bad practices:

- A reactive approach to customer complaints
- A failure to recognise the needs of long-term customers
- Greater expenditure on promotion than is necessary owing to the emphasis on acquiring new customers
- Inner conflict within departments as production people expect marketers to sell the goods, and marketers expect production people to handle quality issues.

Relationship marketing has several key differences from traditional transactional marketing, as follows:

1. Transaction marketing focuses on the features of the product: relationship marketing focuses much more on the benefits to the consumer of using the product (called in-use benefits).
2. Transaction marketing tends to ignore consumer service (after-sales service, ease of purchase, and so forth). Relationship marketing is very much about emphasising service aspects of the product, and in some cases the service aspects become more important than the physical product.
3. Transaction marketing has a short time horizon. In many cases, once the sale has been made, the customer is forgotten. Relationship marketing has a long time horizon, looking at the lifetime value of the consumer.
4. Commitment to the customer as a person tends to be low in transactional marketing, but for relationship marketers commitment to the customer is the whole purpose of the exercise.
5. Transactional marketing involves low levels of customer contact. Relationship marketers seek to remain in contact with customers for the long term.
6. In transaction marketing, quality issues tend to be left to the production department. In relationship marketing, everyone has a responsibility to ensure the quality of the customer experience, not least because of the emphasis on service quality.

The overall result is that relationship marketers have moved away from focusing on a single sale, and instead look towards customer retention as the ultimate goal.

As customer expectations rise, and more particularly as customers become longer-lived, there needs to be an increasing emphasis on establishing relationships. This is because the value to the firm of the customer's continued custom is greater, and the customer knows this and expects better treatment in return.

Relationship marketing was originally most apparent in business-to-business markets, possibly because business needs may not change much over a period of time, whereas consumer needs change as people grow older, pass through different life stages and become wealthier or poorer. The view has been expressed that products are not bundles of benefits, but are instead relational processes (Gronroos 2017; Safarpour & Sillanpää 2017; Tuli *et al.* 2007) and in the case of services Van Tonder and Petzer, (2018) agree that a core service should be 'enhanced with extra benefits and should be priced correctly to foster customer loyalty'. There is some logic behind this, at least in business-to-business markets; each benefit is a step in strengthening the relationship.

Listed below are some fallacies of relationship marketing and the concept of customer retention which were discovered through research conducted by East *et al.* (2006):

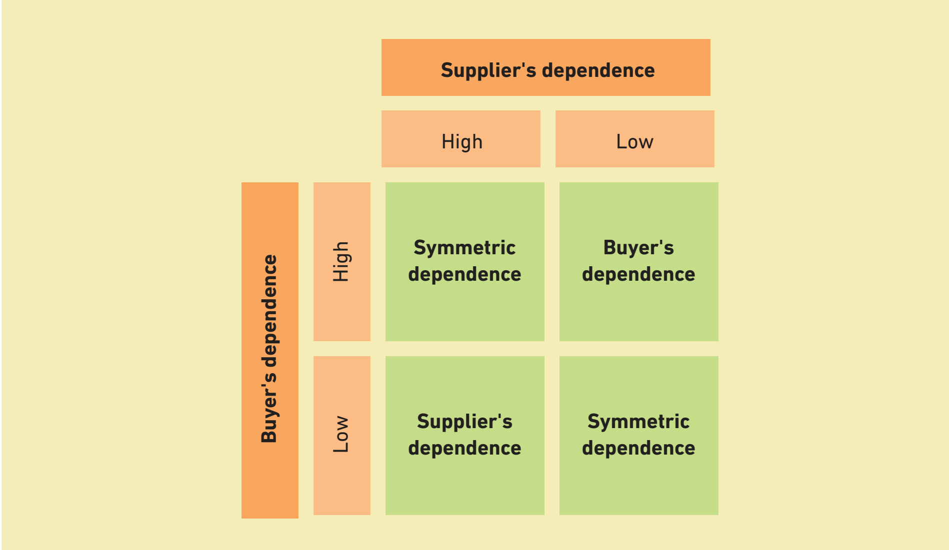
- The evidence is that in many consumer markets long-term customers are no more valuable than short-term ones. The key factor is the relative costs of acquisition and retention – if acquisition is cheap and retention expensive, long-term customers will be less profitable.
- It is often difficult to influence long-tenure customers.
- Customer satisfaction does not necessarily lead to retention (East *et al.* 2006; Geehan 2010), but it does lead to increased acquisition through word of mouth.

Roemer (2006) outlined a model for assessing the impact of dependence on customer lifetime value. This model also offers some insight into the power split between customer and supplier in business-to-business markets; the model is shown in Figure 12.1.

The figure shows that, if each company has high dependence on the other, dependence is symmetrical and the relationship should last. If, on the other hand, either party has the upper hand, the relationship becomes asymmetrical and is less likely to last. The concept of reciprocity is crucial here – that the parties to the relationship do not harm each other, that if harm does occur the other party does not retaliate, and the party causing harm makes some kind of reparation (Pervan *et al.* 2009).

One of the key concepts in relationship marketing is that of customer intimacy. This means getting close enough to the customer to be able to understand his or her needs almost before he or she does – being able to think like the customer is a key skill in establishing and maintaining the relationship. Research shows that there is a strong positive relationship between marketing orientation and customer intimacy (Thaichon *et al.* 2017; Tuominen *et al.* 2004). This means that companies which adopt a marketing orientation will usually try to get as close as possible to

Figure 12.1 Dependence between suppliers and customers in business-to-business markets



their customers. For small firms, customer relationship management is performed much more easily nowadays because of the availability of the Internet and technology generally (Harrigan *et al.* 2011). For example, corporate blogs (weblogs in which corporate news is disseminated) can be very powerful in building and maintaining relationships with customers (Ahuja & Medury 2010). Customer intimacy is developing into what Weinman (2015) calls collective intimacy. The enormous amount of information or 'Big Data' that each company can access about their actual and potential customers means that relationships can be more effectively developed.

Communications technology enables us to enhance and develop the customer relationship and in turn create more effective strategies to retain our customers on a long-term basis.

Relationship marketing, when the concept first appeared, was compared to a courtship (Levitt 1986). At the beginning, both parties are keen to present the best possible aspects of themselves; as the relationship progresses, they seek to know more about each other and adapt to fit each other's needs, until finally they become very close, sharing confidential information, and regarding each other as allies in fighting the competitive battle. This is equivalent to a couple meeting, dating for a while and finally marrying. Mahmoud *et al.* (2017) have also likened a relationship between the business and the customer as a marriage as they suggest that it is important to build trust and commitment, maintain regular communication and fulfil promises to ensure business success.

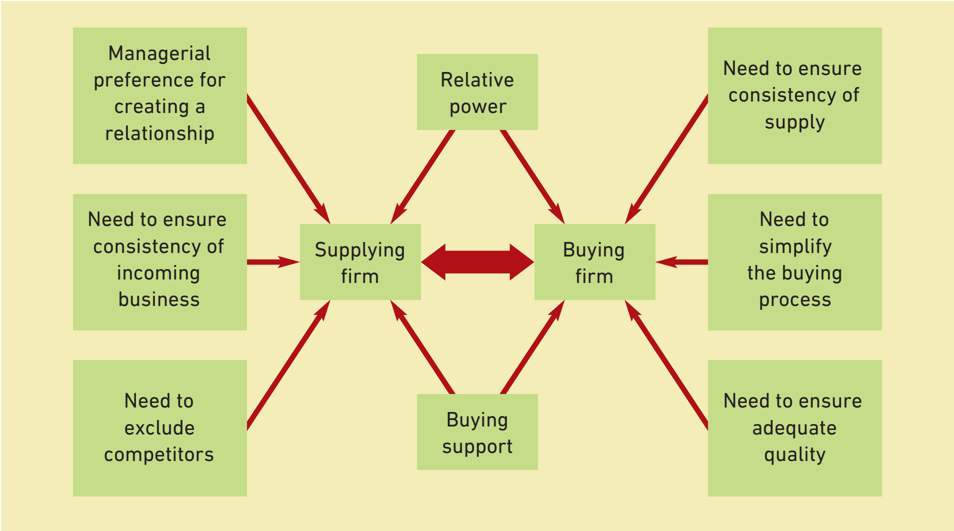
For example, IBM and Microsoft worked extremely closely together during the 1980s and 1990s. Although each company was a separate entity, each recognised that it could not succeed without the other. Although they have eventually gone their separate ways and Microsoft now works with many computer manufacturers (as IBM does with software houses), the relationship created a massive increase in home computing worldwide.

Adaptation tends to be one-sided, however. Suppliers are much more likely to adapt their business approach than are buyers, for the following reasons (Brennan *et al.* 2003):

- *Relative power.* Buyers are usually in a position of power, especially in business-to-business markets, since they can always spend their money elsewhere.
- *Buyer support.* Buying companies will often help suppliers to make the necessary changes. For example, a motor manufacturer might supply design services to a component supplier to ensure that the components are produced to the right specification.
- *Managerial preference for a more or less relational exchange.* Suppliers typically want to get close to their customers to ensure a continuation of orders. The pressure is not as great for buyers to get close to suppliers (although there are advantages to doing so, and some buying firms actively seek long-term relationships).

Figure 12.2 shows the forces that combine to create pressure on companies to adapt. In the figure, the supplying firm is pressured by managerial preference, by a need to exclude its competitors from supplying the buying firm and by a need to guarantee a future stream of orders from the buying firm. The supplier and the buyer might both be affected by their relative power – although power is usually with the buying firm, there are cases where suppliers have the upper hand. For example, the American hair products firm Redken will only supply hairdressers that can demonstrate a high level of technical competence – Redken's products and reputation

Figure 12.2 Pressures to adapt in developing relationships



makes it a desirable company to buy from, but Redken protects its brand by only supplying salons with whom it has a close relationship, even extending to training the hairstylists in the use of Redken products.

In some cases the relationship goes beyond a simple one-to-one arrangement. Relationships may extend to whole groups, or networks, and the companies involved may need to balance a whole set of relationships rather than just one. Key network management has three basic elements (Ojasalo 2004):

1. *Identify a key network.* Choosing which is most important of the many networks in which a firm is involved is the starting point for network management.
2. *Develop a strategy for managing actors within the key network.* Each separate member of the network has separate needs and will respond to different management tactics.
3. *Develop and apply operational level networks for managing actors.* Putting the strategies into effect means developing separate tactics for each strategy and each member of the network.

Creating value through closer relationships also means bringing weaker relationships into the portfolio (Johnson & Selnes 2004). Companies need to be aware that customers with whom they have a weak relationship should be encouraged, and efforts need to be made to strengthen the relationships. For example, firms offering products with low economies of scale (such as personal services or professional services such as accountancy and law) need to build closer relationships to create value – they are unlikely to be able to increase value by reducing prices because there is little room for manoeuvre in the cost structure and relatively little to be gained by an increase in business. A lawyer who is already fully booked can increase value for clients by improving the closeness of the relationship, and can raise his or her fees accordingly. Cutting prices for clients would add value for the client, but the lawyer would make less money because there is only a certain amount of working time available, and hiring more help would not make the situation much better. A good relationship is a better predictor of buying behaviour than is service quality (Roberts *et al.* 2003), but it is service quality that builds the relationship in the first place.

People with whom business is done

Transaction marketers focus on the customer. Relationship marketers broaden the view to include other players in other markets.

- Customer markets remain much the same, except there is an emphasis on keeping existing customers as well as gaining new ones. Some retailers have membership fees (Costco is an example); customers who pay the initial fee can buy goods at a discount, in effect a two-part pricing system.

- **Referral markets** are those people who might be expected to recommend the company to others. These could be existing customers, but could also be professional recommenders. For example, a holiday tour operator clearly needs to look after the holidaymaker, but tour operators also need to look after the travel agents, because these are the people who are in the best position to recommend the holidays to customers. According to Van den Bulte *et al.* (2017), 'Marketers are increasingly keen on leveraging customer-to-customer connections'. Many marketers are putting more time and effort into developing their referrals strategy, particularly online, as it is seen to be a cost-effective, trusted method of increasing sales (Ramaseshan *et al.* 2017; Fernandes n.d.). In service industries this is common; in physical product manufacturing industries it is less so. Manufacturers are less likely to spend time and effort on establishing a good relationship with their retailers.
- **Supplier markets** are those people who provide raw materials and components for the company. A view has grown up that these suppliers are part of the team, and the traditional (somewhat adversarial) relationship is being replaced by the logistics paradigm of cooperation towards a common goal (see Chapter 8). Previously the emphasis has been on getting the lowest possible price from the suppliers, but this has now shifted towards other goals, such as reliability of delivery, zero-fault quality control procedures and cooperation in design and production.
- **Employee markets** refer to the need to recruit and train appropriately talented and motivated staff. Despite high unemployment rates in some areas, there is still an acute shortage of enthusiastic and skilled people to work in some industries. Even when suitable employees have been found, firms need to ensure that they are market-oriented and understand the company's aims and objectives.
- **Influence markets** comprise those individuals who might have influence on the firm's activities. They include government departments, financial institutions, pressure groups and so forth. Although the traditional marketers address these influence groups through PR activities, relationship marketing goes further than this. While PR concentrates on building a favourable image of the company by providing information, relationship marketing examines ways of meeting the needs of those institutions and individuals and helping them achieve their own aims (see Chapter 9).
- *Internal marketing* is concerned with ensuring that everybody inside the firm is not only aware of the company's policies, but also enthusiastic and supportive of them. This means more than simply informing staff of the policies; staff must feel that their own needs are being met, beyond the salary cheque at the end of the month. A prime example of this is The Body Shop, which requires staff to participate in local community ventures. It is difficult to find Body Shop staff who are unenthusiastic about working for the company. All of them know what the aims of the firm are; all of them feel motivated and keen to participate in those aims. Strangely, The Body Shop's founder Anita Roddick was fond of saying that she did not believe in marketing – yet she was consummately good at doing it.

Internal marketing is not generally a separate activity, carried out in isolation. It is built into quality programmes, customer service programmes and ad-hoc activities throughout the normal working lives of the staff.

Developing a relationship marketing approach

Quality

Quality is the relationship between what customers expect and what they get. If a customer's expectations of a product are disappointed, his or her perception will be that the product is poor quality. If, on the other hand, the product exceeds expectations, the perception will be that the product is high quality.

Much of this is bound up in what customers perceive as value for money. The aim of the relationship marketer is not simply to satisfy the customer, or even to please the customer, but also to delight the customer.

It follows from this that quality is not an absolute. It is only relevant to what the customer feels; what is good quality to one person may not be to another, simply because both are beginning with different expectations. For this reason, service support is critical to relationship marketing because it is during the pre-sale and after-sale support that the customers are approached as individuals. It is at this time that the customer's perception of quality can be addressed, either by ensuring that the expectations of the product are realistic (pre-sale) or by correcting any faults or errors after-sale.

In former years, quality has been seen as very much the province of the production department. This has led to the *product concept,* which holds that the company need only produce the best-quality product on the market and the customers will flock in. In fact, this is not true – even Rolls-Royce have gone through bankruptcy by following this precept. Under a relationship marketing ethos, quality becomes the integrating concept between production orientation and marketing orientation.

Total quality management

The basis of the **total quality management** (TQM) approach is to ensure that the firm does the right things at every stage of the production process in the expectation that this will result in a high-quality outcome at the end. The problem with this approach is that it does not take account of the customer's expectations and perceptions, but instead relies on the management's preconceptions of what constitutes good manufacturing practice. There is also some difficulty in judging the level at which the quality of the product should be pitched. Probably the main contribution that TQM has made is in reducing defects (the zero-defects target), which will, by reducing wastage, reduce costs.

Managing the relationship

Ultimately, the purpose of the relationship marketing philosophy is to ensure that customers come back, and keep coming back. Developing loyalty is an ongoing process; early on in the relationship, loyalty is a function of perceived value, but as the relationship progresses affective (emotional) factors become more important (Johnson *et al.* 2006).

Here are some examples of managing the relationship to generate loyalty.

Supermarket loyalty cards

These loyalty cards are in use throughout the world as supermarkets try to reward customers who use the store regularly. Previously, many shoppers would buy from whichever supermarket they happened to be passing, but loyalty schemes have encouraged people to shop at the same supermarket every time and establish a shopping pattern. The next stage of the procedure is to use the EPOS (electronic point-of-sale) equipment to track customers' spending patterns and thus be in a position to advise shoppers about their individual needs. For example, it is possible with current technology to be able to advise a shopper that he or she has forgotten the tomato ketchup. (The EPOS system knows how often this customer buys ketchup and knows what brand and size the customer favours.) Whether this is seen as a wonderful service for the customer or as an unwarranted invasion of privacy has been the subject of considerable debate (Evans 1994). In practice, legislation has been passed in the UK that makes it harder for supermarkets to use information in this way, since it would involve divulging personal information to junior store staff, but some online supermarkets such as Ocado offer the service routinely.

Customer care

The UK's Nationwide Building Society has a commitment to customer care. It has declared that it will not follow the lead of other building societies and become a bank, since this would mean paying dividends to shareholders rather than offering benefits to customers. The intention is to retain the existing customers as customers rather than encouraging them to become shareholders in a new institution.

Critical thinking

OK, stores don't do it, but wouldn't it be marvellous? Just think if the store knew you so well that they could tell exactly when you were going to run out of sugar and make sure to remind you next time you're in the store. Maybe we could get to the point where you just telephone the store and tell them you're coming and they have everything ready for you when you arrive. What a time-saver!

Hands up anybody who finds that scary . . .

Frequent flyer programmes

Frequent flyer programmes on airlines offer regular users of the airlines the opportunity to have free flights or major discounts on travel. The frequent flyer programmes are usually extended to partner airlines: United Airlines (US) formed the Star Alliance with four other airlines in 1997, making it the first global aviation alliance. There are now 28 members of the alliance including Thai Air, Lufthansa, Singapore Airlines and China Air, to name but a few. Frequent flyer points can be earned by travelling with any of these airlines, and can be exchanged with any of them. Thus a regular transatlantic flyer can use the points to travel with Lufthansa to London, for example. Frequent flyer members receive newsletters and some special treatment on the planes themselves – this encourages loyalty.

Museum or theatre season tickets

The museum uses the names and addresses of its season ticket holders to promote forthcoming attractions. By mailing people who are already known to be interested in the museum's activities, the management ensures a much higher response rate than would be the case if a 'scattergun' approach were adopted. Mailings to already interested parties are not expensive, even compared with placing advertisements in local newspapers, and of course emailing is even cheaper. An example is Sydney Symphony Orchestra's 'Friends of the SSO' scheme: members are entitled to attend selected rehearsals, buy tickets at a discount and be invited to special events.

Direct marketing

This is a continually developing area in marketing, as computer technology is becoming increasingly more refined. The growth in **databases** (computer-based files on customers) has allowed firms to keep ever more accurate information about their customers' buying habits. The capacity for exchanging databases between firms gives potential for building very detailed profiles of each individual in the country.

The detailed information available enables companies, and in particular database brokers, to develop extremely accurate segmentation of markets and profiles of individual customers. Because most of the relevant information about the customers concerned is on file, mailing list brokers are able to offer very specific mailings to companies. Ultimately, this means that customers should no longer receive generic junk mail – they will instead only be sent information that is of direct, immediate interest. Theoretically it is possible to approach customers with a purchase suggestion almost at the point when they are considering the purchase. Database marketing was a major growth area in the 1990s and will continue to grow and develop in this century; because the database allows the firm to retain and access large amounts of information about its customers, database marketing has become strongly associated with relationship marketing. In the nineteenth century, each shopkeeper knew his regular customers personally; for a modern supermarket to do this a computer is required.

An important point to bear in mind about relationship marketing is that many of the techniques used to generate loyalty are expensive and require considerable commitment; overall, the result for the firm is a steadier and more secure market, but relationship marketing is not necessarily a cheap option. There is evidence that satisfaction leads to loyalty, which in turn leads to profitability, but the relationship is non-linear (Helgesen 2006). Firms may need to be cautious before deciding to try to retain every customer.

Firms also need to remember that, whatever happens, some customers will leave; acquisition is therefore still important, yet not all companies have a formal customer acquisition plan and even fewer actually implement one. Nijssen *et al.* (2017) suggest that companies do struggle as to the trade-off between retention and acquisition. Their research showed that companies often invest in one more than the other, which can limit growth. They found that it was important to have strong capabilities in both acquisition and retention to encourage maximum organisational growth and development. So, having a budget specifically for customer acquisition appears to be the key to success. Also, customers who have left (defected) can often be won back, because they do at least have some positive information about the brand, whereas new customers have only neutral information (Bogomolova & Romaniuk 2010).

Marketing ethics

Ethics are the principles that define right and wrong. In most cases marketers do not become enmeshed in the deeper recesses of philosophy, but instead rely on the moral rules which are part of the corporate culture. Research shows that most businesspeople have separate sets of morals for work and for home (Fraedrich 1988). For example, much of the jargon of marketing is warfare-based (counterattacks, offensive product launches etc.) and, of course, 'all's fair in love and war'; soldiers may kill or maim the enemy, but would not do so in civilian life. Having said that, while the moral code of a company may not be the same as the moral code of its employees and managers, there will be less dissonance among the staff if the firm conforms reasonably closely to a code of ethics.

- *Products* should be honestly made and described; commercial pressures may tempt companies to use cheaper raw materials or to use new additives to make the product perform differently. The ethical issue arises when customers are not informed of such changes.
- *Promotions* can involve deceptive or misleading advertising, manipulative sales methods, and even bribery in selling situations. While a certain amount of advertising 'puff' is acceptable and even expected, it is clearly not acceptable to tell outright lies or even to use misleading phrases. For example, salespeople often face ethical conflicts: perhaps a salesperson is faced with correcting a customer's mistaken belief about a product, and thus losing the business, or allowing the

customer to continue with the false belief right up to the point of taking delivery of the goods. Once a salesperson has deceived a customer it becomes increasingly difficult to tell the truth later, and eventually the customer will discover the truth anyway. At that point the business will be lost, probably for ever.

- *Pricing* raises ethical issues in the areas of price fixing, predatory pricing (pricing below the cost of production to bankrupt competitors) and not revealing the full cost of purchase. For example, some high street chains of opticians fail to mention that the prices displayed are for spectacle frames only – the lenses are extra.
- *Distribution ethics* involves abuse of power in channel management (see Chapter 8) and failure to pay for goods within the specified credit terms. For example, in 2016 the *Guardian* reported that Tesco had been ordered by the grocery market watchdog to make significant changes to the way it did business with suppliers. Tesco was accused of prioritising its own finances and delaying payments (in some instances for up to two years) to boost its own profits, as well as making deductions from invoices with no negotiation.

Establishing a code of ethics within an organisation should not be left to chance. It is better to have a code of practice, and monitor the code in practice, so that employees and others know exactly what the firm is doing about its ethical responsibilities. As with any other question of marketing, the decision as to what the code should contain can be made by reference to the firm's customers and consumers – what would these people regard as ethical behaviour?

The recent phenomenon of the ethical consumer has caused many firms to rethink their policies. Shoppers often consider global and local decisions in choosing where to shop (for example, choosing to support a small independent butcher rather than buying meat in a supermarket, or avoiding foreign-owned store chains), and may consider where the products have come from and whether human or animal rights have been compromised (Megicks *et al.* 2008). Many consumers recognise that this is not an easy task, but ethically conscious consumers will make an effort to buy locally, perhaps from farmers' markets, as often as they are able (McEachern *et al.* 2010). Consumers may also pay more for products and brands that they deem to be ethical (Park 2018; Mai 2014) or may actively avoid the brand if they feel that a company has acted in an unethical manner (Sudbury-Riley & Kohlbacher 2018; Rindell *et al.* 2014). There are clearly some important implications for marketers when developing their product and brand strategies.

Valour (2007) has identified three key factors in ethical consumption: should (ethical obligation), want (conflicting identities) and can (personal action to change). The concept of 'should' is based on individual conscience, of a moral sense of what is the right thing to do. 'Want' is based on the conflict between acting in an unethical but desirable way (in this case buying clothes that have been made by low-paid workers) and doing the right thing. 'Can' is based on what the consumer actually has the power to do to change things – in some cases, there may be no ethical choices available. Personality variables that may have an effect are extroversion, agreeableness and conscientiousness, all of which have a positive impact on the tendency to act ethically (Yu & Yu 2017; Fraj & Martinez 2006).

Ultimately, of course, people working within the firm have to be able to live with their consciences; establishing a code of ethical conduct will help them to do so.

Globalisation

Globalisation is a business philosophy under which firms regard the entire planet as their marketplace and source of supply. The truly global firm identifies competitors, suppliers, customers, employees, threats and opportunities throughout the world regardless of national boundaries.

The main drivers for globalisation are as follows:

- Increasing economies of scale and scope for firms in the market
- Convergence of consumer tastes and preferences
- Rapidly improving communications, in terms of both telecommunications and transport systems
- Increased political acceptance of global trading
- The continuing growth of large firms, coupled with limits imposed by national monopoly regulators on domestic growth.

Firms going global move through three stages:

- Ethnocentrism
- Polycentrism
- Geocentrism.

These stages are shown in Table 12.1.

Table 12.1 Stages in globalisation

Stage	Explanation
Ethnocentrism	Home-country orientation. The foreign market is seen as secondary, perhaps as a place to dispose of excess production. The assumption is that the foreign market is basically the same as the domestic market, so marketing strategies are hardly adapted at all for the overseas market.
Polycentrism	A polycentric firm only identifies the differences in each market. The firm treats each market as being unique, with its own marketing strategies; the products are modified to suit the local market, and tactical issues such as price and promotion are decided locally.
Geocentrism	The firm sees the world as a single market and seeks to identify market segments within that market. This results in developing uniform policies for approaching the segments that have been identified, so that promotions and products are similar across the globe.

Obviously it is not always possible to take a completely global view. Even firms such as McDonald's have to adapt their product somewhat for local markets. For example, in India McDonald's burgers are made from mutton since the cow is sacred to Hindus; in Japan the company offers teriyaki burgers; in China the burgers are mainly made of chicken; in Russia the main beverage offered is tea rather than coffee. Most firms appear to take a 'glocal' approach, adapting their communications and products somewhat to take account of local variations. This appears to be true even for Internet communications: in other words, even the corporate website will be adapted (Halliburton & Ziegfeld 2009).

In fact, although there is a concentration of interest on business-to-consumer markets, a good deal of global marketing is still conducted within the business-to-business area. The practical, economic considerations of industrial buyers are likely to be the same whatever their cultural backgrounds: a Japanese steel buyer will source from whichever country offers the best deal, as would a steel buyer in New York or Buenos Aires. Buyers may be affected by the nationality of the supplying firm because countries acquire reputations which affect the reputations of their companies. If both the supplier and the purchaser are global, a further problem arises. Because there are several decision-makers involved in industrial buying and they may be scattered across several countries, each buyer is subject to a separate set of cultural influences. This situation requires considerable negotiation and adaptation of both the product and the business methods to achieve agreement.

Globalisation is important for all firms, even those that are not planning to expand into the international arena; those firms will still be affected directly or indirectly by foreign competition and by the growing strength of domestic competitors who have themselves expanded overseas.

An objection to globalisation is the erosion of cultural values. Major firms are often accused of forcing cultural changes on the population; this is called 'McDonaldisation', a reference to the well-known McDonald's practice of standardising the product worldwide. For example, there has been an overall growth in tobacco smoking worldwide in recent years as the tobacco companies have targeted Third World countries, in effect exporting the vices of the industrial world.

A further criticism is that global companies do not have any allegiance to individual countries, and therefore have no compunction about causing environmental damage or economic disruption in supplier countries. For example, farmers in Africa are encouraged to grow cash crops to supply global corporations while neglecting to grow sufficient crops to feed the local population.

Anti-globalisation campaigns were a feature of twenty-first-century business for the first few years of the century, but they did not have much impact on the way firms do business. In the last analysis, consumers indicate their support (or lack of support) for companies by the way they spend their money. If people in, say, France decide that they would rather have a quick snack at McDonald's than take their traditional two-hour lunch break, they will do so – and in practice McDonald's has a number of home-grown imitators in France, such as Flunch.

Marketing strategy revisited

In previous chapters, strategy has been discussed in terms of knowing where the firm is now, and knowing where it is going. Tactical decisions have been illustrated, describing methods of achieving the destination.

In the broader contexts examined in this chapter, marketing strategy needs also to take account of the long-term sustainability of the company. Although it has been a general rule in the past that companies cannot stand still, there may in future be pressures requiring a company to mark time, so that 'reaching a destination' becomes 'remaining where we are'. Analysis therefore needs to go beyond the SWOT and STEP analyses (described in Chapters 2 and 10), and include further analysis to take account of societal marketing (see Chapter 1). Tactically, marketers must take account of ethical thinking; the route to achieving the company's objectives needs to be an ethical one if the objective is to be reached. For example, there is some evidence that companies which reduce excess supply of products, reduce 'reverse supply' (where products have to be returned), and which have effective internal marketing within the supply chain, tend to be more profitable and have stronger competitive advantage (Sharma *et al.* 2010).

Strategies for dealing with issues of societal marketing are as follows:

- **Reaction strategy** means ignoring a problem unless somebody complains. When the problem becomes known, the business managers usually deny responsibility, resolve the problem and clear up any consequential losses, and carry on as usual.
- **Defence strategy** seeks to wriggle out of any problems. The firm might lobby politicians to avoid adverse legislation, or change the way the business is run to avoid complying with regulations. For example, some shipping companies respond to safety regulations by registering the vessels in countries that have few regulations, such as Liberia and Panama.
- **Accommodation strategy** involves accepting responsibility for the firm's actions and accommodating the views of the **stakeholders**. A business might take action if it feels that a pressure group or government legislation is about to force an issue.
- **Proactive strategy** involves regularly examining the company's activities in the light of ethical and societal responsibilities, and repairing any failings or shortcomings without waiting for outside groups to notice the problem. This strategy requires the greatest effort (and cost) to the firm, but also ensures the maximum return in terms of maintaining a caring reputation.

The twenty-first-century marketplace

According to Schultz and Schultz (1998), marketing went through two distinct phases in the period since 1950. They also predicted a third phase. In the 1950s and 1960s markets were dominated by manufacturers that used market research to find out what consumers wanted and used intensive promotional campaigns to control markets or at least have the strongest influence in them. During the 1970s and 1980s retailers began to dominate because they were closest to the market. They were able to determine which products were offered to consumers and which were not. Since then the third phase predicted by Schultz and Schultz has taken place, brought about by the increasing use of IT by consumers, which is consumer domination of the marketplace.

In the 20 or so years since Schultz and Schultz published their prophetic view of marketing, much of what they predicted has happened. The Internet has become almost universal in the wealthy countries of Europe and the Americas, and even in less favoured countries the advent of Internet cafés and more readily available smartphones means that a large proportion of the world's population are able to carry out information searches and shop online. This represents a dramatic shift of power towards consumers.

As consumers become more powerful in the relationship, the role of marketing is shifting from a strategic function to a tactical one. The model of marketing as a patriarchal function has been breaking down for some time now in the face of unpredictable consumer responses, fragmentation of societies and increasing individualism. Consumers are impatient with the concept of the powerful, all-knowing marketers providing them with what the research says is best for them. This means that market research findings no longer act as truly effective predictors in many cases, and marketers are therefore left to respond as effectively as they can to consumer demands as expressed through interactive media.

Of course, the traditional manufacturer domination will continue in some markets and the retailer domination of major store chains may also continue for some time, but the increasing ability of consumers to make their purchases almost anywhere in the world and to access information from almost anywhere will increase the pressure on marketers to integrate their activities to maximise effectiveness and efficiency. This set of circumstances will lead to a change in the way that marketing operates.

Firms go through four levels of marketing integration, as shown in Table 12.2. Evidence for this change manifests itself mainly on the Internet, where reverse auction sites are springing up regularly which allow consumers to bid for manufactured products. Once the bids are in, the manufacturers are invited to supply products at the heavily discounted prices that the consumers have said they are prepared to pay. This type of consumer power is likely to become more prevalent as the time goes on.

Overall, marketing in the twenty-first century presents many new challenges. Shrinking markets, green issues, runaway advances in communications technology and rapidly changing public attitudes towards consumption and communication predicate major changes not only in marketing techniques but also in corporate strategy. The role of marketing is still, at the end of the day, to meet customers' needs in the most effective, efficient and sustainable way possible for as long as it is possible to do so. Marketers will need to re-examine their models of marketing strategy many times; in an era where change is the only constant, marketing cannot afford to stand still. Ultimately, the firms that take the greatest care of their customers' interests are the ones most likely to maintain their competitive edge in a cut-throat world.

Table 12.2 Stages of integration of marketing communications

Stage	Explanation
Level 1 **Tactical coordination**	The 1980s and 1990s saw a massive increase in the available tools for communicating with consumers; level 1 response is to create 'one sight, one sound' by consolidating communications planning. Often this leads to the formation of teams of specialists from different areas of expertise to increase synergy and cross-fertilisation of ideas.
Level 2 **Redefining the scope of marketing**	Rather than viewing marketing as a series of outbound activities, the firm begins to consider all the points at which the consumer and the brand are in contact. One of the most important results of level 2 thinking has been the inclusion of employees both as targets for marketing communications and as communicators in their own right. Internal marketing thus becomes one of the driving forces of level 2 thinking.
Level 3 **Application of IT**	Technology is both driving the changes in marketing and providing the solutions. The key ingredient in level 3 thinking is the use of databases to capture individual transactions. This enables the firm to move away from marketing to the average customer at the middle of a segment and to market to groups of individuals instead.
Level 4 **Strategic and financial integration**	Two issues are paramount: the ability to measure the return on customer investment and the ability to use marketing to drive organisational and strategic directions. Rather than measuring (for example) extra sales resulting from an advertising campaign, the firm would now measure the returns from a specific group of customers against the costs associated with all the marketing efforts directed at that group. Under this approach, financial directors would have sufficient information to be able to compare investment in communicating with a particular group of customers with, for example, investing in new manufacturing facilities.

CASE STUDY 12 Facebook

Facebook began as an idea for connecting students at Harvard University. A young Mark Zuckerberg, a second-year student at Harvard, developed a program that would allow students to compare pictures of fellow students and vote for which one they thought was 'hot'. Zuckerberg posted the site, which he called 'Facemash', on the University computer system: he was subsequently threatened with expulsion for breaching security, violating privacy and violating copyright since he had sourced the pictures from the University's own student ID systems.

Zuckerberg was allowed to stay on, however, and with the experience he had gained he developed an online student directory. In US universities, students provide a photograph and basic information, which is compiled into a directory nicknamed a face book. For a long time, students had been asking why the system wasn't online, so Zuckerberg decided to transfer the information onto a web page called 'the facebook'. Eventually, this was rolled out to other universities with great success: Zuckerberg included systems whereby people could contact each other, post information about themselves and connect with friends.

In 2005, Zuckerberg obtained funding to expand the system to most universities in the United States, and in 2006 the system was rolled out to anyone over the age of 13. The problem for Zuckerberg was, of course, how to make money from his new invention. People are reluctant to pay for online content – they expect anything online to be free, which means that producers of online material can't make a living unless they can find some way of monetarising the content. The answer most go for is advertising, but there is a limited amount of advertising revenue available, and a lot of websites fishing in that particular pond.

What Zuckerberg had, though, was a lot of personal information about people within the system. He was able to data mine effectively, finding out what people are interested in and which Facebook pages they visit. This enables Facebook to target advertising very effectively.

In practice, click-through rates on Facebook are not as good as on other websites. *Businessweek* estimates that click-throughs on Facebook are around one-fifth the average across the Web, but Facebook counters by pointing out that the accuracy of targeting for its users is very much higher since its algorithms can promote directly to those who will be interested in the advert.

In addition, some studies show that when people do click through to an advert, they tend to stay longer and respond better. The low click-through rate may be caused by Facebook's young, computer-literate membership: 88 per cent of 13–17-year-olds use Facebook, and these are the people most adept at avoiding online advertising.

Recently Facebook has been overrun with fake news, fake accounts, and posts of violence, racist remarks and threatening messages. This has particularly been apparent on the English-language pages as a result of the Trump election in the United States and the Brexit furore in the UK. In the long run, this behaviour would be very damaging to Facebook: apart from the obvious damage to the brand name, people have been closing their accounts rather than risk being subjected to trolling and abuse. At the extreme, Facebook accounts have been used to plan violence and coordinate terrorist attacks, and a scandal involving sale of data to Cambridge Analytica broke in 2018. Facebook have therefore begun to clean up the pages – fake news is being removed (except where it is clearly intended to be humorous or satirical), fake accounts are being closed down, and people who persistently threaten or bully others are being forcibly removed. Facebook has also run a series of television ads to explain its actions – reminding people that they first joined Facebook to connect with friends and family, be reminded of people's birthdays, meet friends of friends, and let each other know what is going on in their lives. Facebook has promised to return to those original aims, and to ensure that using Facebook remains safe for all users.

Facebook provides a wonderful tool for people to keep up with friends, especially those who live far away. It also provides an excellent tool for advertisers in that they are able to target more accurately and not waste the time and attention of people who do not have any interest in their products. Provided the company can retain control of content, without at the same time preventing people from posting freely, the future looks solid for Facebook.

Case study questions

1 What is Facebook's product?

2 What are the main threats to Facebook's future?

3 Apart from advertising, what other ways of monetarising online sites might there be?

4 How might Facebook increase click-through rates?

5 How does Facebook's success relate to relationship marketing?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Ethical thinking

McCann Worldgroup is a leading organisation that offers global marketing services and a vast network of advertising agencies based in countries all around the world. Recently, McCann Worldgroup has undertaken a major research project in order to better understand what the key global challenges facing the marketing industry are. To do this it asked over 10,000 people in over 100 countries about their local culture.

Seventy-two per cent of the respondents said that 'truth' was the most valued issue worldwide and a large proportion of those researched felt very positively towards brands in this respect.

From the research, McCann Worldgroup has created the principle of Deep Globality, which it defines as 'the awareness of, and efforts to thoughtfully spread a brand, idea or movement in a multi-market capacity while actively enriching the receiving culture'.

It identified three key considerations within the research:

1 *The New Ordinary/Diversity*. Marketers need to focus on being more diverse rather than just talking about it, in order to better reflect what is actually happening in the world.

2 *The Empathy Gap*. Despite ever increasing diversity within each culture, McCann Worldgroups research also identified that intolerance was increasing and people are becoming more focused on themselves and those closest to them. So the key message for marketers here is to focus on connecting people, creating happiness and trying to reduce intolerance.

3 *Global brands in a local world*. The research identified an increase in trust for more local brands. It also found that 81 per cent of respondents believed that global brands were in a position to make the world a better place and 77 per cent

said that global brands had a greater ability to create positive change than did governments. So it is important to think locally when developing global brands but at the same time they must keep their 'universal values'.

(Adapted from http://www.mccannworldgroup.com/about/truth)

(You may wish to visit the above link for further information about the research.)

Clearly, this would be fantastic if all global companies took on these challenges and operated under these principles to create truly engaging, diverse, yet inclusive brands, but can this always happen?

Do brands have the ability or the will to do this? Do global brands need to do this to survive as cultures develop and diversity increases?

Can you think of brands that already try to achieve these goals?

The research also suggests that people are becoming less empathetic but marketers should oppose this; for everything else marketers should go with trends in thinking. So which is the ethical one?

What do you think?

Summary

In this chapter we have looked at current issues in marketing: the ways in which companies try to establish long-term relationships with their customers, ethical issues and Internet marketing.
Here are the key points from this chapter:

- Relationship marketing suggests that manufacturers should try to develop the same closeness to the customer that service industries have.
- Traditional marketing is concerned with single transactions; relationship marketing is concerned with long-term business.
- It is cheaper to keep existing customers than to find new ones.
- Quality is the relationship between expectations and results.
- Benchmarking may make a firm the best of the best, but it is likely in the long run to stifle innovation.
- Companies that fail to establish a good relationship with their customers will lose out to firms that do.
- Responsible ethical approaches are likely to be directly beneficial to the firm in the long run; unethical approaches may be beneficial in the short term, but affect survival prospects in the long term.
- The Internet is not without its problems, but Internet marketing is likely to continue to grow in future.

Chapter questions

Understanding the basics

1 What are the potential problems with relationship marketing?

2 How would you go about establishing a code of ethics?

3 Why might transaction marketing be less effective than relationship marketing in the long run for, say, a car manufacturer?

4 How is 'Big Data' changing the way organisations build customer relationships?

5 What reasons might a firm have for consulting environmentalists about strategy?

6 Why has ethics become an increasingly important consideration when developing marketing strategies and campaigns?

7 What factors must a marketer consider when developing a global marketing campaign?

For answers to these questions, see the companion website at www.pearsoned.co.uk/blythe

Deeper thinking

1 It is widely stated that it costs up to seven times more to acquire a new customer than to retain an existing one. Using a company of your choice, critically discuss the importance of customer retention, highlighting the retention devices utilised by your chosen company. You should also make recommendations as to how they could improve/develop their strategy. Use relevant academic underpinning, supporting evidence and examples to illustrate your answer.

2 'Marketers ignore ethics at their peril.' Critically evaluate this notion.

3 Can organisations be truly global? Discuss this question, highlighting the arguments for using a 'glocal' approach when developing marketing strategies.

Action learning

1 The chapter discusses the twenty-first-century marketplace and suggests that there will be a range of challenges for marketers as technology develops and customers' needs evolve. Undertake some research to identify three key challenges/opportunities that you think the marketer will face within the next five years (or ten years). Use relevant journal articles, practitioners' websites and marketing publications to develop your ideas. Create a poster presentation that summarises the key challenges and opportunities identified and discuss how marketers might react to those issues raised.

Further reading

Relationship Marketing **by Martin Christopher and Adrian Payne** (Routledge, 2015) is a comprehensive text that looks at the basics and gives a good overall view of the subject. It uses case studies to illustrate key issues and offers examples of best practice.

Customer Relationship Management**, 3rd edn by Francis Buttle and Stan Maklan** (Butterworth-Heinemann, 2015) looks at the latest customer relationship management practice and draws upon a range of academic and independent research. It explains how CRM can be used throughout customer life stages, as well as considering social media, Big Data and customer service technologies.

A really useful, accessible book is ***How to Succeed in the Relationship Economy: Make Data Work for You, Empathise with Customers, Grow Valuable Relationships*** **by Matt Lindsay, Xavier Van Leeuwe and Matthijs Van De Peppel** (Advantage Media Group, 2017). It includes some practical examples and thinks about how large and small businesses can use data to gain deeper insights in the customer experience.

An alternative view is provided in ***Why CRM Doesn't Work: How to Win by Letting Customers Manage the Relationship*** **by Frederick Newell** (Bloomberg Press, 2010). Newell argues that trying to manage the relationship fails because the customer is not empowered – letting the customers manage the relationship is actually more successful.

Ethics in Marketing: International Cases and Perspectives **by Patrick Murphy, Gene Laczniak and Fiona Harris, 2nd edn** (Routledge, 2016) offers a view on the importance of considering ethics in business, and presents some useful case studies to illustrate their key ideas.

Global Content Marketing: How to Create Great Content, Reach More Customers, and Build a Worldwide Marketing Strategy that Works **by Pam Didner** (McGraw-Hill, 2015) is an easy-to-read book which demystifies content marketing and offers practical guidance to the reader.

Gronroos, C.: 'Relationship marketing and service: an update', *Journal of Global Scholars Marketing Science*, **27** (3) (2017), pp. 201–8. Gronroos is a key figure in research around relationship marketing. In 1990 he published an article on relationship marketing and services, which has proved to be a key work in the area. He has developed his ideas ever since. This article is an update on his original work, concluding with the key challenges facing firms today.

Arli, D., Bauer, C. and Palmatier, R.: 'Relational selling: past, present and future', *Industrial Marketing Management*, **69** (2018), pp. 169–184 offers an interesting viewpoint on the future of relational selling from three perspectives.

A short article by **Conick, H. 'Why AR may be the future of experiential marketing',** *Marketing News*, **52** (5) (2018), pp. 8–9 is a fascinating look into what could be a key method for engaging with younger audiences in the future.

By using chat bots, Duhadway suggests that 'brands can fulfill the promise of social media: personal, trackable, scalable conversations and insights directly from the people your organization serves'. Her article **'Chatbots are the future of marketing research',** *Marketing News*, **51** (10) (2017), pp. 7–8, explores this further and looks at how chat bots may shape the future of marketing research.

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GLOSSARY

Accommodation strategy Consulting with stakeholders to determine a strategy which will be acceptable to all parties.

Accumulation Collecting small production batches from one or more manufacturers into amounts large enough to be worth shipping.

Actual state The current position of the individual in terms of well-being and possessions.

Adoption Building a given brand or product into one's regular daily life.

Advertisement A paid insertion of a message in a medium.

Affect What is felt about a product: liking, dislike, fear, etc.

Affective states Conditions of the emotional or physical well-being of the individual that cause interrupts.

Agent An individual or firm who arranges sales of goods and services without actually taking possession of them.

AIDA Acronym for Attention, Interest, Desire and Action – the four stages of response to communications.

Aided recall The degree to which an individual can recognise an advertisement when it is shown to him/her.

Allocation (bulk breaking) Breaking down large shipments into smaller amounts.

Analogy A projective technique in which the respondent is invited to identify himself/herself with a non-human object.

Assorting Gathering together groups of related goods under one roof to sell them to specialist retailers.

Assortment depletion The consumption of the whole or most of an item in the consumer's stock of possessions.

Assortment extension The act of adding to an existing stock of possessions.

Auxiliary characteristics Those features and benefits that are secondary to the primary characteristics; the less essential aspects that differentiate the product from its close substitutes.

Backward integration Taking control of suppliers.

Balance of payments The difference between the value of exports and the value of imports.

Barter The exchange of goods for other goods without the exchange of money.

Behavioural segmentation Grouping potential customers according to their activities, attitudes and lifestyles.

Brand architecture The process of structuring brands to transfer brand equity from product levels to corporate levels.

Brand awareness The degree to which the consumer has knowledge of a given brand.

Brand extension Marketing new products under an old brand name.

Brand manager The person with responsibility for decisions concerning a specific brand.

Brand switching The act of buying a different brand from the one usually purchased.

Break-down forecasting Predicting sales by calculating the firm's share of the overall market.

Build-up forecasting Predicting sales by calculating the firm's share of each segment and adding these together.

Buy-back A form of countertrading in which capital equipment is sold in exchange for a future stream of the goods that the equipment will produce.

Buyer The individual who carries out the mechanical processes of purchasing.

Cash-and-carry wholesalers Stockists whose retail customers visit the warehouse, pay for goods on the spot and remove them in their own transport.

Cash Cow A product with a large share of a low-growth market.

Catalogue showrooms High street retailers who display goods only by means of a catalogue.

Channel conflict Differences of direction between channel members.

Channel cooperation The process of coordinating the activities of channel members to achieve agreed objectives.

Channel of distribution The routes and intermediaries through which a product passes from producer to end user.

Channel power The means by which one channel member is able to exert his/her will over another channel member.

Clinical focus group A heterogeneous group of respondents brought together under clinical conditions to discuss an issue.

Cognition What is thought about a product: beliefs and opinions.

Co-marketing The marketing of one brand alongside another.

Comparative advantage The natural advantage one country has over another in terms of production or resources.

Compatibility The degree to which the new product fits in with the customer's existing purchases and lifestyle.

Competitor-based pricing Using competitors' prices as a starting point for price-setting.

Complexity The degree to which the product is difficult to learn to use.

Compositioning Grouping products under a single brand name with a single position in the consumer's perceptual map.

Conation Planned behaviour regarding a product or event.

Concentric diversification Developing new products for new markets, but with production synergies with the present range.

Concessionaires Retailers who rent space in department stores and use their own staff to sell goods to consumers.

Confidence The degree to which the individual feels sure that the attitude is the correct one.

Conglomerate diversification The introduction of new products unrelated to the firm's existing technology.

Consideration set The group of products which the individual is aware would adequately meet his or her needs.

Consumer products Goods and services purchased for the personal consumption of an individual or his/her family.

Contactors Those individuals within an organisation whose work brings them into direct contact with stakeholders.

Convenience products Cheap, frequently purchased items which do not require much thought or planning.

Convenience store Small retailer located in a residential area offering household items and food.

Conviction The belief that a given product will meet one's needs better than any other.

Copy The words used in advertisements.

Copywriter Individual who supplies the words for advertisements.

Core benefits The benefits that would apply to all consumers of the product category. For example, all cars provide the core benefit of personal transportation.

Corporate objectives The ultimate goals that the corporate management hope to achieve.

Cost leadership The maintenance of a competitive edge by means of keeping costs low.

Cost-plus pricing Basing the price calculation on the firm's production costs, plus a predetermined allowance for profit.

Countertrading Exporting into a market on condition that goods of equal value will be imported from the same market.

Culture A set of shared beliefs and behaviours common to a society.

Customary pricing A price applied to a product or for a minimum amount of a product and fixed for a number of years.

Customer research Information gathering regarding the customer's needs and wants.

Customer survey Forecasting sales by asking customers how much of the product they expect to buy.

Customisation Adapting the firm's products to meet local market conditions.

Customs union A treaty between nations under which the member states agree to common external tariffs in most goods.

Cut-off The maximum or minimum acceptable values for product attributes.

Cycle analysis Examining earlier sales figures to see whether there is evidence of a recurring pattern over a period of years.

Data Facts gathered in the course of research.

Database marketing The use of computers to profile and contact customers and potential customers.

Decider The individual who has the power to make the final purchasing decision.

Decision support systems Computer-based information-gathering and interpreting systems used to inform marketing decisions.

Defence strategy Changing the way the business is run to avoid outside pressures.

Delphi technique Forecasting by asking each interested party to make their own estimate, then circulating the estimates to the other members of the group for comment and revision.

Demand A want which can be paid for.

Demand pricing Prices based on the customers' demand for the product.

Demographic segmentation Grouping potential customers according to their position in the structure of the population.

Demographics The study of population structure.

Department store A large city-centre store offering a wide range of household goods, clothing, cosmetics and food.

Depth interview An interview with an individual, using probing questions to arrive at the individual's innermost feelings.

Derived demand The state of affairs where the demand for a component derives from the demand for the finished product.

Description The process of industrial buying whereby the buyer describes the required product and asks suppliers to provide tenders for its supply.

Desired state The position the individual would like to be in, in terms of well-being and possessions.

Differentiated marketing Concentrating effort on a segment or segments by offering a product which the target customers would see as superior.

Differentiation Distinguishing the firm and its products from all competitors.

Direct costs Expenses attributable solely to a particular product.

Direct response Promotions that include a coupon or telephone number for the customer to contact the manufacturer or service provider without going through intermediaries.

Discount sheds Large out-of-town stores offering consumer durables or hardware.

Discounter A retailer offering a very limited range of goods at low prices.

Distribution research Studies of distribution methods and systems with a view to improving distribution in the future.

Distribution strategy The planning process concerned with selecting the most effective outlet for goods and services.

Distributor survey Forecasting sales by asking the firm's distributors to estimate how much of the product they expect to sell.

Divestment The act of disposal of a used-up or worn out product or its packaging.

Dodo A product with a low share of a shrinking market.

Dog A product with a low share of a low-growth market.

Drive The state of unease that derives from the gap between the desired and actual states.

Drop shippers Individuals or firms who take orders from retailers and buy the goods from manufacturers, shipping the goods without taking physical possession of them.

Early adopters People who adopt a new product after the innovators have already adopted it.

Early majority Consumers who adopt a product once it has been thoroughly tried and tested, but before more than half the population have adopted the product.

Eclectic theory The view that firms choose their internationalisation strategy according to their own strengths and weaknesses.

Economic choice The decisions forced on customers and producers by the scarcity of resources.

Economies of scale Savings made as production and marketing activity increase; the reduction in unit costs brought about by more efficient large-scale production.

Editing The act of removing spoiled or aberrant data, prior to analysis.

Elastic demand A state of affairs where the amount of the product that will be purchased is strongly affected by its price.

Employee markets Those individuals who provide time and expertise to the firm in exchange for salaries or wages.

Empowerment Authorising employees to make decisions regarding customer service reparation without recourse to managers.

Environmental stimulus A factor in the search or purchase environment that causes an interrupt.

Equitable performance The level of product performance which the individual would regard as reasonable, given the cost of the search in terms of time and effort and financial cost of the product.

Ethnocentrism The belief that one's own culture is 'right' and that other cultures are pale imitations.

Exchange rates The prices at which foreign currency is exchanged for national currency.

Exclusive dealing Agreements that prevent a channel member from dealing with a competing channel member.

Execution format The overall style of an advertisement.

Executive judgement Forecasting sales by asking senior management to estimate the potential business.

Expected performance The level of product performance the consumer expects, given the pre-purchase information collected.

Experiencing focus group A homogeneous group of respondents brought together to give the researcher experience of talking to a group from the population of interest.

Experiment A controlled event in which a subject is given a stimulus and his/her reactions are noted.

Export agents Firms that arrange the export of goods without taking possession of the goods themselves.

Export houses Firms that buy goods for resale abroad.

Exporting Manufacturing in the home country and selling the goods abroad.

External environment Those cultural, social, economic, legal and competitive factors that are outside the organisation.

External search Information obtained from sources other than the individual's personal experience and memories.

Extremity The strength of attitude towards a product.

Family branding Grouping products under a single brand.

Fluctuating demand This is common in industrial markets, whereby a small reduction in consumer demand for a product will lead to de-stocking, thus causing a big reduction in demand for components.

Focus The degree to which the firm is concentrating on a specific segment or segments of the market.

Focus group A group of respondents brought together to discuss an issue in the presence of a moderator, who records the group's deliberations.

Forward integration Taking control of customers.

Franchising Allowing a foreign firm to operate a business concept (including intellectual property) in exchange for royalties and other fees.

Frequency The number of times a given individual will see a given advertisement.

Full-service merchant wholesalers Merchant wholesalers who also offer marketing services to retailers.

Gatekeeper An individual who controls the flow of information to a decision-maker.

GDPR The General Data Protection Regulations. This is the law which protects the security of information about individuals which is stored electronically.

General-merchandise wholesalers Stockists of a broad range of goods to sell to retailers.

Geo-demographic segmentation Dividing a market according to location and demographic characteristics of consumers (age, income, education level and so forth).

Geographic segmentation Dividing potential customers into groups according to their location, either nationally or in smaller areas; for example, areas of a city.

Globalisation Marketing a standardised product worldwide.

Hedonic needs The pleasurable or aesthetic aspects of product ownership or service use.

Heuristic A simple 'if . . . then' decision-making rule.

Horizontal diversification Introducing new products (unrelated to the current range) to existing markets.

Horizontal integration The act of merging with, or buying out, competitors at the same level in the distribution channel.

Hypermarket A large out-of-town store offering a very wide range of consumer goods.

Ideal performance The level of product performance that the consumer would regard as meeting or exceeding all criteria.

Importing Bringing goods into the home country from a foreign country.

Industrial products Goods or services purchased by a business for use in the course of running the business.

Inelastic demand A state of affairs where the amount of the product that will be purchased is relatively unaffected by its price.

Influence markets Individuals and organisations in the marketing environment who have influence over the firm's activities.

Influencer An individual who has influence, but not power, in a buying decision.

Influencers Those individuals within an organisation who have no contact with customers but who do have a marketing role.

Information Data that have been interpreted and explained.

Informational influence The need to seek information from a reference group.

Innovators The first people to adopt a new product.

Inspection The act of examining a variable product to ensure that it meets particular criteria.

Institutional advertising Advertising in which the company or institution is promoted rather than a specific product.

Interference Purposeful noise that interrupts communications.

Internal environment Those cultural, social and economic factors that are contained within the organisation itself.

Internal PR Public relations exercises aimed at the workforce and other stakeholders within the organisation.

Internal publics Those groups within the firm to whom the firm needs to communicate its objectives and policies.

Internal search Information retrieved from the individual's memories and experience.

Interpreting The act of extracting meaning from data to create information.

Interrupt An event or piece of information that temporarily suspends the information search.

Interviewer bias Errors in results caused by deliberate or accidental acts of the interviewer.

Isolateds Those individuals within an organisation who have no contact with customers and have no marketing role.

Joint demand The state of affairs where the demand for one product is affected by the demand for another product.

Joint ventures A collaboration between two firms in the same or complementary industries to carry out a specific task with a view to mutual profit.

Laggards The last people to adopt a new product.

Late majority People who only adopt a product when approximately half the customers in the market have already done so.

Law of primacy The rule that states that later information is interpreted in the light of earlier experience, thus implying that early experience is more important than later experience.

Licensing Allowing a foreign firm to utilise the intellectual property of the owner in exchange for a royalty.

Lifestyle campaign A series of advertisements showing a product being used as part of a desirable lifestyle.

Limited-line wholesalers Stockists of a small range of goods for specialist retailers to buy.

Limited-service wholesalers Dealers who buy in bulk and arrange delivery to retailers without actually taking physical possession of the goods.

Line family branding Grouping related products under a single brand name.

Loading The level of demand for a service at different times of the day, week, month or year.

Logistics The process of strategically managing the movement and storage of materials, parts and finished goods from suppliers, through the firm, and on to consumers.

Loyalty card A plastic card entitling the bearer to discounts on purchases at a particular store.

Macro-environment Those environmental factors that are common to all firms and that can be influenced, but not controlled.

Mailshots Postal communications intended to obtain business or appointments for selling interviews.

Margin The amount of profit calculated as a percentage of the selling price.

Market development Increasing sales of current products in new markets.

Market research Studies of consumer needs, wants, behaviour and personalities to inform marketing decisions.

Marketing The management process which identifies, anticipates and supplies customer requirements efficiently and profitably.

Marketing audit A systematic assessment of the organisation's current marketing activities to inform the planning process.

Marketing cost analysis Examination of the costs of getting business in.

Marketing environment research Information gathering about the organisation's environment in terms of political, socio-cultural, economic and technological threats and opportunities.

Marketing information systems Ongoing information-gathering systems and record-keeping systems used to inform marketing decisions.

Marketing mix The seven areas of activity with which marketers are most concerned: price, product, place, promotion, people, process and physical evidence.

Marketing orientation The approach that puts the customer at the centre of everything the firm does.

Marketing research All forms of information-gathering used to inform marketing decisions.

Markets Groups of customers or consumers with similar needs and wants.

Mark-up The amount of profit calculated as a proportion of the bought-in price.

Mark-up pricing Adding a fixed percentage to the bought-in-price of a product.

Matrix A table in which data are arranged in two or more dimensions.

Mechanistic (bureaucratic) organisation An organisation in which leadership is chosen according to qualifications and experience, regardless of the current tasks facing the organisation.

Media event A meeting held to announce corporate news, to which journalists are invited.

Meet-the-competition strategy Setting prices close to those of the nearest competitors.

Merchant wholesalers Buyers of goods to sell to retailers, often using a salesforce.

Micro-environment Environmental factors that are close to the firm and to an extent controllable by the firm.

Missionaries Salespeople who seek to promote the company and its products to new prospects.

Modifiers Those individuals within the organisation who have regular contact with stakeholders but have no direct marketing role.

Monopolistic competition A condition where one supplier has a significant market share obtained by differentiating its product from those of its competitors.

Monopoly A condition where one firm produces a product that has no close substitutes.

Motivation The predisposition that arouses and directs behaviour towards certain goals.

Multinational marketing Operating production, promotion, pricing and distribution in the most beneficial countries regardless of national boundaries.

Multivariable segmentation Grouping potential customers according to several segmentation bases.

Need A perceived lack of something, e.g. food when hungry.

Negotiation The act of discussing with a supplier what would be the best way of approaching a new-purchase task.

Network A diagrammatic representation of the relationships between concepts.

New product development (NPD) The process of developing new products from idea stage through to launch on the market.

Niche marketer A retailer offering a depth of range of a single product line.

Niche marketing Concentrating effort on a very small market segment.

Noise Non-purposeful interference with communications.

Non-store retailing Any sales to consumers which do not take place in a shop.

Non-traceable common costs Expenses incurred across a range of products that cannot be allocated to any specific product.

Normative compliance The pressure exerted by reference groups to behave in the same way as the rest of the group.

Observability The degree to which the product can be seen by others.

Odd–even pricing The practice of ending prices with an odd number of cents, pence etc., to give the impression of a lower price.

Oligopoly A condition where the market is controlled by a small group of suppliers.

Omnibus studies Surveys carried out on behalf of several researchers at once.

Optimum stimulation level The level of gap between desired and actual states at which the individual feels stimulated, but not yet uncomfortable.

Order getters Salespeople who provide solutions for new and existing customers from among the available product portfolio.

Order takers Salespeople who record and process purchase orders from people who had already decided to purchase.

Organismic organisation An organisation where the leadership devolves to the individual with the most appropriate expertise for the task facing the organisation.

Outshopping Buying goods from retailers outside the area where one lives.

Panels Permanent or semi-permanent groups of respondents who are prepared to comment on a wide range of issues.

Penetration pricing Pricing a new product low to maximise market penetration before competitors can enter the market.

People The element of the marketing mix which comprises the individuals who deal directly with consumers in providing a service.

Per capita income Average earnings per head of population.

Perception The analytic and synthetic process of developing a world-view.

Perceptual mapping The process of positioning products, events and experiences in relation to one another.

Perfect competition A condition where the market contains a large number of suppliers, no one of which can significantly influence price or supply.

Persistence The stability of an attitude over time.

Personal selling A person-to-person communication intended to meet a customer's needs at a profit.

Physical distribution Moving products from producer to consumer.

Piggy-backing Exporting or promoting one product alongside another complementary product, often from a different firm.

Piloting The act of testing a questionnaire or other research tool on a small group of respondents to detect errors in its design.

Planned impulse Buying behaviour in which a planned course of action is changed as the result of a new stimulus.

Positioning The grouping of similar product types together in the consumer's perceptual map.

Postal surveys Questionnaires sent and returned through the mail.

Post-purchase consonance The state of affairs where the product's characteristics and benefits match up to or exceed the purchaser's expectations.

Post-purchase dissonance The state of affairs where the product's characteristics and benefits do not meet the purchaser's expectations in one or more respects.

Post-purchase evaluation The examination of the purchased product to determine whether it meets, exceeds or fails to meet pre-purchase expectations.

Post-tests Testing of the effectiveness of advertising materials after they have been shown to the general public.

Predatory pricing Pricing products so far below those of competitors that the competitors will be bankrupted.

Premium The amount a customer is prepared to pay above the price of a standardised product to obtain a product which more closely fits his or her needs.

Prestige pricing Applying a high price to a product to indicate its high quality.

Pre-tests Testing of advertising materials before they are shown to the general public.

Price elasticity of demand The extent to which the demand for a product is affected by its price.

Price leaders Firms whose market share and share of the capacity in the industry are great enough for them to be able to set the prices in the market.

Primary characteristics The main aspects of a product which provide the core benefits to the consumer.

Primary research Research carried out first-hand; original, previously unpublished work.

Private responses Complaints made about the product or supplier to friends or others.

Proactive management A management approach that seeks to anticipate problems and act before they arise.

Proactive PR Public relations exercises undertaken as a result of internal planning within the organisation.

Proactive strategy Seeking out stakeholders and changing their viewpoints in advance of action.

Problem Child A product with a low share of a high-growth market.

Product A bundle of benefits.

Product advertising Advertising in which a product category is promoted rather than an individual brand.

Product development Improving the present products or adding new products to current markets.

Product differentiation The features and benefits of a product that distinguish it from its near substitutes.

Product life cycle (PLC) The stages a product goes through from launch to obsolescence.

Product manager The person with responsibility for a particular product type.

Product orientation The paradigm that suggests that the ‘perfect’ product will suit all consumers.

Product research Studies of customer and consumer responses to product offerings with a view to adapting future offerings.

Production orientation The paradigm that suggests that efficiency in the production process is the main way for a firm to succeed.

Product-line pricing Applying differential pricing policies to products that are co-dependent in terms of demand.

Projective technique A research method which invites respondents to project their own views onto a third party, or a cartoon character, to avoid embarrassment.

Promotion research Organised information-gathering regarding the effectiveness of promotional activities or potential audience responses to proposed promotional activities.

Promotional mix The combination of PR, advertising, personal selling and sales promotion leading to purposeful marketing communications.

Prospects Individuals who are prepared to talk to a salesperson about their needs.

Psychographic segmentation Grouping potential customers according to their personality traits.

Psychological pricing Applying prices that appeal to the customer's emotions and subconscious thought processes.

Psychological proximity The degree to which two or more nations share cultural attributes.

Public relations (PR) Activities intended to convey an organisation's messages to its publics.

Publics Those groups and individuals which have a direct or indirect impact on an organisation's activities.

Pure impulse Buying behaviour undertaken without prior rational thought.

Qualitative research Gathering of non-numerical data.

Quality The relationship between what is expected and what is received.

Quantitative research Gathering of numerical data.

Quota sample A group of respondents having the same mix of relevant characteristics as the sample frame.

Rack jobbers Retailers who rent shelf space in retail shops and stock the shelves themselves.

Random factor analysis Examining the abnormal figures within the analysis of sales trends to attribute causation.

Random sample A group of respondents taken from a sample frame, each member of which has an equal chance of being included in the random sample.

Rational campaign An advertisement or series of advertisements using facts and figures in an authoritative way to appeal to the consumer's cognition.

Reach The number of people who are exposed to an advertisement.

Reaction strategy Waiting until outside pressures force change.

Reactive management An approach that involves responding to outside and inside influences as they arise.

Reactive PR (defensive PR) Public relations exercises undertaken as a response to outside pressures.

Redundancy Sending the same message via different routes to overcome the distorting effects of interference and noise.

Reference group A formal or informal group from which the individual seeks cues regarding appropriate behaviour.

Referral markets Those individuals or firms who do not themselves buy from the firm, but who can influence others to do so.

Reinvention The process of finding new uses for old products.

Relationship marketing A business approach that concentrates on the long-term relationship between the firm and its stakeholders rather than on single transactions.

Relative advantage The degree to which a new product is better than the product the customer is currently using.

Reminder impulse Buying behaviour undertaken when the individual is reminded of something.

Resistance The level of difficulty experienced in changing an attitude.

Respondents Individuals who participate in research studies.

Retailer An individual or firm who buys goods or services and sells them on to consumers.

Return on Investment (ROI) The degree to which the initial funding of a company or project provides a profit.

Role The group of behaviours expected of the occupant of a given position.

Sales analysis Examination of the sources of income the company has.

Sales manager The manager responsible for controlling, recruiting, training and motivating the salesforce.

Sales orientation The view that customers will not ordinarily buy enough of a product without an aggressive selling and advertising campaign.

Sales promotion A temporary offer used to increase immediate sales.

Sales research Information gathering about the selling process to improve training and motivation of the salesforce.

Sales territory The geographical or industrial area allocated to an individual salesperson.

Salesforce survey Forecasting sales by asking members of the salesforce to estimate how much of the product they expect to be able to sell.

Salesperson The person responsible for finding solutions for customers' needs on an individual basis, within the constraints of what the firm has to offer.

Sample A representative sub-group of respondents taken from the population as a whole.

Sampling The act of testing a small part of a bulk supply to judge whether the whole meets particular criteria.

Sampling bias Errors in results caused by studying an unrepresentative group of respondents.

Sampling frame The population of potential respondents from which a sample will be taken.

Seasonal analysis Examining earlier sales figures to see whether there is evidence of a recurring pattern over a period spanning less than a year.

Secondary research Published research; second-hand information, already published and available.

Second-market discounting Offering products at a lower price in a second market than is charged in the main market.

Segmentation The process of categorising consumers into groups with similar needs.

Self-liquidating offers Sales promotions in which the consumer makes a purchase of an associated product, the price of which more than covers the cost of the promotion.

Service-quality benchmarking Adopting best practice in terms of customer service from both competitors and non-competitors.

Shelf price The retail selling price.

Shopping products Goods or services that are purchased infrequently and therefore require an extended decision-making process.

Signals Attributes of the product or its peripheral aspects that indirectly indicate its quality.

Single-variable segmentation Grouping potential customers according to one segmentation base.

Skimming Applying high prices on the launch of a novel product and steadily reducing them as the product penetrates the market.

Social media The range of online sites which allow people to communicate with each other and share items of interest with friends and acquaintances.

Societal marketing The paradigm that suggests that the firm's activities must be carried out in a sustainable way if customers' needs are to be met in the longer term.

Sorting out A wholesaler function of grading or classifying variable goods for resale.

Speciality line wholesalers Stockists of a limited range of goods specific to an industry.

Speciality products Goods or services that are available only from a limited range of outlets.

Stages of development theory The view that companies go through stages of internationalisation from simple exporting through to global manufacture and marketing.

Stakeholders Those who have a direct or indirect interest in the organisation's activities.

Star A product with a large share of a fast-growing market.

Strategy The overall direction in which the organisation is heading.

Stratified sample A group of respondents whose individual characteristics fall within specified strata of the overall sampling frame.

Structured interviews The administering of a questionnaire-type survey in a face-to-face situation.

Suggestion impulse Buying behaviour undertaken when the individual receives a new stimulus.

Supermarket A large high street store offering food and household items.

Supplier markets Those individuals and firms who provide goods and services to the firm.

Symbol A universally agreed sign that stands for the concept being communicated.

Tabulating The arrangement of data in tables.

Tactics The methods by which an organisation achieves its strategic objectives.

Tamper resistance Creating packages that cannot be surreptitiously opened and resealed.

Targeting Selecting the segments that would be most effective in meeting the firm's overall aims.

Taxonomy The arrangement and naming of data.

Teaser campaign An advertisement shown in two parts, each part some weeks or months apart, in which the hook line is in the second advertisement.

Teleconferencing Focus groups conducted over the telephone.

Telemarketing Canvassing for business by telephone.

Telephone surveys Administering a questionnaire over the telephone.

Test marketing Offering a new product within a small geographical area to obtain data for estimating sales for the market as a whole.

Third-party responses Complaints made to the supplier through a third party, such as a lawyer or consumer protection agency.

Time-series analysis Estimating future sales by looking at a series of sales figures from an earlier time.

Total quality management The practice of ensuring that each step in the production process meets the quality criteria, with the intention of ensuring that the finished product also meets those criteria.

Traceability The degree to which a shipment can be located within the distribution network.

Traceable common costs Expenses that are incurred across a range of products, but that can be allocated to specific products.

Transaction marketing A business approach that concentrates on transactions between a firm and its customers.

Trend analysis Predicting future sales by examining tendencies in past sales figures and projecting forwards.

Trialability The degree to which the product can be tested before purchase.

Tying contracts Agreements that insist on a channel member buying additional products to the main one being bought.

Unaided recall The degree to which an individual can remember an advertisement without being prompted.

Undercut-the-competition strategy Setting prices consistently below those of the nearest competitors.

Undifferentiated marketing Marketing to the entire population, on the assumption that everybody is a possible customer for the product, and therefore the market is not segmented.

Unique selling proposition See **USP.**

Unsought products Products that the consumer would recognise a need for, but would not ordinarily seek out.

Usage rate The quantity of the product that an industrial customer will use in a given period.

User The individual who will actually use the product (usually considered in an industrial buying situation only).

USP (unique selling proposition) The feature or benefit of a product that no other product has.

Utilitarian needs Needs that derive from the practical aspects of ownership of a product or use of a service.

Valence The direction of feeling about a product; positive or negative.

Value-expressive influence The pressure to experience psychological association with a group by conforming to its norms, values or behaviours, even if membership is not sought.

Variety store A retailer offering a limited range of related goods.

Vertical integration The act of merging with, or buying out, suppliers and customers to control the channel of distribution.

Video-conferencing Focus groups conducted over a video link.

Voice responses Complaints made direct to the supplier.

Want A specific satisfier for a need, e.g. a steak.

War Horse A product with a large share of a shrinking market.

Wealth concentration The degree to which the wealth of a country is concentrated in the hands of the richest citizens.

Wholesaler A distribution intermediary who buys goods with the intention of selling them on to retailers.

INDEX

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