Zig Zag Education

Business AS / A Level | AQA | 7131/7132

AS / A Level Year 1 AQA Business Course Companion

3.3: Marketing Management

2nd Edition – August 2023

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Contents

Teacher's Introduction

This resource has been written to support the learning of Unit 3: Marketing Management, which forms part of the AQA Advanced Level GCE in Business. It gives an in-depth view of the new qualification, presenting what specification points students need to know, plus extras along the way for extended learning.

At the beginning of this resource you will find a list of contents showing every specification point that is covered. There are also questions and answers at the end of the resource to help students apply their knowledge to real-life business contexts. Any key terms are revised as a glossary at the end of the resource.

Students get plenty of chance to practise their quantitative skills in this resource, including:

- Calculate, use and understand percentages (Chapter 3.3.2.)
- Construct and interpret a range of standard graphical forms (Chapters 3.3.2. to 3.3.4.)
- Interpret values of price and income elasticity of demand (Chapter 3.3.2.)
- Calculate cost, revenue, profit and break-even (Chapters 3.3.2. and 3.3.4.)
- Use and interpret quantitative and non-quantitative information in order to make decisions (Chapters 3.3.1. to 3.3.4.)
- Interpret, apply and analyse information in written, graphical and numerical forms (Chapters 3.3.1. to 3.3.4.)

While extremely valuable to a student's revision, this resource should be treated as a companion to the many other textbooks and activity guides available. As with any subject, it is good to read as widely as possible!

The subjects covered in this resource include everything from market research and setting objectives to market segmentation, elasticity of demand and the marketing mix. The notes included in this resource can be given to students before a lesson as preparation for a topic, afterwards in order to help solidify their knowledge, or can be used by teachers as a supplement to in-class exercises and activities.

It is hoped that this resource, as well as offering support for teaching the essential elements of the AQA examination, will help students build on their research and dissemination skills. The business world is a constantly changing one full of fascinating stories. This resource attempts to utilise some of these stories as a basis for teaching in the most interesting way possible, meanwhile encouraging further study from the next generation of business analysts!

Happy teaching!

August 2023

2nd edition – August 2023

- p.2 – Section heading changed to '3.3: Marketing Management'
- p.3 – Section 'External and Internal Influences on Marketing Objectives and Decisions' has been removed
- p.7 – 'Market mapping' section has been removed
- p.7 – 'Sampling methods' added.
- p.4 & pp.14–15 – 'Use of ICT to Support Market Research' section has been removed
- p.19 – 'Marketing Mapping' section added

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3.3. Marketing Managemen

3.3.1. Setting Marketing Objectives

Key Points Covered

- The Value of Setting Marketing Objectives

The Value of Setting Marketing Objectives

The marketing department of a business is responsible for researching and prom
Every objective that a marketing department sets must fall in line with the overa
company. Marketing objectives are incredibly useful for businesses as a way to u
consumer wants and also to promote what it is the business is offering. There ar
setting marketing objectives, such as:

- **Targets:** businesses need targets. They give departments something to striv
by 7 per cent in the next year) while simultaneously motivating the workfor
- **Direction:** marketing objectives help to give companies a sense of where th
company looking to grow its customer base, increase brand awareness or ex
- **Road map:** once the company has set a target, it needs to lay out how it wil
show companies the steps needed to achieve their overall goals.
- **Measurement:** most marketing objectives have quantifiable targets that ca
show whether a business is achieving success or failing.

Some common marketing objectives include *sales volume*, *sales value*, *market si*
and *brand loyalty*.

Sales Volume and Sales Value

Sales volume refers to the number of sales a company makes, while sales value f
generated by those sales. If a company sells 15,000 products at £10.00 each, tha
15,000 and a sales value of £150,000. By increasing sales volume and value, a com
costs, which leads to higher profits. With higher profits, the business can potenti
(financial motivation) and invest in its own growth, research and development.

Market Share

This is one of the most important objectives for marketing leaders: essentially to
consumers, and sales that a business makes. The overall goal is to increase the n
your product/service before they think of anyone else's.

Market Size

If a business already has a large market share and tries to increase this further, it
competition. With this in mind, the business may instead decide to invest in the
investment in positive advertising, funding research and sponsoring events amo
45 per cent of the market share and then the overall market grows larger, that m
lot more money.

Market and Sales Growth

This objective involves moving a brand into other markets and expanding on its s
popular sweet brand could be converted into a line of ice creams, mini cakes and
company faces more points of sale and so the possibility for cash and profit increas

Brand Loyalty

This relates to market share, in that companies want consumers to feel connect
the company image. Brand loyalty helps to ensure that consumers make repeat
and changing between brands – after all, each company wants its brand to be th
their friends and family. A recommendation from someone we know is stronger

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A strong brand can also help protect a business from the effects of external pres example here: the California technology company produces one of the highest-se the world, the iPhone. Apple's phones are popular with all types of consumer, in a number-one priority, even though the company manufactures its phones in Ch among other countries outside the USA. Apple has built a strong enough brand t with it despite knowing where the company outsources its manufacturing.

3.3.1. Questions

Please write your answers on [illegible] piece of paper or in an exercise book.

1. Tec[illegible] [illegible]es, such as Apple Inc., often choose brand loyalty as o o[illegible]s. Identify one reason why technology firms focus on this objectiv
2. Ladle is a supermarket chain that specialises in low-cost food and consume primary focus was to decrease as many costs as possible – to offer the low much profit as possible. However, that all changed following the economic

   What objective do you think the company is focusing on now? Explain you

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3.3.2. Understanding Markets and Customers

! Key Points Covered

- Primary and Secondary Marketing Research
- Price and Income Elasticity of Demand
- The Use of Data and Planning

Primary and Secondary Market Research Data

Have you ever been stopped in the street to answer a few questions or received a minute survey? If you answered 'yes', then you have taken part in market research.

Firms conduct market research by *collecting and analysing data* gathered from t businesses collect this data themselves (through email surveys or competitions, the services of *specialist market-research agencies*.

Primary Research

Primary research is *original research*, which involves gathering information *directly from the target audience* of potential consumers. This can be carried out using face-to-face interviews, telephone interviews, postal surveys, web forms, email, observations, focus groups, consumer panels and test marketing.

Businesses often create *questionnaires* for use in primary research. They must take care, though – the following points should be considered when producing questionnaires:

1. *How* will the survey be *conducted*? (e.g. by face-to-face interview, by post, by telephone or via the Internet?) This will determine the *structure* of the questionnaire.
2. What is the *objective* of this survey?
3. *How many questions* will be asked?
4. Does the survey have any 'loaded' questions?
5. Are any of the questions *ambiguous*?

✔ *Advantages of using primary research:*

1. It finds *new* information about the target market.
2. It reveals *relevant* and *up-to-date* information on the target market.
3. It allows the business to *concentrate time and money* on its target marke

✘ *Disadvantages of using primary research:*

1. It is *time-consuming* and *expensive*.
2. The *accuracy* and *reliability* of the data collected can depend on the *professionalism* of the researcher and the *structure* of the questions asked.
3. The quality of answers obtained depends on the *mood of the intervi* reflect opinion of the population as a whole.

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Secondary Research

Secondary research is the collection of data from information that *already exists* from business archives, market reports, government departments, the Internet, business journals. *Remember: all secondary research was once primary research!*

✔ *Advantages of using secondary research:*

1. It is much *cheaper* and *quicker* to carry out than field research.
2. Data and information about the *whole mass market*, rather than just th
3. It allows the business to examine [illegible] its market.

✘ *Disadvantages of using secondary research:*

1. The *reliability* of historic data must be treated with caution.
2. Secondary data is time-dependent: it may have been collected *with a speci* companies in the data may no longer exist), which does not *relate* to the bu
3. This historical data may also be *available to competitors*.

Quantitative or Qualitative?

Unlike primary and secondary research data, which differ in the way they are g quantitative research differ in the way they are documented.

Quantitative research asks *closed questions*, such as 'how many hours do you sp night?' or 'what is your favourite food?'. The questions have very little scope for word/one-sentence answer and are generally presented in numerical form, such

Qualitative research, on the other hand, asks *open questions*, such as 'why do yo 'what food do you associate with your childhood and why?'. These questions are the interviewee can give as long or short an answer as they like. The end result is rather than statistics, allowing the researcher to investigate any themes that stre

Primary and secondary research can be both qualitative (e.g. primary high-street in journal articles) and quantitative (e.g. primary face-to-face questionnaires and sec

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Effective Market Research takes both quantitative and qualitative research into cons make *more informed* marketing decisions, *reduce risk* and gain potential *competitive* saw, market research is costly and time-consuming, but it can help businesses gathe

- the *size* of the market
- the *state* of the market (i.e. whether there is demand and if it is growing or
- central *elements* of the market (social, legal, economic, political and techno
- *competitors* and their business processes
- what the *public think* about all aspects of their product/service
- the *target markets* (i.e. the market *segment* to which they intend to sell)
- the *structure* of the market (i.e. the type, size and number of competitors)
- consumer behaviour, their *needs*, *wants* and *price* they are willing to pay

Most market research processes go through the following steps:

1. *Identify* the problem
2. *Decide* on an appropriate method of research
3. *Determine* data (primary or secondary) and sources
4. *Design* a data capture form
5. *Decide* on where to get the sample and on its size
6. *Collect* the data
7. *Analyse and interpret* the data
8. *Produce* a market research report

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Calculations using Market Research

Businesses stay up to date on how their markets are performing and their place w clearer picture of their true value.

Market and Sales Growth

Sales growth tells us the growing number of purchases consumers make in one p *growth* describes the increase in value of a market (i.e. how much money it is ma figures show the total revenue for all golf equipment manufacturers in the UK.

Total Revenue for Golf Equipment Market (£m				
2017–2018	2018–2019	2019–2020	2020–2021	2
125	127	250	251	

The UK golf equipment market has been steadily growing since the financial year growth between 2017–2018 and 2022–2023 can be calculated in the following w

$$\text{Market Growth} = \text{2022 to 2023 revenue} - \text{2017 to 201}$$

$$\text{Market Growth} = 263\text{m} - 125\text{m}$$

$$\textbf{Market Growth} = \textbf{£138m}$$

Businesses often calculate market growth as a percentage rather than simply a n the following:

$$Market\ Growth\ Percentage = \frac{(2022\ to\ 2023\ revenue - 2017\ to\ 2}{2017\ to\ 2018\ revenu}$$

$$Market\ Growth\ Percentage = \frac{(263\text{m} - 125\text{m})}{125\text{m}}\ x$$

$$Market\ Growth\ Percentage = 1.104\ x\ 100$$

$$\boldsymbol{Market\ Growth\ Percentage = 110.4\ per\ ce}$$

Market Share and Size

The *size of a market* describes the number of consumers that purchase those particu other hand, shows the proportion of total market revenue, i.e. how much control a b

Below shows the same table alongside the annual sales revenue for the company

Total Revenue for Golf Equipment Market (£m				
2017–2018	2018–2019	2019–2020	2020–2021	2
125	127	250	251	
Total Revenue for Caddy Shake Ltd (£m)				
2017–2018	2018–2019	2019–2020	2020–2021	2
45	49	98	98	

Using the information above, we can calculate the share of the market that Cadd year. Let's use the most recent year, 2022–2023:

$$Market\ Share\ for\ 2014\ to\ 2015 = \frac{Revenue\ for\ Caddy\ Sha}{Revenue\ for\ golf\ ma}$$

$$Market\ Share = \frac{102m}{263m}\ x\ 100$$

$$\boldsymbol{Market\ Share = 38.78\ per\ cent\ (to\ 2.d.p.)}$$

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This figure tells us, then, that Caddy Shake Ltd had control of 38.78 per cent of th
2022–2023. We can also calculate an average market share in order to get a bett
company might be worth in future:

$$Average\ Market\ Share = \frac{45m + 49m + 98m + 98m + 73m}{125m + 127m + 250m + 251m + 24}$$

$$Average\ Market\ Share = \frac{465m}{1{,}261m}\ x\ 100$$

$$\boldsymbol{Average\ Market\ Share\ Caddy\ Shake\ Ltd = 36.88\ per\ c}$$

This percentage gives the company a better idea of how much it can expect to ea
the market. If the market is worth £200m, for instance, Caddy Shake
36.88 per cent of that (i.e. 200m x 0.3688 = £73.76m).

Market Research, Sampling and Bias

What is Sampling?
Sampling is not just something electronic musicians do on stage, it is also a tech
business wishes to find out the opinion of a particular market segment, it can us
interviewing every single person in the segment, a quicker and more cost-effect
opinions of a cross-section of people who represent the views of the market. Ea
the entire market.

Sampling methods

- **Random** – participants are chosen at random, which should provide an unb
- **Stratified** – participants are divided into groups, known as strata, based on e.g. gender, educational qualifications or lifestyle. Each stratum can be rand
- **Quota** – participants are specifically chosen based on their characteristics.

While sampling offers great value to market researchers, there are sometimes p
businesses collect:

Structure: Data collected may not be specific enough to make good marketing de
asked are too broad to be really useful.

Size: Just because your research says that 65% of the population will buy Kittyno
data has come from a sample and may not reflect what happens on a UK-wide sc
your representative sample is accurate enough to extrapolate the data to a UK le

In other words, how do you know by asking 50 men aged 25–35 from Bournemo
men will buy Lynx deodorant?

Representation: Data collected may not take into account regional differences –
customers may not want to buy Welsh cakes in Sussex, but market researchers g
response from people in Cardiff. This is potentially expensively misleading. Regio
can be subtle, but if missed they can lead to disaster.

Some companies, such as Coca-Cola, take a global approach to their marketing w
such as Domino's Pizza, allow each country to handle their own marketing for fra

Bias: When companies collect data, they need to be as fair as possible. If a questi
closed, for instance, it will likely generate a one-sided response from most peo

The interviewer needs to be fair, too. If the business is looking for a specific correla
that drink more in each area), they may miss other correlations (e.g. what drinks are

Time affects bias, too. A sample that is questioned one year may feel very differe
due to any number of factors, including average income, technological developm
branding. Companies, therefore, need to sample over different time periods in o
target markets.

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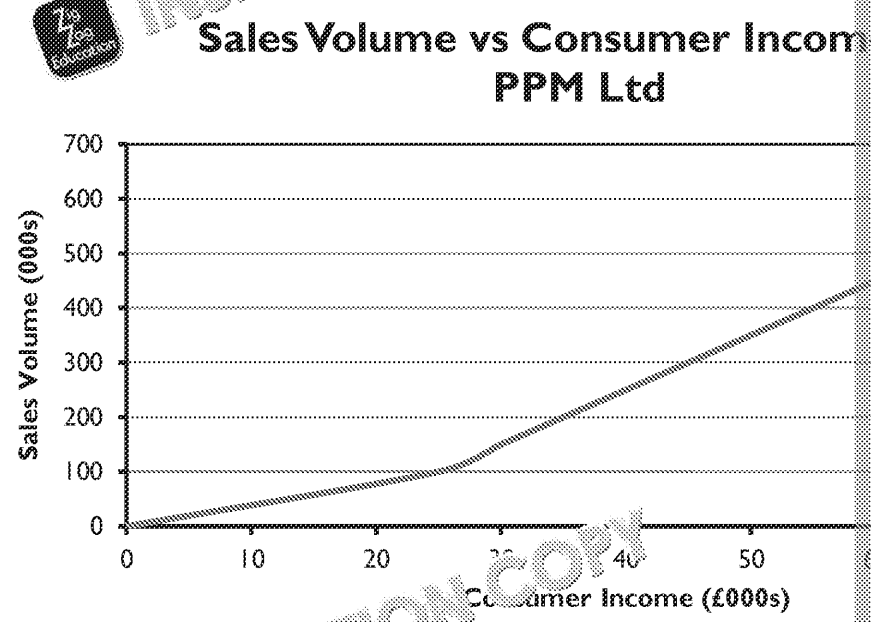
Interpretation of Marketing Data

Once a marketing team has gathered all the necessary data, it needs to present i This requires an understandable format that adds a story to the data.

Correlation and Strength

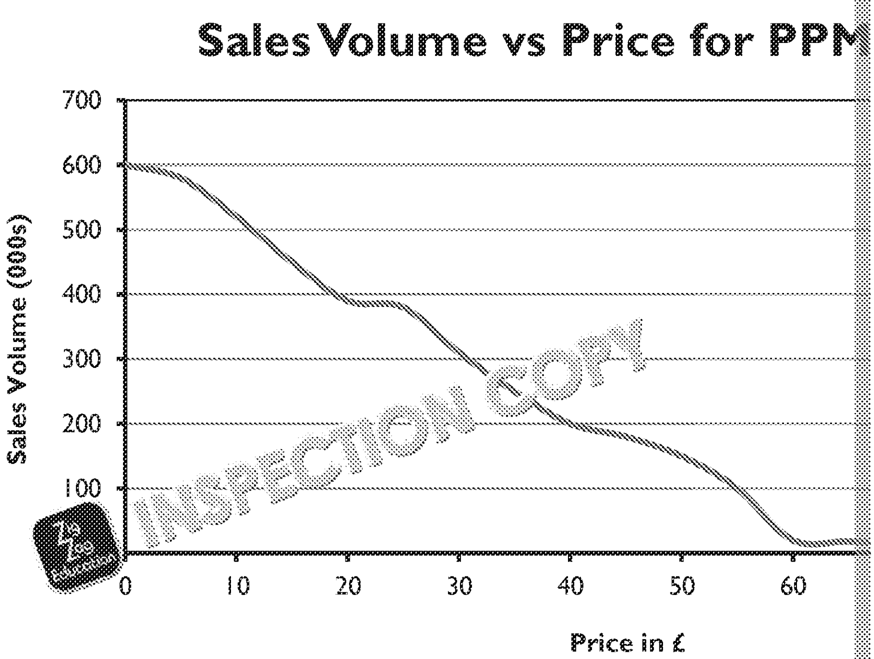
A common way to present figures is by using a graph of sales and comparing tha might compare number of sales and the amount of money spent on promotiona number of sales and the average consumer income.

Proper Posh Munchies (PPM) Ltd is a [illegible] company. The marketing depar sales over time and the type of consumer that purchases the firm's products.



The graph for PPM Ltd sh[illegible]ere is a *positive correlation* between sales vo the higher th[illegible]e of the consumer, the more sales PPM Ltd makes. the graph is [illegible] moving in a positive direction.

PPM Ltd's marketing team took note of another figure: price.



This graph shows that the higher the price PPM Ltd charges for its products, the correlation between price and sales volume is *negative* this time because sales g

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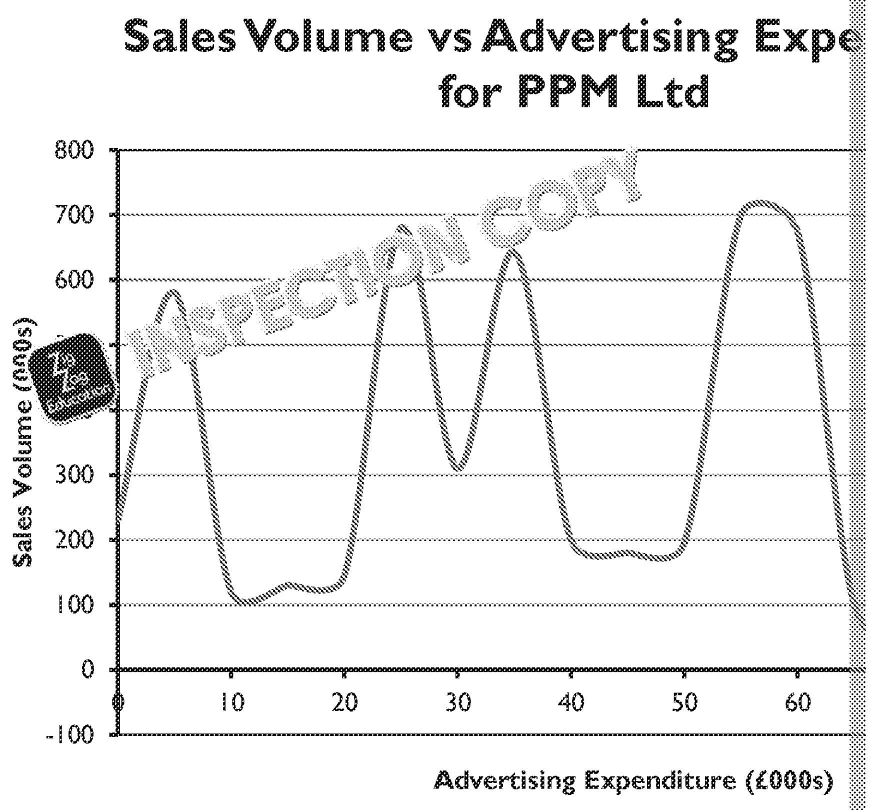
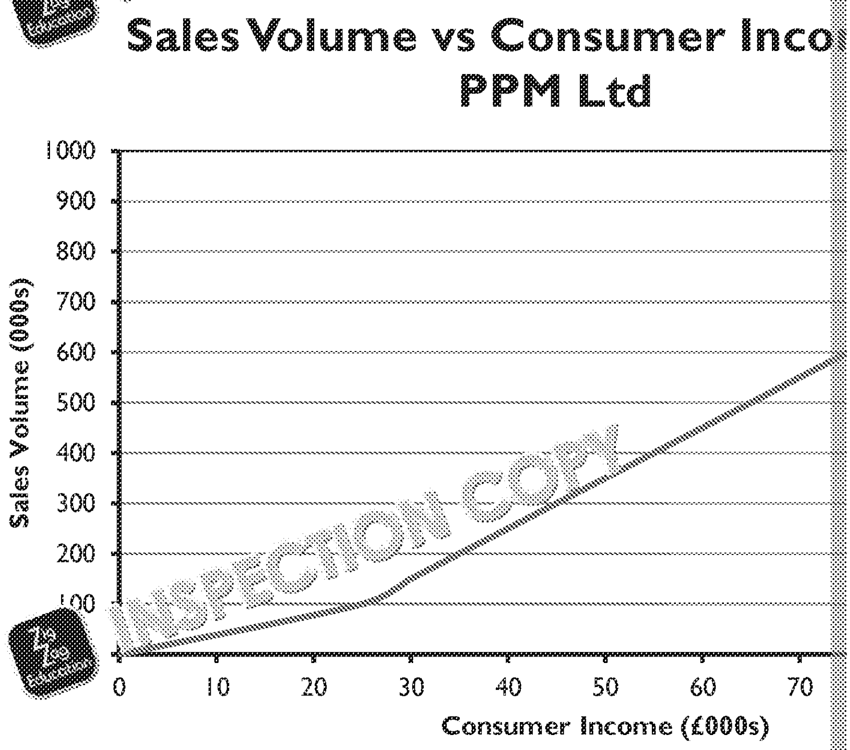
Correlation does not always have to be positive or negative, though:



This graph tells us that there is *no correlation* between sales volume and advertis
of cash that PPM Ltd funnels into advertising does not aff the sales volume of

Extrapolation
Once a business has studied its findi nd correlations (positive or negat
data (i.e. extend the trend in future). Let's use the graph comparing consum
an example:



The dotted line shows that the company has extrapolated the data further so tha
were at an average of £100,000, the company could stand to make nearly 900,00

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Confidence Intervals

Naturally, though there may be a strong correlation between one factor and ano investigate the facts – it could be merely coincidence after all. One way that busi allowances for uncertainty is to use confidence intervals. A confidence interval co +/- 10, so that each figure is more realistic.

PPM Ltd, for instance, might extrapolate its sales volume ... at £80,000 in cons sales. However, it is not guaranteed that the com... w... generate this many sa consumers (just because people have m... ...t mean they wish to spend i use a confidence interval of, say, ...w, instead of saying that an income o firm can look at a range ... ...,000 and 1.03m sales.

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Price Elasticity of Demand

Price elasticity of demand (PED) shows how responsive, or sensitive, the demand It shows how likely demand is going to rise or fall depending on the price of the p

The formula below is used to calculate this:

$$\frac{\%\text{ change in quantity demanded}}{\%\text{ change in price}}$$

If the answer *is equal to 0*, then there is *complete price inelasticity* of demand (i.e demand). This means that even if price changes, there will be *no change* in dema

If the answer is *less than 1*, then demand for the product is *price inelastic*. This m not very sensitive to changes in price – so, a business selling *price inelastic prod price without damaging its total revenue income*.

If the answer *is equal to 1*, then th... ...*y price inelasticity* of demand. This demand is *exactly the sa*... ...ercentage change in price.

If the answ... *...ater than 1*, then demand for the product is *price elastic*. This quite sensiti... changes in price. If a business sells a product that is price elastic selling price and hope to increase its total revenue income.

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Example

Consider the following data:

Unit price	Quantity demanded
£18	3,000 units
£14	4,000 units
£10	5,000 units

Calculate the price elasticity of demand if th... ...ses from £10 to £1

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Answer:

Change in quantity demanded:

= 4,000 units *minus* 5,000 units

= -1,000 units

Percentage change in quantity demanded:

$$= \frac{-1{,}000}{5{,}000} \times 100$$

= -20 % fall in demand

Change in price:

= £14

= £4

Percentage change in price:

$$= \frac{£4.00}{£10.00} \times 100$$

= 40% rise in price

Price Elasticity of Demand:

$$\frac{\%\ \text{change in quantity demanded}}{\%\ \text{change in price}}$$

$$= \frac{-20\ \%}{40\%}$$

= -0.5

The PED in this example *is less than 1*, which shows that demand for the product
customers *change* the quantity of goods they demand proportionally less than a
selling price of a product should increase by £1.50, the change in demand would b
think of any products or services that are price inelastic?

Responsiveness is Key

The reaction of total revenue to PED all depends on *responsiveness*. Let's use tw

If the price of oil increases, petrol prices will likely go up. People all around the
hire taxis, and so petrol is considered an essential commodity. Demand for the
Consumers will continue to buy petrol even if the price goes up. Sales revenue,
responsive when PED is inelastic.

Parsley is different. If there was a nationwide blight on the crop, meaning most
disappeared, fewer suppliers would be selling parsley. As such, the price of par
unlike that of petrol, the demand for parsley is price elastic; it is not considered
parsley's too expensive, consumers may just buy something else). Sales revenu
when PED is elastic.

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Income Elasticity of Demand

Income Elasticity of Demand (YED) shows how sensitive demand is to an increase
income. The formula below is used to calculate this:

$$\frac{\text{\% change in quantity demanded}}{\text{\% change in income}}$$

If the answer is *greater than 1*, this shows that demand is *income elastic*. That is,
greater than 1% change in the quantity demanded. This usually applies to *luxury*
televisions and holidays abroad.

Income inelastic demand occurs when income elasticity is *between 0 and 1*. That
a *less than* 1% change in the quantity demanded. This usually applies to *necessar*
purchase every day.

If the answer is *less than 1*, this shows *negative income elasticity* – if income goe
vice versa. This usually applies to *inferior goods*, such as cheap bread, potatoes,
hand clothing. When consumer *income increases*, people tend to buy *better qual*
Richard Branson to eat Pot Noodles for lunch unless he really liked them!

Example

Consider the following data:

Income	Quantity demanded
£10,000	5,000 units
£12,000	7,500 units
£15,000	10,000 units

What is the income elasticity of demand if income rises from £10,000 t

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Answer:

Change in quantity demanded:

= 7,500 - 5,000

= 2,500 units

Percentage change:

$$= \frac{2,500}{5,000} \times 100$$

= 50%

Change in income:

= £12,0[illegible],000 = £2,000

Percentage change:

$$= \frac{2,000}{10,000} \times 100$$

= 20%

Income Elasticity of Demand:

$$\frac{\text{\% change in quantity demanded}}{\text{\% change in income}}$$

$$= \frac{50\%}{20\%}$$

= 2.5

The YED is *greater than one*, which shows deman[illegible] is [illegible]*me elastic*. A 20% rise i[illegible] quantity demanded. Can you think of [illegible] p[illegible]cts/services that are income elas[illegible]

The Val[illegible] P[illegible]e and Income Elasticity of Demand to Busi[illegible]

Businesses [illegible]th price and income elasticity of demand very seriously. The c[illegible] effects on a firm's marketing strategies and on the overall decision-making proce[illegible]

- Businesses use *price elasticity of demand* to determine the *effect* that *chang*[illegible] their revenue income. Lower pricing policies work when demand is price el[illegible] when demand is price inelastic. This helps a business decide whether any su[illegible] costs could be funded by the consumer through raising prices.
- PED can also help a business if it decides to operate a policy of *price discrim*[illegible] 3.3.4.). So, if a product is particularly *price elastic*, it would not be a good id[illegible] that product!
- A business that is trying to increase its market share might look to PED for a[illegible] *inelastic*, for example, reducing the price of that product in order to increas[illegible] realistic option!
- *Income elasticity of demand* helps a busines[illegible] de[illegible]d[illegible] how to organise its *pro*[illegible] *changes in consumers' disposable i*[illegible] Businesses can adjust their produ[illegible] everyday necessary good[illegible] a[illegible] goods depending on changes to the [illegible] of the economy.

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The Use of Data in Marketing Decision Making and Planning

All of the data from the marketing methods we have explored help businesses to *direction* in which things *tend to move*. This could be the way things are changing entire market worldwide. The overall process for this is *market analysis*.

By analysing the market, businesses can define what products/services, consume prominent. This gives businesses competitive advantage their rivals by allow

- make *better* decisions
- modify forecasts and set *realis* response to a trend
- anticipate and deliv resources to the *right* places at the *right* tim
- recogn oo for *innovation and improvement* on its product or s
- develo *tegic vision* for its product or service

Once a business understands its market better, it can ensure that it is appealing that consumer the right product and provide a service that is better than / differ the television / Internet provider market, for example, it needs to understand w should the firm be appealing to the person paying the bills or the person who is Often, these people are not the same!

A market research tool that has become significantly more useful to marketers o

3.3.2. Questions

Please write your answers on a separate piece of paper or in an exercise book.

3. a. Identify two advantages of primary r ch
   b. Identify three limitations of r arch.

4. a. A magazine its flagship (main) magazine for £2, but has £3. change in price, demand for the magazine has decrea is makes for a PED of 1.
   xplain whether the magazine is price inelastic, price elastic or unitar
   b. If a product is particularly price inelastic, would you advise the suppli gain more market share? Explain your answer.

5. Explain one way in which businesses are affected by a product's/service's

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3.3.3. Making Marketing Decisions: Segmentation, Positioning

Key Points Covered

- Product and Market Orientation
- Market Segmentation
- Influences on Choosing
- Market Mapping

Product and Market Orientation

Consumer markets provide goods and services to the final consumer for their ow groceries, household appliances, clothing or hairdressing.

Industrial markets tend to provide goods and services to commercial business co resold, raw materials to be transformed or services such as transport facilities.

In order to sell their goods or services, businesses can adopt different approache

Some take a *product-orientated* approach. This is the old, traditional approach w consumer goods tend to concentrate on the product itself (quality and performa without taking potential consumer needs, wants and attitudes into account. In to marketing environment, not focusing on the customer is a very risky strategy.

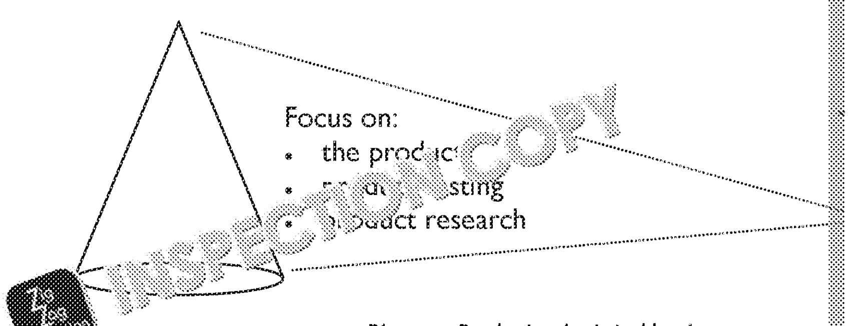

Diagram: Product-orientated business

Businesses that adopt this strategy are *taking the customer for granted*, believin is 'good enough' for the customer and will sell no matter what. The technology g a product-orientated business. The company focus on the quality and performan what consumers want or need. Apple's brand is strong enough that every produc worldwide news, generating buzz, interest and high-volume sales.

Product orientation does not work for everyone, though. IBM (International Bus 'Big Blue', fell into a self-made trap with the launch of their first personal compu company came late to the personal computer market long after other companie the field. IBM, however, believed that their well-established name and excellent computer market would carry through to the personal computer market. The fir marketing the product on the *strength of IBM's name and reputation*, not fully fo

This was *not a success* and sales of the IBM were much lower than expected.

Taking a *customer- or market-orientated* approach is now much more common a puts the customer at the *centre* of the business's decision-making process. It foc from a product and then attempts to satisfy that demand. It involves *continuous* demands of the market and adjusting the product and processes appropriately t businesses take this approach. The market-orientated approach needs businesse *continuous improvement*, approach (see more in Chapter 3.4.4.) to product man Another example of market-orientated business is the major-chain supermarket stock the right products to encourage customers to come back.

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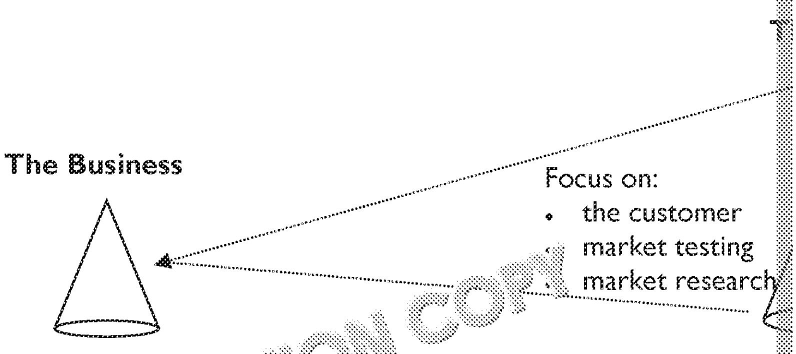

Diagram: Market-orientated business

A market-orientated business will make decisions on a continuous cycle:

1. *Gathering information* about all actual and potential stakeholders, the mark trends so they can provide the customer with what they want at a price they gathering information on existing customers, potential customers, competit trends, etc.
2. *Undertaking SWOT analysis* to evaluate the Strengths and Weaknesses of th competitors and identify Opportunities and Threats that exist in their marke
3. Ensuring that the business *always focuses* on providing customers with *exac affordable* price.

Market Segmentation

If you peel an orange, you can break it into segments. No two segments are alike – and the same can be said for markets.

Businesses split their markets into *segments* in order to understand who the average consumer is: what they want and what they are willing to pay. Businesses pick out the segment of people that are most likely to buy their product/service and target them. Each segment that a business wishes to target requires a specific *marketing mix*. This process (called *market segmentation*) is conducted to ensure that any marketing budget is used effectively to produce a high return.

Market segmentation allows firms to conduct *differentiated* marketing, which focu customers. *Undifferentiated* (or mass) marketing treats customers as a *homogene* common needs.

There are four common methods of market segmentation:

1. *Demographic segmentation* is by age, family size, occupation, ethnicity and game, for example, may be aimed at male children between the ages of 12 textbook for Business would be primarily aimed at Business teachers.
2. *Geographic segmentation* is by town, county, country, climate and populati tour business, for instance, may segment the market by town, county or eve new type of child pram, meanwhile, may use population density to segment
3. *Behavioural segmentation* is based on how customers react to, and behave involves analysing customers' brand loyalty, usage, attitudes, responses and service offe
4. *Income segmentation* involves analysing customers according to their incom to lead as a result. This type of segmentation informs a business on how ma depending on where they introduce their product/service.

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Advantages of market segmentation include:

1. It helps the business get to know its customers.
2. It focuses business strategy on a specific target audience.
3. It encourages the business to specialise to meet the needs of a particular
4. It helps provide focus for the allocation of business resources.

Disadvantages of market segmentation include:

1. It is a costly and time-consuming process.
2. It could lead to the manufacture of too many different products.
3. It could even blur the focus of the business.

It is very important that a business targets the right group of customers – those w vital to identify these segments correctly. Market segmentation helps businesses customers, recognise competitors, measure performance and anticipate future m impossible for a business to develop an effective marketing strategy (or 'fine tun correctly identified the market segments.

Marketing Strategies for Different Markets

Each market has its own core customer base. This is the group of consumers that In order to gain market share, and also satisfy any business objectives it may hav marketing strategy.

Mass Marketing

Businesses use this type of marketing to target a wide range of potential custom radio and TV advertisements, direct selling, and search engine and webpage ban and generally only used by large organisations but can result in high sales and so less significant.

Mass marketing is used for:

- General consumer goods (such as Unilever's PG Tips and Persil brands)
- Consumer durables (such as Dyson vacuum cleaners)
- Entertainment outlets (such as Amazon and Netflix)
- Video-game consoles
- Mobile phones

Advantages of Mass Marketing

1. Large target market allows for high number of potential sales
2. Global marketing allows economies of scale for the company
3. Potential to create huge brand with worldwide recognition

Disadvantages of Mass Marketing

1. Expensive form of marketing
2. Time-consuming to both implement and analyse
3. Requires constant investment for brand to stay relevant
4. Risk of irritating the consumer

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Niche Marketing

This strategy targets small sections of a market (or small markets) as a way of fill
being served by big business. Examples of this include providing excellent custom
schemes (such as coffee shops offering one free drink with every nine you buy) a

Niche marketing is used for:

- Local-area TV stations
- High-end sports cars
- Luxury chocolate
- Boutique clothing

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✔ *Advantages of Niche Marketing*

1. This strategy targets a specific customer type
2. Less expensive than mass marketing

✘ *Disadvantages of Niche Marketing*

1. Can potentially attract many competing firms
2. Potential for sales is much lower than that of mass marketing

Influences on Choosing a Target Market and Positioning

A business's own decisions are not the only factors on whether it chooses the ro
There are often other influences at play, too:

- If a market is already controlled by one company (such as Wrigley's, which c the UK gum market), there is little reason to try to enter and so a business m niche instead.
- Sometimes, it is the consumer that decides your market for you. A company only to find consumers using it for a whole different purpose. This flips the m effort from the company
- Many companies chase the youth market as it represents sales for the long tactic, however, as some growing youth markets are based on fads that will even months!).
- Niche markets can be difficult to master. The only companies that really suc prove a genuine understanding of its people, players and products.
- If a sub-sector of another market suddenly experiences a growth spurt, com this in order to capitalise on the potential sales.
- Firms that have large amounts of cash to hand can buy up smaller firms tha example of this is the technology sector, where the next big thing is always

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Market Mapping

Once a business has collected enough data to give a fair picture of its target market, it needs to be able to make sense of it (drawing conclusions). One effective way of doing this is to collate the information into a *market map*. A market map takes two features (e.g. price and size, speed and quantity) and compares them on two axes. This method is particularly useful for start-up companies or firms looking to introduce a new product as a way to identify any gaps in the market.

Take a look at the example market map below, which shows newspapers in the UK and how they differ by price and content.

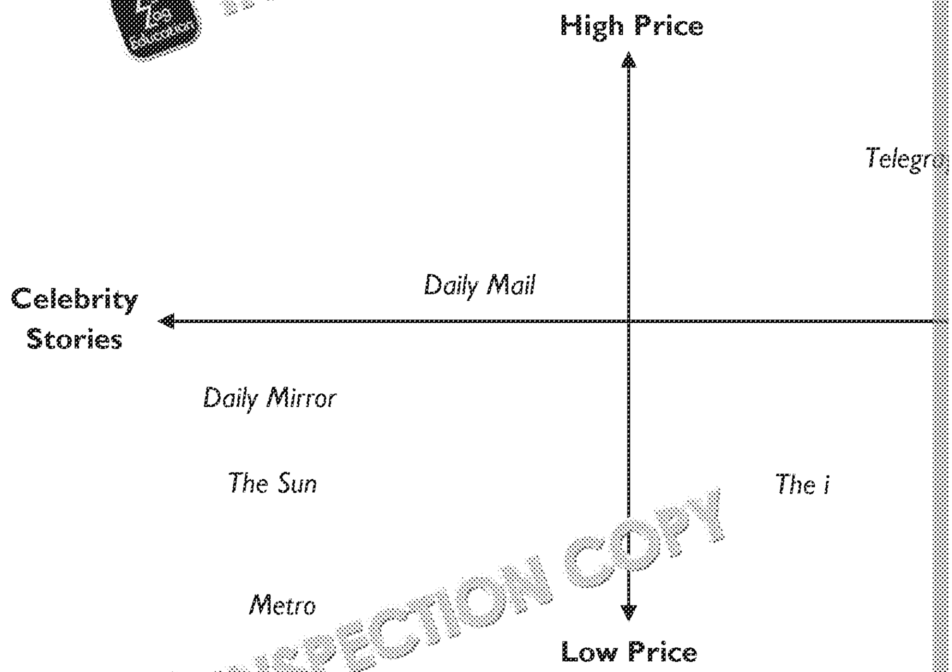

Diagram: Market map of newspapers in the UK

The market map above shows how British newspapers differ by price and content. *Th* focus more on celebrity stories (left of the map) than *The Guardian, Telegraph, Indep* *Daily Mirror* and *Metro* are similar in content but differ by price – *Daily Mirror* is the m

3.3.3. Questions

Please write your answers on a separate piece of paper or in an exercise book.

6. a. Explain why a luxury hotel business is more likely to use niche marketing
   b. Give three example business types that might use mass-marketing pr

7. The luxury hotel business is considering turning its focus to a different seg does not generate much repeat business and would like to encourage mor consumers. Explain which type of segmentation the business could ex

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3.3.4. Making Marketing Decisions: Using the Mar

Key Points Covered

- The 7 Ps
- Influences on a Business's Promotional Mix
- Product, Pricing, Promotional and Place Deci
- Decisions on Peo
- Environment
- The Importance o

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The *Marketing Mix* is th combination of elements a company uses to best offer market, or th marketing strategy it is currently using. Companies employ research ho , when and where a product will succeed, who will buy it and to achieve this.

The marketing mix can be broken down into seven Ps:

PRODUCT Firms will consider everything from the features of a prod characteristics in order to understand why consumers buy not another. If the product were changed somehow, woul example, redesigning the packaging of a product or speed

PROMOTION Marketers will often look at why a product is not selling. W order to sell more? Do consumers react positively to prom harm a brand's image? This may depend on the market.

PRICE What are consumers willing to pay for a product? Does th Is demand for the product elastic or inelastic and what wo price was increased? Would consumers assume the produ

PLACE Where do consumers go to find a specific product? What c company change the rules by serving a product/service fr happen?

PEOPLE Most firms define themselves by their mission, ethics and will make their decisions based on a business's people. M ensure their employees are the best representation of the

PROCESS Customer experience is imperative – businesses must get from the main corporate website (e.g. is it informative en phone systems to business signs, advertising, waiting time

PHYSICAL Bricks and mortar or online, physical describes how the bu smells, sounds and (sometimes) tastes to the consumer. T experience can make or break businesses.

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Product Decisions

Markets are always changing and so is consumer expectation. What was accepta considered out of date today. Businesses often react to consumer trends by crea innovating on an existing product to make it more appealing (e.g. changing desig Dyson understood that the vacuum cleaner was a source of frustration for many he invented the 'bagless' vacuum.

Another method is to introduce an existing product to a new market (e.g. repack audience or marketing to different countries). Or e ... found in colder climate found a thriving market in many African ... es.

Whichever method it choo... company will ensure it has a complete product

This include...

- the de... any of its products/services
- the number of products/services it offers to the market, i.e. the company's
- the *life cycle* of the product

The *design* focus of the product mix splits into three main areas: Function, Aesth focus on driving down costs first and address the other elements later. Other co more than one element at a time. Airlines, for instance, were once seen as a luxu important (e.g. luxurious comfort). Nowadays, economy airlines have changed th something more people can afford and so the product mix has had to change, to

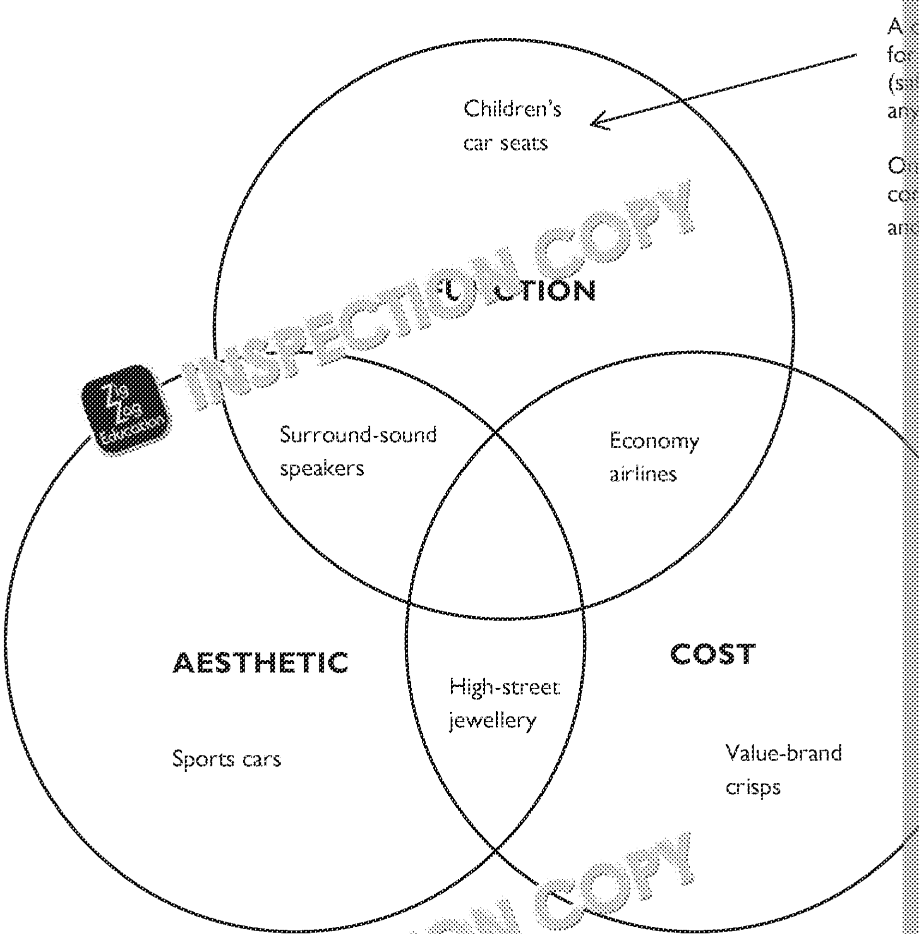

Figure: Examples of goods and services and their design

Some Things Never Change

Businesse... to understand their markets and be aware of what competito coming to ... d of its life cycle, for instance, a business should be ready to in innovate on the current product.

Some things, however, never seem to go out of fashion. Coca-Cola and Cadbur impressively long life cycles. Even when consumer tastes change, these produc through an effective design mix.

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Your Turn: Can you think of a brand name that fits in each section of the desig that involve all three?

Boston Matrix and the Product Portfolio

Companies that have a selection of products under their control, a *product portf* a way of analysing where there are opportunities for growth.

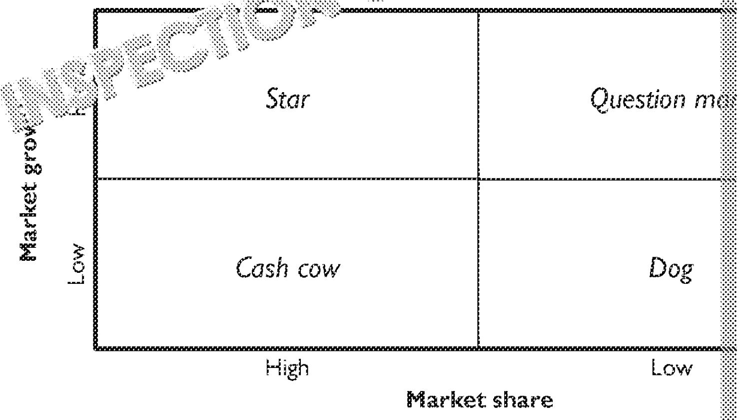

Diagram: The Boston Matrix

The matrix displays each product/service in relation to its market: how much ma has and how well the market is performing in general.

By organising its portfolio of products and services into the Boston Matrix, a com where the cash flow is and where the potential for investment lies. The matrix sh should be used in order to manage growth and performance over time.

Stars: These are the market leaders, or the ones with a large portion of a market. Stars have a lot of sales and experience intense growth. However, they cannot support themselves alone and so the company needs to make large investments to keep the market share.

Question Marks: Also known as *problem children*, these sit in a growing market, but have low market share. They are unprofitable, with a negative cash flow. An example of this could be a product that has recently been launched and the company is not yet sure whether it is going to succeed.

Cash Cows: In low-growth markets, such as mature markets, cash cows have a high market share. This brings in positive cash flows and high profitability, which means they do not need ongoing investment. The cash flow from cows can then be used as investment in stars and question marks, which are unable to support themselves. Good examples of cash cows are Coca-Cola and iPhones.

Dogs: Experience low market share in low-growth markets. Dogs may create neg operate in declining markets and have no real future. Firms should keep dogs in they continue to generate cash. Once a dog begins to restrict assets from other pro marks, the firm should consider selling off (divesting) the product or rebranding.

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Problems with the Boston Matrix

Much like the Product Life Cycle, the Boston Matrix is limited to how much it can
many instances when this model does not quite fit real business life:

- What signifies a market? Some are more difficult to define than others. Wha
more than one market?
- Industry data on a market is not always freely available
- Most businesses active today are looking for growth. High market share does
What if the product needs lots of investment from the company, as well as t
- Cash cows might be a firm's main source of profit. Coca-Cola is still going str
been mature for years.
- Dogs a... to return a profit. It is not until the products need further inve
the cor...

The Product Life Cycle

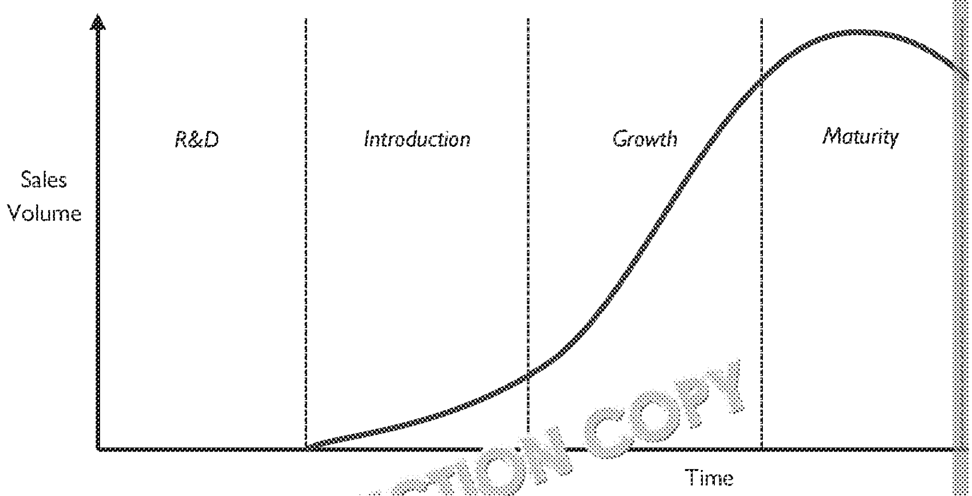

Diagram: The Product Life Cycle

The product life cycle is the basic life story of a product/service. Much like the life of
cycle has a beginning, middle and eventual end. Some life cycles are incredibly long (
paper) while others have much shorter expectancies (such as mobile phones or pers

Stage	Description	Cash flow
Research and Development	The point before any sales can be made	Only costs at this point
Introduction	The product/service is now launched	It is in the beginning stages and so makes few sales, low profitability and has little market share
Growth	The product/service is becoming established	Sales and profitability are growing, as is the potential for greater market share growth
Maturity	The product/service comes towards its peak and sales begin to level out	The brand has strong market share and so the company still receives profit at this point
Decline	Sales are falling due to decrease in market share and growth	The company may be making a slight profit or even a loss at this point

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Problems with the Product Life Cycle

- It is difficult to understand which section of the life cycle a product/service i of its life (product death). This is because markets can change and so a prod moment may become the ultimate must-have item the next.
- The life cycle works most effectively when markets are stable, without any d between trends.
- The classic bell curve ignores the idea that a product/service can continuous been saved from the decline phase thanks to extension strategies, such a younger audience.
- Some products/services die directly after the Introduction stage, because th research on their target – the market might not even exist! Other products Decline because companies are forever advertising.
- The product life cycle cannot show any future sales (i.e. businesses cannot t are in the cycle) and so marketers cannot see whether there are more sales is about to start declining.
- If a marketer is looking at a life cycle with up-to-the-minute data, there mig sales today. This could look like a genuine problem for the company, which However, if the same marketer looks at the life cycle next month, this spike than a blip.
- If decline is long and drawn out, a business might not realise and confuse th product/service is on its last legs!

Many of today's marketers choose *benchmarking* over using the product life cyc comparing a business's achievements with those of the industry standard. A yo-y be selling thousands of cases of yo-yos this year, but how does that compare wit The life cycle shows a product/service's life from start to finish and so needs all t death) to tell the whole story.

Extension Strategies

When a product or service is nearing the end of its life, a company will sometime breathe new life into it. These strategies can prolong the life of a product/service sometimes indefinitely. Not every strategy works, though.

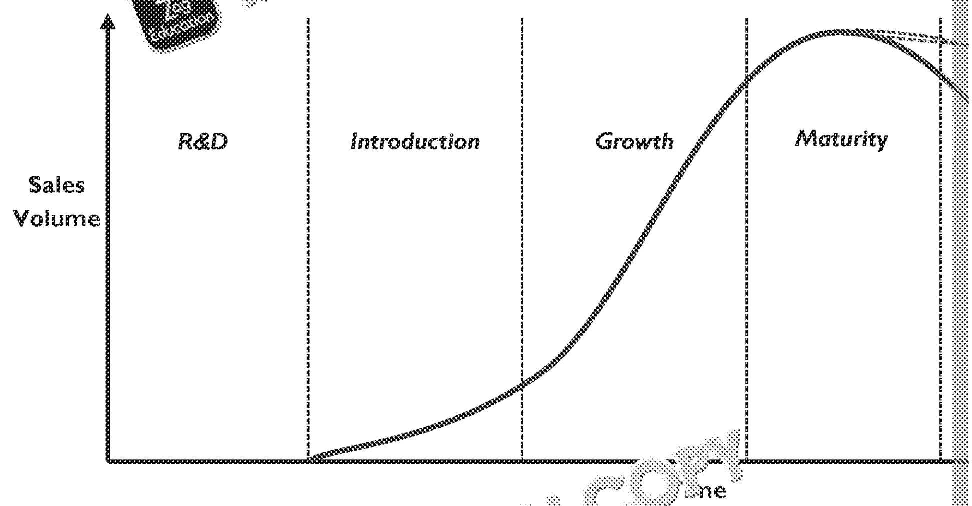

Diagram: Product Life Cycle with potential extension strat

Product extension strategies involve techniques such as developing new features an product/service. Apple, for instance, has managed to extend the lives of its mobile p store, which gives consumers the chance to buy and download new applications tha

Promotion extension strategies involve anything from finding new users for a pro price of an item to redesigning its packaging. Some products experience a new le advertising campaign (see later on in this chapter) while others just get worse. So decreasing the price of a product/service and suddenly get hit with high demand consumers still associate high price with quality.

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How the Product Mix Can Change

Firms decide how to manage their product mix using a variety of factors, including expectation, environmental issues and the market. They also need to take into acc objectives. If a business is looking to maximise profits, it has to consider whether t through cutting costs, making the most attractive product or offering a unique sell

Changes to Reflect Social Trends

The product mix of a firm can change depending on a variety of internal and exte now may change in a few years. A business must be able to react to this and fulfi someone else will!

Sustainability: This has become an integral aspect of business – not just because because this is what customers expect. As such, many firms have led the way in *and recycling* and/or joining schemes that give back to the planet (e.g. red required to ship a product or planting trees for every three products sold).

Ethics: General business practices have had to change, too. In today's digital wor consumer to research an organisation and learn whether their processes are eth promote the fact that they use suppliers that pay fair wages to factory workers, fashion industries have worked to stamp out animal cruelty from their business p

Health: The modern consumer is no longer willing to just buy something without Fast-food chains, such as McDonald's, have had to change their product ranges i demand for healthier options. This rise in demand has also brought organic food item in certain independent shops, consumers can now buy organic produce in m

Technology: Technological advancement has the power to influence how firms d we have as consumers. Online shopping is now the norm – and home delivery, to electronics shop, find a TV you like and look up prices on your phone while you'r change their models to match this – and you can now order anything you like onl like, too, with films and series available direct to your television, laptop, mobile surely there are more to come!

Government: Legislation, such as that in reaction to climate change, has created a to behave more responsibly. This can be seen in equal employment policies, but al are now being introduced. Have you noticed an increase in wind turbines or solar pa

Business Objective: Whether a business is looking to survive, enter a new marke become a market leader, it will need to formulate a working design mix. For surv in order to increase sales. However, if it wants to become market leader, it may order to develop a unique selling point.

A unique selling point (USP) is any feature that makes a product appear different created through intense research and development while others come out of ex

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Promotional Decisions

The promotional mix, also known as the *Marketing Communications Mix* or *Marc*
communications that a company uses to promote its products or services. From p
sponsorship and advertising, promotion is an essential part of any business.

Public Relations

Companies use this technique as a way to *increase selling potential* of their prod positive image for the external market to see. They achieve this in many ways, su promoting positive media coverage (in the press), encouraging employees to hav attitude towards anyone in contact with the business and understanding how to

Advantages of Public Relations:

1. Businesses promote themselves by issuing press releases about any orga may then pick up on these and write newspaper stories about the brand
2. Through this promotion businesses create a name for themselves, which

Disadvantages of Public Relations:

1. It is difficult to measure success with this method
2. Once a business story is released to the press, it can become skewed thr

Direct Marketing

This involves contacting carefully-selected target audiences on an individual basis, either by telephone, in person or through 'personalised' letters. Direct selling initiatives aim to get an immediate response so that businesses can create long-lasting relationships and build on their customer database.

Advantages of Direct Marketing:

1. Businesses can track the success of their work
2. Companies can test the usefulness of a method before opening it to a full-scale marketing campaign

Disadvantages of Direct Marketing:

1. Many consumers do not want to be contacted, especially in an unsolicite
2. This form of promotion can lead to poor-quality leads

Personal Selling

Businesses will often send a sales representative to meet with potential custome helps to promote the human side of the business, injecting personality into the m

Advantages of Personal Selling:

1. Person-to-person means the method can be adjusted to whoever the bu
2. This is a good way to build strong personal relationships

Disadvantages of Personal Selling:

1. Personal selling has a high cost per action (CPA), i.e. the price of finding a
2. Employees require training in order to practise personal selling

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Advertising

This consists of any paid form of communication that is not personal. Companies use consumers and persuade them to buy their product or service without having any re advertising include print (newspapers and magazines), hoardings (or billboards), t breaks), public spaces (such as bus shelters and metro/tube tunnels) and online v engine results, video and podcast advertisements.

Advantages of Advertising:

1. The potential for consumer reach is great
2. Some types of advertising can be easily tracked
3. Advertising generally comes at a high price, which makes it difficult for ne This allows market leaders to keep control of their market share.

Disadvantages of Advertising:

1. If an advertising campaign becomes too ubiquitous (i.e. you see/hear it e be a backlash from consumers who now hate the company – is all public
2. Potential for reach is great, but targeting can be impersonal and so cons
3. This strategy works well for businesses with large budgets, who can affo but smaller businesses will struggle to compete

> **Advertising in Business**
> In the 1990s, Budweiser beer was looking for ways to reinvigorate its brand for (between ages 21 and 30). The company decided on a TV advertising campaign brand name as 'Bud…weis…er'. The advert played during the Super Bowl and w reintroducing Budweiser to the 21–30 market. The campaign won numerous a celebrated as one of the most brilliant of its time.

Sales Promotion

This is a short-term *incentive technique* designed to encourage and persuade the service. Examples of this include in-store samples and demonstrations, competit limited-time discount offers and buy-now bonuses.

Advantages of Sales Promotion:

1. Promotions can help encourage repeat purchases
2. They can also entice customers who previously may have been reluctant

Disadvantages of Sales Promotion:

1. The sales from promotions can often be one-time purchases and then ne
2. They are also expensive to manage (i.e. if the promotion does not work, th

Sponsorship

Companies use sponsorship to promote their products or services to consumers Sponsorship involves giving support (usually financial) to someone or something brand awareness. Examples of this technique include sponsoring live events, soc product placement (in film and television) and celebrity endorsement.

Advantages of Sponsorship:

1. If people like the sponsored event, the business's brand can receive a po
2. Since people are already watching the event, the firm can easily dissemi

Disadvantages of Sponsorship:

1. If people dislike the event, the brand receives a negative knock-on effect
2. Some events, such as the Olympic Games, are so big that numerous bra advertising clutter and so limited genuine brand exposure

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Sponsorship in Business

- English footballer David Beckham is arguably as famous for his fashion tast Over the years, Beckham has taken part in many sponsorship campaigns w Pepsi, Adidas, Armani, Samsung and Burger King.

- A controversial form of sponsorship is the advertorial. This is a brand adve formatted to seem like a genuine article. Newspapers and magazines recei articles, but they must clearly show that they are advertisements. Howeve difference between article and advertorial!

Digital Communications

Information technologies allow businesses to reach out to more potential custom now scope for online advertising, product-focused apps, mobile adverts, user-ge and social media sponsorship.

Advantages of Digital Communications:

1. Businesses can target the consumers they want through paid search resu
2. Digital is much cheaper than physical communications, such as newspap

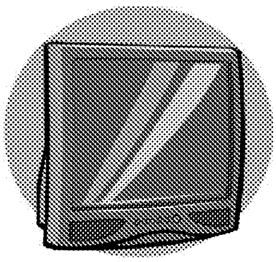
Disadvantages of Digital Communications:

1. Since most brands are looking to advertise, there is great potential for a
2. As consumers become more Internet-savvy, they are learning to ignore d

What Influences a Business's Choice of Promotional Mix?

Choosing the right promotional mix depends on the business and its objectives. S

- *Budget:* How much money has been allocated to the company's promotiona it last?
- *Competition:* Who are the competitors, what is their potential threat and w help to combat them?
- *Promotion Objectives:* Are the promotion objectives to create product awar identity, generate sales or enquiries?
- *Product:* What mix would best suit the product?
- *Product Life Cycle:* What stage is the product at in the life cycle? (Learn mor the end of Chapter 3.3.4.)
- *Target Market:* Who are they? What do they need or want? When do they n and why?



Changes in Traditional Advertising

In the past, if you advertised on a TV channel such UK would have seen your product. Nowadays, how channels, and different ways to watch them, that a most cost-effective option. Commercial breaks are attention any more. Advertisers now use mass me product placement and event sponsorship.

What is Branding?

While promotional activities are used to generate an immediate reaction, so that consumers buy a product or service (e.g. a clothes shop advertising a limited end-of-season sale), companies use branding as a way to increase *consumer recognition* of their product, service or name.

Businesses invest in branding as a way to promote the way they wish to be seen strong brand means less reliance on direct selling, sales promotions or price cuts the customers will hopefully come to you! Branding also helps create a personali for a product, service or business.

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Types of branding include:

- manufacturer/corporate
- product
- own brand product

Manufacturer/corporate: This branding focuses on the business itself by getting along with an idea of who they are and why their products or services stand out for example, are considered high quality by consumers due, in part, to the produ powerful brand that the company have managed to create.

Product: Companies that invest in this type of branding want to ensure their pro thinks of when they have a specific need. Many companies promote a select few which are the most successful things they sell. Microsoft Corporation's flagship p Windows and Office.

Own-brand product: This branding started as a way for some supermarkets to offe consumers (Tesco Value, for example). Nowadays, most supermarkets offer their o their own 'Essential' product range. How do you think Waitrose's own-brand prod

Rebranding is a marketing strategy in which a company changes a brand to give it a new, refreshed image. Companies rebrand by creating a new name, term, symbol or design (or a combination of these) with the hope that consumers, stakeholders or suppliers will see the brand differently. Some rebranding strategies lead to success while others fail miserably.

Once the bu

Generic vs Branded Products

Strong branding can significantly *add value* to a product, compared with generic, unbranded products. This allows the producer to command large areas of a market. If consumers see a brand as particularly high quality, they might be willing to pay a premium for it and even seek it out directly. This can lead to a reduction in *price elasticity of demand (PED)* for the product, meaning the producer can charge a higher rate without affecting the number of sales.

Having a strong brand can also help create *barriers to entry*, which keep potential co

Creating a brand is still a risk, though: just because a brand is well known doesn' brand has a history of providing low-quality products, for instance, the producer they finally try to turn the business around. Consumer opinion is difficult to shift

Another pitfall in branding is to make your product so famous that every similar by the same name. These products are called *brandnomers* or *generic trademark* Thermos, Velcro, Sellotape, Pritt Stick and Tannoy.

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How to Build a Brand

Differentiation and Unique Selling Points

Differentiation is how different a product appears compared to its competitors'. Many companies choose to invest in differentiation rather than cutting prices for several reasons:

- Price cutting can create a negative image for a product or service, because many consumers still associate quality with price
- If a product appears different enough from its competitors (in a positive way), consumers are more likely to remain loyal
- A brand image of high quality allows the producer to charge a premium without losing sales

Know
Dyso
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to co
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can n
'The
ahea

One way that a business can achieve differentiation is through *unique selling points (USPs)*. Examples of types of USP include:

- design
- after-sales service
- unique features
- distribution
- quality
- durability

A business looking to differentiate itself from competitors must first understand some markets, for instance, quality is the most important factor while, in other m most convenient form of distribution (e.g. online, home delivery).

Whenever a business considers a promotion or branding strategy, it must also ta competitors – what are other companies doing and where is there a gap? The bu strategy as part of its marketing mix, alongside the other three Ps: *Price*, *Place* an

Changes in Branding and Promotion

The Internet plays a huge role in most people's daily lives and has changed the w another. This is true for branding and promotion, too; consumers are still exposed obvious than in the past.

Viral Marketing

Nowadays, people can share content with one another in seconds – we don't even any more to share a silly video! Companies understand this, and the power it has, content to be published online. This can include video clips, images, infographics, i campaigns, among countless others. The aim with creating this content is for so m *goes viral*.

Social Media

Shareable content can be exchanged online via email and message boards, thoug social media. These channels, such as TikTok or Facebook, can be used as advert too. Much like advertising at the top of search engine results, brands can pay for higher on consumers' social media feeds. This sort of brand awareness is highly e correctly, can result in high volumes of user-generated content, where consume their friends about your brand.

Social media channels also allow businesses to relate to their customers on a mo responding to questions or complaints, and to promote their brand's person entire social media team to focus on this side of the business – and some teams events (such as the Academy Awards or BAFTAs) in case they can use their social on anything!

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Just as a brand can instantly communicate a message, so too can their consumer product or service and tells all their followers, this can easily spiral out of control manage this sort of negative publicity – and quickly!

Search Engine Optimisation
This is the process of developing a web page, or entire website, so that it appear search engines. If you go to Google, for example, and search for anything, the m always appear at the top. This is no coincidence – businesses spend entire budge name appears above anyone else's when searched online!

Emotional Branding
This form of branding draws on the emotional states of consumers; their needs, w can use advertising to promote its product to consumers and associate it with an Disney Company, for instance, advertise the theme park Disneyland Paris with a values. Travel agents often run advertisements showing consumers their 'perfec focus on friends and family coming together.

Pricing Decisions

Companies use pricing strategies to evaluate business decisions based on the ma consequences that may arise. A company looking to sell a product or service can how much it is worth and what people would be willing to pay.

Strategies for New Products or Services

Price Skimming
This involves charging a higher price on release of a product or when it is in the growth stage of the product life cycle. Companies use this technique as a way to make back a significant portion of the funds that lead up to a product's launch, such as research and development and production costs. This strategy is often used by games console manufacturers. There is a risk, though: if one games company releases its new console at a high price at the same time while another new console enters the market at a similar price or lower, this could result in a significant loss of potential sales.

Microsoft

Price Penetration
At the other end of the spectrum is price penetration: this is when a company ch their product or service. This is sometimes used on the launch of a new product interest and quickly gain market share. A publisher, for instance, may use this te to buy its new magazine. The drawback to this technique comes if other business then have a price war on your hands, which is not good for anyone (except perha

Price Skimming	Pric
When the price of a product is inelastic	When price is very ela
Quickly recoup costs of R&D	Recoup costs of R&D o
Product life cycle is relatively short	Product life cycle is lon
Barriers to entry are high	Barriers to entry are lo
If PED is unknown, it is wise to be safe with a high price on initial introduction	If a business is able to volumes, it can save m

Table: Why businesses choose price skimming or price penetra

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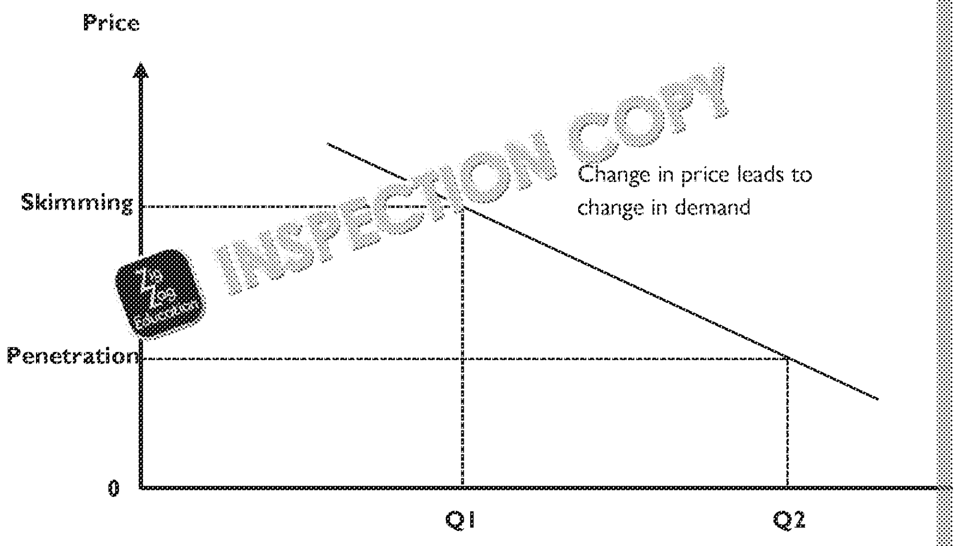
The graph below shows the relationship between demand and price when a busi
penetration or price-skimming strategy. When a business enters the market with
than the rest of the market (price skimming), demand will probably be low. On th
comes in at a ludicrously low price, undercutting all competition, demand should



Graph: Price Penetration vs Price Skimming – adapted from Baines &

Strategies for Existing Products or Services

Competitive Pricing

Price leadership is common in oligopolistic markets (i.e. markets that are domina
such as the airline industry. One company, the *price leader*, will set the price for
other businesses will follow. The price leader is generally a well-established com
market share due to selling high-quality products or services. By setting the goin
their dominance and premium status. This can help companies retain brand loya
as the high standard. It also means that a price leader's product has lower price e
customers will be more willing to tolerate price increases if they believe the prod

A market that has clear price leadership will have a number of *price takers*. These
the market price set by its price leader/leaders. Price takers cannot compete on
products is high – if a price taker decided to increase the price of its product, con
a competitor that offers it at the market price.

Price discrimination, or *yield management*, involves a business charging differen
the same market. An example of this is the cinema, where businesses will manag
time of day or target audience, e.g. matinee performances.

Perception is everything

Price leadership can turn into *collusion* if the market price of a product/service
costs needing to rise.

Nowadays, it is illegal for businesses to get together and decide on the price of
firms that collude together to fix the price of a product/service is called a *cartel*

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Cost-Plus Pricing

One common method that businesses use to determine how much to charge for
Plus pricing. This method involves calculating the average cost of producing an i
a *markup*, which considers how much consumers would actually be willing to pa

$$\frac{\text{Total budgeted cost} + \text{Markup}}{\text{Budgeted sales in units}}$$

The following data shows figures for Larr[illegible]'s shoe shop. Larry plans to
decided to charge a markup of 25[illegible] pair of shoes. Larry has budgeted fo
variable cost of each sale [illegible].00.

Total budgeted fixed costs	£10,00
Budgeted variable cost per unit	£2.0
Markup percentage	25
Budgeted sales in units	5,00

Total cost:
= Total fixed cost + Total variable cost
= £10,000 + (£2.00 x 5,000)
= £20,000

Markup:
= £20,000 x 0.25
= £5,000

Total cost + Markup:
= £20,000 + £5,000
= £25,000

Budgeted selling price per unit
= £25,000 ÷ 5,000
= £5.00

The final price per unit is £5.00. This includes the cost of the item plus markup to
business.

Price Tactics

These are the short-term price manipulations that companies use on a day-to-da
over their rivals.

Discounts: Companies offer discounts for a short time as a way to stimulate dem
this include two-for-one offers and buy-now-pay-less schemes.

Special Promotions: A company may choose this tactic if sales decline for one of
Cola sometimes uses this tactic, for example, by offering eight cans in a pack inst

Loss Leaders: This tactic involves selling one product at an artificially low price in
to see what else is on offer. Supermarkets [illegible] stock loss leaders, a DVD player
grab the attention of customers and bring them through the door.

Psychological [illegible]: A company might want to get £10 for its product, but deci
emotional [illegible] that plays on the fact that £10 is not as much of a bargain as £9

Predatory Pricing: When a business sets a price so low that it threatens to destro
market's barriers to entry. This sort of pricing should only be done in the short te
afford to make such losses. Businesses must be careful, though, not to go agains
of Fair Trading.

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Factors that Influence Pricing Strategy

Businesses make pricing decisions based on a mix of factors. Some of these facto while others are external.

Competitors: Are there other similar products or services available on the marke product differently depending on its price. Product differentiation comes into pla points (USPs) of a good can have significant sway over h[illegible]ch consumers val this to decide on appropriate pricing. Firms shoul[illegible], though: make their from the crowd and they might just lose [illegible].

Costs: Can the product [illegible]red at a cheaper rate? Businesses need to u them to int[illegible] to the market and the profit they wish to make.

Demand: Bu[illegible]sses must understand the price elasticity of demand for their m very *price elastic*, any increases to its price could *significantly reduce* market dem people can live without these goods and may choose to buy something else if th Conversely, if demand for a good is quite *price inelastic*, any changes to its price demand (e.g. petrol or bread: these goods are essential to our society and so pe purchase them even when prices go up).

Pricing Objective: What is the business objective? Is it looking to expand? Increa will have bearing on which strategy a business chooses.

Target Audience: Does the business want to sell to the general public or to a speci the product or service have a particular age range? A business will consider its aud

Product Life Cycle: *Does* the product have a long or sh[illegible] cycle? If the life cyc is long, the business can afford to charge less [illegible] will make sales over a longer period.

The Marketing Mix: [illegible] is the product/service from its competitors? Does the b[illegible] strong presence within the market? A business must also consider wh[illegible]t is a price leader or taker. If the business is a leader with a strong brand, its product will be less price elastic.

Changes in Pricing to Reflect Social Trends

The rise of the Internet has given way to more innovations in communication th predicted – and the world continues to change, as does business.

Online Sales: Pioneered by Amazon, online selling is a firm fixture in today's marke you find something you like, there's no point putting any money down until you've sold online can be much cheaper since producers do not need a physical location,

Price Comparison Sites: No one likes buying car insurance, and before price comp Now, you can go online, choose your price range and inst[illegible] find a list of packa

Both online sales and price comparison [illegible] created a climate of competiti work in a price-transparent en[illegible] customers don't like your price, the the same product. Due [illegible] marketers need to reconsider their pricing strateg down parts [illegible] p[illegible] process (such as packaging) in order to reduce cos consumer. [illegible] method is to use *loss leaders* as a way to encourage consum businesses, such as supermarkets, that offer a variety of products and services.

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Distribution Decisions

Another P in the marketing mix is Place, or distribution. Any business that wants t product or service is available in the right place, at the right time and with enoug order to achieve this, a business must establish, maintain and develop the appro product or service.

If a business has not considered these factors, it may fail to draw attention or sa the newest technology in the right place, for instance if there aren't enough pro

A distribution network shows the journey that a product/service takes to get fro Choosing the right distribution method is essential. Distribution networks should

- encourage repeat purchases from consumers
- enable the delivery of a product/service
- maximise the number of potential customers for a product/service
- ensure quick delivery of a product/service
- provide market information to producers and retailers
- create a positive relationship between producer and consumer

Distribution Channels

A distribution channel is the flow of organisations that connect a product from p member of the channel plays its part. If a small-scale producer was to handle dis business expenses would be high, making the product cost more for the consum use some form of distribution channel.

There are three main flows in distribution and these can be separated into two grou

Short-channel distribution, or direct marketing, involves just two organisations in the consumer.

Two-stage distribution

This method is commonly used by businesses that sell large machinery or equipm company, for instance, will manufacture a new product and then use direct sellin to consumers.

Producer → Consumer

Long-channel distribution, or indirect marketing, involves the producer, consumer an way. These intermediaries can be anyone from wholesalers and distributors to retail

Three-stage distribution

This is the distribution method of choice for electrical goods manufacturers. Whe creates a new product, it will then sell directly to retailers, who then set a price f

Producer → Retailer →

Four-stage distribution

Wholesalers act as *middlemen* between the retailer and producer by buying up l four-stage distribution, the producer could be a cheese farmer, who provides the in bulk. The wholesaler then breaks the cheese into smaller quantities and sells i country, such as supermarkets, newsagents and corner shops. Retailers then sell consumers.

Producer → Wholesaler → Retailer

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Choosing the Right Distribution Network

The aim of a distribution network is to deliver a product/service on time and in g
must make sure to choose the right one. In order to choose the most relevant ne
the following:

The Product

If the product is *new to the market*, it may need to be introduced to the custome
and explanations. Consequently, it would be inappropriate to sell it through gene
new types of machinery, equipment and tools may be sold at trade shows, o
traders. The sale of such products should be backed by an extensive advertising a

The Market

Products that are exceptionally *specialist or particularly expensive*, e.g. ships, earth-
a relatively small *customer base* and, therefore, tend to be made available to bu
specialist retailers. This is different for *general household groceries*, which have a
therefore, can be bought from a *large number of outlets*.

Legal Restrictions

The law of the country will determine *where* certain goods can be sold. For exam
be purchased from a chemist's shop.

Customer Expectation

Customers *expect to buy certain goods in traditional establishments*. For exampl
supermarkets and glasses from opticians.

Internet Distribution

Those four are not the only factors that drive a company's choice of distributio
society is a global one, with communication instant, and so businesses need to
might affect them. This includes methods of distribution.

Consumers expect businesses (especially big ones) to offer their products an
companies allow customers to buy their products/services in all sorts of ways,
digital payments (e.g. PayPal) to mobile phone apps and online stores (e.g. Am

These outlets, while all digital, are still costs for a business. Amazon, for instan
the right 'place' in order for the consumer to see it and make a purchase. Goog
businesses to sponsor their links so that consumers find certain products above
be physical, such as shops and trade shows, but they are still places in the distr
cost the business money.

Decisions on People, Process and Physical Environment

Businesses talk about the four Ps of marketing: price, product, place and promot
more Ps that deserve just as much focus.

People

Training is important in business. Not only does it help a workforce become mor
good customer service and responsiveness. Consumers have different expectatio
sector. An independent cinema, for instance, would not use the same sales tacti
versa. The employees of a business are often the only people that consumers ev
ambassadors for the company, and so it is imperative that the workforce has the

Process

This involves everything of the business that the customer experiences. If a busine
a website that makes it look like a children's toy magazine, consumers are less li
take their money elsewhere. Likewise, any service that takes an unreasonable a
support in the long run. Companies must have their processes streamlined to the
from the shopping or browsing experience to after-sales service and communica

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Physical

Imagine opening a pizza restaurant inside a dog food shop, or setting up a 24-ho club! Neither business would work well – instead, they would probably just put c the high street, in an industrial estate or on the Internet, the physical aspects of Consumers have certain expectations for any kind of business and so if you're lo you're stationed next door to a smelly car garage, you're probably not on the ro

The Importance of an Integrat... a...eting Mix and How C the Market

An *integrated marketin...* ...is *a combination* of marketing methods and *target* pote... us... and gain a better understanding of their needs and w delivering a...ate goods and services to their customers. An integrated mar business *a strong competitive advantage* over its rivals.

The integrated approach to marketing encourages a business to be *more proacti* product development, product quality guarantee, product pricing, product prom competitor threats. Integrated marketing affords a business the *opportunity to b* tools to help analyse, understand and satisfy a dynamic market environment, at

In addition, *competitiveness* can be improved when a business reduces it costs, i product, improves the quality of its customer care, improves its after-sales servi training and retraining programmes.

Competitiveness reflects the *energy and effectiveness* of all of the business' func *value* to the product or service to make it *more desirable* to buyers. Although an supported by an integrated marketing policy plays an ... role in this, a bu

1. *Assess* its organisational *strengths and w...*, including the skills and *all* employees. This allows a bu... t... ...alyse its present and future need competitive ability.
2. *Develo...* ...te... ...*xternal change* in the local, national and global econ compe... the environment, technology and the political climate. A busin *control* ... external change.
3. *Ensure* that adequate *finance is available* to implement strategies and plans
4. *Use* new *and appropriate technologies* to reduce costs, increase business fle market growth and gain a competitive advantage over business rivals.
5. *Devise and monitor an integrated human resources policy* to ensure that em knowledge, skills and experience to contribute to the business's current and
6. *Know who its customers are*, what they want and need and when they want marketing mix, coupled with an integrated approach to marketing, will help objective is achieved.
7. *Outsource work to other businesses when and if appropriate*. This is an exte theory, for example, a manufacturing business speci... in the manufactu *have the expertise* to undertake extensive m... re...arch and so may emp *market research agency* to underta... re...arch on its behalf.
8. *Ensure that they provide ... product or service*. Best practice in qu competitiveness o... ...on local, national and global bases. This is be *guara... ...uous quality* for a product or service. For example, busi *9000 c...ion*, which is the *generic name* given to a family of *quality sta* framework around which a *quality management system* can effectively be i

Market conditions and actions of competitors do *impact on the competitiveness* *strategic plan is prepared* that takes these factors into account a *negative impac*

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Business-to-Business vs Business-to-Consumer

Business-to-business (B2B) and *business-to-consumer (B2C)* marketing share man
markets are very different. Marketers, therefore, have to work differently depen

Business-to-business marketing is aimed at very few buyers (other businesses) w
for almost anyone. We have all been consumers at some point in our lives, from
researching the costs of holidays or new cars. Consumers will generally make a p
own needs (unless buying for friends or family). Businesses, on the other hand, w
corporate objectives in mind.

Whether business-to-business or business-to-consumer, marketers need to be c
are looking to get what they need at the right price and businesses want to build
with their customers. And so, all marketers need to gather information on their
consumer and the competition out there.

Influences on an Integrated Marketing Mix

As we have seen in this chapter, it is vital for businesses to ensure a fully integra
many factors that influence what that mix looks like, including:

Product Life Cycle: depending on where a product is in its life cycle, the cash a b
different ways. For a product at the R&D stage, there will be much more develop
the product is able to be released, the business may spend more on product plac
also the chance of prices changing over time, especially when a business is met w

The Boston Matrix: the number and type of products/services a company has di
firm has only a few choice products, for instance, it may be able to streamline its
direction. A business with a large portfolio of cows, stars, problem children and d
marketing budget going in all sorts of directions.

Product Type: if a firm's main selling product, it will likely only need to focus o
price, place and promotion. Services, on the other hand, require all seven Ps of
to succeed.

Marketing objectives: a business's marketing mix depends heavily on what its o
to boost its market share, improve brand awareness, generate more sales or mo
these questions can lead to a change in marketing mix.

Budget: there is only so much money to go around. This is true for any business,
profitable. As such, businesses will allocate only the funds that they can afford t
most promise for future profitability).

Target Market: a business's marketing mix will depend on its target market. A fi
wealthy, for instance, would probably not need to compete on price, instead fo
the highest degree.

Competition: this is always changing and, therefore, always affecting a business'
has been the leader of its market for over ten years, a rival could swoop in and w
in a loss of market share for the firm. The company would then need to alter its
order to stay relevant.

Positioning: any successful business understands where it sits in the marketplac
you sell mostly to the 3[illegible] market? Do you sell business-to-business or busines
made most sales from the under-21 market, for instance, it would be a bad
pension / life insurance market.

External factors: these affect every aspect of business, including the integrated
supply of raw materials was suddenly cut off, for example, it would need to find
without drawing attention to the fact that its product has had to change.

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3.3.4. Questions

Please write your answers on a separate piece of paper or in an exercise book.

8. Identify and explain two factors that can influence a business's pricing stra

9. **a.** Copy out and fill in the blanks of this four-stage distribution flow diag

Producer → ________ → ________

b. Name an example f... ...ge of the flow diagram, e.g. producer =

10. W... sc... ...ompanies using social media as a way to advertise their p... ...isks involved?

11. Rebranding can significantly boost public awareness of a product, servi
What are possible positive and negative effects that come with rebrand

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3.3. Keywords

Branding:	This is the image that businesses create for a pr company themselves.
Marketing Mix:	the elements of a company's marketing strateg Ps: product, place, price, promotion, physical, p
Objective:	A business's objectives are those goals/targets
Penetration Pricing:	The process of pricing artificially low in order to
Predatory Pricing:	setting prices so low that it threatens to destroy
Price Elastic:	where demand for a product is greatly affected must pay.
Price Inelastic:	where demand for a product is barely affected
Price Skimming:	charging a higher price on release of a product, of the product life cycle, in order to make the m product launch.
Promotion:	This is how businesses build awareness of a pro such as direct selling and online advertising.
Sampling:	Collecting the opinions of a cross-section of pe the wider market segment.
Sponsorship:	When a business supports another person/busi promotion, such as the sponsorship of sporting
Sustainable:	Businesses that fulfil their own strategic object land and society in which they operate.
Target Market:	The sector of consumers that a business chooses
Unique Selling Point (USP):	This is a feature that makes a product/service a

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3.3. Answers

1. *Students can identify any one of the following (though answers are not limited to th*
   - *Branding encourages consumers to feel more connected to products and servic owner companies*
   - *The stronger the brand, the less likely buyers are to jump to another product/s around friends, family and colleagues as a personal recommendation*
   - *Strong branding can help a company overcome external influences such as pre that consumers have in a brand, the less vulnerable it is to external pressures*

2. *Students should show understanding of how the economic recession of 2008 led to consumer income. Companies such as Ladle can generate higher sales since so ma As such, the business is likely enjoying high profits and so can focus its attentions o or market share, in order to make sure it keeps its market share even after the effe may also choose to increase its sales volume while more shoppers are choosing the the competition.*

3. **a.** *Advantages of primary research include: reveals new information; keeps the market; and allows the business time to concentrate on its target market.*
   b. *Limitations could include: size (i.e. too small a sample); bias (i.e. interviewer other correlations); representation (e.g. regions can differ); expense and time closed questions).*

4. **a.** *The magazine is unitarily elastic, which means demand changes at the same*
   b. *Students should show understanding of terms, explaining that if a product is seller is able to increase the price without fear of losing demand. This is beca are normally leaders in their markets.*

   Consumers are often swayed by price (higher is better) and so a lower-priced value/quality. A reduction in price on an inelastic good, therefore, may make the producer runs the risk of losing what made it valuable in the first place:

5. *Students should explain one way that businesses are affected by YED, including (b*
   1. *Businesses can better plan their production output in response to consum to produce with regard to disposable income*
   2. *Businesses can also make better decisions as to which type of good they focus value goods*
   3. *Furthermore, businesses can expand their portfolio of goods offered dependi incomes of their customers*

6. **a.** *Students should show understanding of the fact that niche marketing applie section of the market. A luxury hotel business, therefore, is most likely target that has enough money available and wishes to spend it on luxury hotels.*
   b. *Example business types might include anything from affordable car manufac to soft drinks, coffee and bread.*

7. *Students should show understanding of segmentation methods and how they rela*

   Examples include (but not limited to):

   Demographic: *luxury hotel businesses often cater to older consumers. This busine promotion that pushes the services to a younger demographic*

   Geographic: *any business that wishes to grow should be looking at branching int currently based in one area, it might gain more sales if it had more locations*

   Behavioural: *if the business does not currently have much repeat business, it cou loyalty card scheme offering cheaper-rate packages.*

   Incom*e: promoting the company's services to consumers that might not think the offering packages or timeshare opportunities).*

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8. *Students can explain any of the following factors:*
   1. *Competitor businesses can affect the way consumers see a product/service*
   2. *The pricing objective of the business, i.e. looking to increase profits, market sh*
   3. *Costs, i.e. how cheaply can a product be made?*
   4. *There may be a price war, meaning new businesses are unable to enter the m*
   5. *Who the business is selling to*
   6. *Where the business sits in the marketing mix, e.g. are they price leaders or ta*
   7. *The price and income elasticity of demand can influence how much a busines price change*
   8. *Where the product is in its life cycle can significantly affect a business's pricin*

9. **a.** *Fill in the blanks of this four-stage distribution flow diagram:*

   Producer → Wholesaler → Retailer

   b. *Name an example for each stage of the flow diagram, e.g. producer = apple fa*

   Example answers:
   Producer = electronics manufacturer or dairy farm
   Wholesaler = supplier to supermarkets or book warehouse
   Retailer = high street shop or online store
   Consumer = family buying produce or business needing machinery

10. *Possible answers might include changes in communication and the popularity of th consumers, taking advantage of key events and generating user-created content th risks include instant communication: consumers can say things about your brand a Social media communications also need thorough planning just like any other me brand messages.*

11. ***Positive effects:*** *Every consumer learns the name of your product, service or com directly to you when they have a requirement. Businesses do not have to focus thei generate enquiries. Strong branding leads to lower price elasticity of demand.*

    Negative effects: *Rebranding can lead to a backlash from consumers who were a enough people speak up, it could change public opinion on the whole. If your prod had a bad reputation, it can be difficult to change this – even through rebranding.*

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