Specimen examination questions and suggested approach and solution relating to each chapter

Chapter 1 Development of a strategic approach to marketing – its culture; internal macro- and external micro-environmental issues

The meaning of the term ‘marketing’ remains an area of confusion in the minds of many. As a marketing practitioner, explain the implications and the real meaning of marketing. Show how this can be distinguished from selling.

Objective
This question aims to assess your basic understanding of the marketing concept and the depth and range of matters with which it is concerned.

Approach
You should clearly distinguish between marketing as a business philosophy and the role of marketing as a functional area of management, and include some explanation of these two elements. The answer should then be developed so as to draw a distinction between ‘marketing’ and ‘selling’. To achieve this, some detail as to the basic tenets of each approach will be necessary. Remember that in this context ‘selling’ refers to the conceptual orientation of a firm towards its customers.

The question, therefore, calls for a balanced answer covering each of the following:
1. The marketing concept;
2. Marketing as a function;
3. A distinction between marketing and selling.

As the question is fairly wide ranging, you will not have time to include too much detail about any one part, say ‘marketing as a function’, which could in fact form the basis of a question in its own right.

Although you must imply knowledge of how marketing has evolved, the question does not require a description of the origins and development of marketing. This information is irrelevant to the question and its inclusion would not only waste your own time, but it would display to the examiner a misunderstanding of the question.

Marks would probably be assigned on the basis of one-third for each part of the answer. Assign, therefore, an equal amount to each part.

Answer
Suggested introduction

Numerous definitions exist which attempt succinctly to describe the scope and meaning of marketing. It has been described as a human activity directed at satisfying needs and wants through the exchange process. This is perhaps marketing at its most abstract level. In reality marketing is a management process that holds that the orientation of a company should be towards the customer’s point of view. As customers are the sole source of revenue for any business, it follows that attention to their needs and wants is a likely recipe for success.

The understanding of marketing is considerably aided once it is appreciated that the terms implies both a business philosophy or frame of mind and a specialized functional area of management. The former implication is referred to as the ‘marketing concept’.

Explanation of the concept
1. **Customer orientation.** The first premise of the marketing concept is that the wants and needs of customers should be the focus of all company activity. The company is, therefore, governed by its customers' requirements, rather than purely by its production or technical facilities.

2. **An integrated management function.** Acceptance of the concept implies that a customer orientation should be adopted, by, and permeate, the company as a whole; thus, whatever the specialized functional area (transport, finance, etc.), an outlook directed towards the market-place should be of paramount importance. In particular it is vital that higher management ensures that this ‘marketing orientation’ is effectively communicated and understood throughout the company.

3. **The need for profits.** This aspect of the marketing concept concerns the need for a company to be profit directed. Implicit in this need is the recognition that a company’s resources are finite: the aim of management is to achieve satisfactory returns whilst operating within the framework of its resource constraints. As has been suggested, the customer orientated approach is a good basis for long-term profitability.

4. **A systematic approach.** The management role of identifying and anticipating customer requirements is axiomatic. A scientific element is, therefore, encompassed within the marketing concept. This means a systematic planning process, based upon marketing research which leads to a marketing strategy with distinct objectives. The whole process must be continuously monitored and a built-in control system established. Allied to the recognition of company constraints, the strategic nature of marketing emphasized the need for realism in the setting of objectives. Strategic planning, by definition, also implies that marketing is directed at the long term. A formal planning system is not, however, synonymous with rigidity; the key strength of any company it its ability to adapt over time to the dynamic nature of the marketing environment.

**Marketing as a function**

The marketing concept identifies the strategic nature of marketing. Strategic plans are realized by the specialized function of marketing management, plans are realized by the specialized functions of marketing management, i.e. the management of customer demand. These functions have been categorized as being the elements of the marketing mix (i.e. the ‘four Ps’) as described below:

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<th>Product</th>
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<td>Personal selling.</td>
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These are the tools which marketing management uses to translate plans into action. It is important to understand that while they are mutually interdependent, management affords varying levels of emphasis to each of these elements. In this way a company’s marketing mix can be tailored to its strategy and then fine tuned according to developing market conditions.

**Marketing v. selling**

It is apparent from the foregoing that marketing has far greater ramification than a management approach which focused merely on ‘selling’. Some firms still retain an approach which is centred around sales. A direct
comparison between ‘selling’ and ‘marketing’ attitudes illustrated how radically the two approaches can differ. A ‘selling’ orientation assumes that:

- The company’s main task is to get sales for its products;
- Customers will not, without sales pressure, buy enough of the company’s products;
- Additional sales can be induced by a substantial selling and promotional effort;
- Customer can probably be induced to buy again; if they do not, other customers will take their place.

This approach to business is essentially short-sighted as it implies that customers have to be coerced into buying from the company and must, for the well-being of the firm, do so, whether or not their interests are in the process best served. It can be seen that this a a very narrow view.

A ‘marketing’ orientation assumes that:

- The company’s main task is to satisfy the defined set of wants of a defined set of customers;
- A carefully planned approach to the market, in the form of marketing research and systematic analysis and control is necessary to learn about customer wants and to ensure that they are being satisfied;
- The whole company must be integrated in its approach to the market;
- The process of satisfying customer wants, if carried out efficiently, will bring about favourable customer attitudes to the company and repeat business, thus carrying company success into the long term.

From this comparison, it is evident that the starting point, the means and the objectives of ‘marketing’ as opposed to ‘selling’, taken in isolation, are in serious contrast. What is needed is an integration of these ideas (since nobody doubts that a firm, to remain solvent, must dispose effectively of its output of goods and services). Levitt’s ‘marketing myopia’ quote says that selling takes account of the needs of the seller, while marketing concerns itself with the needs of the buyer.

Possible conclusion

Once its conceptual and functional nature is understood, marketing becomes a simple and logical process. From a company perspective it is vital that the marketing concept should be understood and adopted by top management (whether this be within the highly structured cadre of a large organization or the less structured environment of a small firm). This appreciation should then be communicated throughout the whole company. The marketing practitioner has a special responsibility in this communication process; only by ‘marketing’ the marketing orientation within the company (i.e. through ‘internal marketing’) will results that display that display the validity of the approach be achieved. The outcome should be that the company makes what it has learned customers wish to buy, and in this way succeed in selling it output profitably.

Chapter 2 Markets and customers: consumer and organizational buyer behaviour and marketing strategy

Discuss the role and behaviour of the organizational purchaser in comparison to the domestic consumer. Would you agree that the organizational purchaser is devoid of all but economic considerations?

Objective

To ensure that the candidate is able to differentiate between organizational and final consumer buyer behaviour and to ensure that there is an awareness of the personal and external factors which influence a purely rational approach on behalf of the organizational purchaser.

Approach

The approach to the first part of this question is uncomplicated and you should discuss the typical assumptions that are generally made for each purchaser group. You could begin with the assertion that the organizational purchaser is essentially a ‘professional consumer’, and continue with a discussion of the most apparent influences at work on the purchase decision, e.g. the need for economic purchases for profit or that the organizational purchasing decision calls for a specialist approach to problem solving. The final consumer can then be introduced, and while acknowledging that he or she is a problem solver, you can discuss the social and psychological influences at work on this consumer, although you will not have time to discuss these in great depth.
With regard to the second part of the question, the phrase ‘would you agree’ is a cue for an argumentative approach. With this in mind you should briefly reintroduce the theme that suggests that the industrial purchaser’s role is one of rational decision making and then demonstrate, using appropriate example, why this is not always the case.

How far you agree or disagree with the proposition is a matter for your own judgement. Any decision will be of little value unless a reasoned argument has been presented. In most arguments both sides usually have equally valid contributions to make. Although it is by no means always the case, it is common to conclude such answers with qualifying statement that acknowledge this fact.

**Answer**

**Suggested introduction**

The main point that should be explained here is the fact that the domestic consumer is taking a decision on behalf of self and family, whereas the organizational customer is taking decisions that depend on knowledge and requirements of others. It can be seen that different criteria are at work in the minds of each when arriving at the final purchase decision.

A number of models of consumer and organizational buying behaviour have been put forward. Such models emphasize the effects of non-economic as well as economic factors in each type of purchasing situation. Emotional considerations can include cultural norms and peer group influences, as well as more logical considerations like capacity to fulfil the task for which the product or service is intended. However, since organizational purchasers are ‘professionals’, their motives are bound to be more economically based than decisions of consumer purchasers, whose emotions might be more significant in the decision making process.

**Forces at work in the buying decision process**

In making a purchasing decision, domestic purchasers are likely to consider criteria like:
- Family requirements;
- Style
- Will it last?
- Is it affordable?
- If not immediately affordable, what about credit?
- Have we ‘confidence’ in what we are buying? i.e. what about after-sales service and complaints?

An organizational purchaser is more likely to be concerned with criteria like:
- Its ability to ‘do the job’ as effectively as required by the specifier;
- Will the supplier deliver the goods within the time stipulated?
- Does the price demanded represent ‘value for money’ alongside competitive offerings?
- Payment schedule i.e. is credit or extended payment possible after the goods have been delivered?
- The organizational buyer’s authority to make the purchase and place within the decision making unit (DMU).

**Discussion**

When examining the motives of organizational buyers, they too can respond to ‘emotional’ criteria. They have to cope with one element that in itself produces an emotional response i.e. risk. A great part of the efforts of organizational purchasers is directed towards the minimizing of risk. Risk is a factor in consumer buying decisions as well, but there is an important distinction: the consumer is not going to lose his or her job through a bad purchasing decision, whereas the organizational purchaser might well do so. For example, the purchase of a set of woodworking machinery by a consumer is unlikely to be as important as to an industrial purchaser, who, in re-equipping a workshop, purchases material of inferior quality that is subsequently liable to breakdown and delay.

Many purchasing decisions are financially based, and they might be important both to the organizational buyer and the consumer. However, the organizational buyer is not using his or her money, and the volume of purchase is likely to be higher, so ‘price’ is more likely to be a very important criterion.
Quite often, style and colour are important when making a purchase. The domestic consumer has to make a simple personal choice. The organizational purchaser, on the other hand, might be purchasing a range of office furniture for a suite of offices. Clearly, choice will not please everybody, but in the interests of economy a single style and colour range might have to be purchased.

It can thus be seen that there is no clear-cut, simple answer to this question, but it would be true to say that economic considerations are clearly more important in the organizational purchasing situation than in the domestic situation. However, this is probably a function of the fact that the organizational purchaser is more of a ‘professional’ purchaser than the domestic purchaser, and is more likely to look for ‘economic’ and ‘value for money’ considerations when making the purchasing decision.

Chapter 3 Markets and customers: market boundaries; target marketing

‘Segmentation is at the heart of marketing strategy’. Explain the importance of market segmentation. Choose two markets (one from a consumer and one from an organizational market) and show how these may be segmented.

Objective

The fact that a statement is made suggests that you should agree with it. The question is seeking to test the depth of knowledge in so far as segmentation is concerned, and as such is not seeking a detailed definition, as this knowledge can be taken for granted. Application is, therefore, important, and it is through the examples chosen that this can be demonstrated. The question is also seeking to examine how strategy follows segmentation in terms of target marketing.

Approach

A brief explanation of segmentation should precede the main body of the answer, but as mentioned in the objective, it should not cover basic detail, but should discuss the contention in a positive way. The bulk of the answer should then concentrate upon the two examples i.e. from consumer and organizational perspectives.

Answer

Importance of market segmentation

Market segmentation analyses groups of customers in terms of their needs and wants. It is a derivative of product differentiation that distinguishes product features that can enhance the image of the product and so command a premium in terms of price.

Markets can be segmented into groups of potential customers who possess one or more common characteristics. These are useful for explaining or predicting responses to various marketing stimuli.

Once segmentation has been considered, the company will then determine a marketing strategy in order to reach particular target markets. Basically there are three such strategies:

1. Undifferentiated marketing, where the firm makes the choice not to target customer according to their individual characteristics. Instead, it treats the market as homogeneous, and tries to develop a theme of mass appeal and superior imagery.
2. Differentiated marketing, where the company recognizes the market as being heterogeneous and targets several market segments at once. Each of these is approached by means of a different marketing mix.
3. Concentrated marketing, or market niching, recognizes the fact that company resources are finite and thus targets its marketing efforts on those segments that offer the best profit potential.

Requirements for evaluating market segments

Before attempting to segment a market, a company needs to be able to measure its potential success. There are three generally accepted requirements for this evaluation:

1. The segment must be measurable and distinct, including information available that can highlight the effect of the particular buyer characteristic that makes it different.
2. The segment must be accessible in that the company should be able to focus attention upon it.
3. Its size should be substantial in terms of costs and potential benefits. Cultivating a separate market segment is expensive, and this expense can only be justified if the profit return is likely to outweigh it.
An example of consumer market segmentation

The example chosen is hair shampoo. Consumer markets are generally segmented on the basis of several different variables, the most frequent being:

1. **Geographical** by region, city or town;
2. **Demographic** by age, sex, family size/structure, education, etc.;
3. **Socio-economic** by social class and occupation;
4. **Psychographic** by lifestyle or personality type;
5. **Purchasing behaviour** by number of purchasing occasions, usage rate and benefits sought.

A clear leading indicator of the usage of shampoo is the population distribution throughout the country. This does not simply mean the population density as such. What we really need to know is the population that can be reached by various targeting measures and also the population that the product can be profitably divided over.

Demographic segmentation follows on from the above, and here we need to look at the population in terms of its size and make-up. The number of families of child bearing age will be a positive indication of a growing market. The number of older people is also an indication of those who will disappear from the market in coming years and indeed their product formulation needs will tend to differ from those of younger people.

The socio-economic pattern varies from one part of the country to another and in this case it is possible to segment according to the ‘benefits’ required of a shampoo. Some classes will require a shampoo for functional reasons, e.g. reducing greasiness or dandruff, whereas others will require a shampoo for what it will do for them e.g. make them look better.

Lifestyles and personalities of consumers can be used to predict what image they most closely identify with, and to this extent shampoos are often given a brand ‘image’ through the advertising endorsement of a well known sporting or film personality.

Purchasing behaviour is manifest in how often consumers buy and how much they buy. They can also be segmented by the degree of their brand loyalty and the degree to which they are prepared to switch brands.

An example of organizational market segmentation

The example chosen here is for an industrial manufacturer of dust-extraction equipment. The most recognized bases for segmentation are: macro and micro, which are now examined.

Macro bases centre on the buying situation, including the organization, its type, its size and the application to which it is likely to put the product it purchases. The manufacturer will thus look at potential customers from the following viewpoints:

1. **Geographic** by region, country or city;
2. **By size** in terms of numbers of factories owned of being built by the customer;
3. **By type of purchasing influence** e.g. architects, local authorities and factory owners;
4. **Usage rate** frequent or infrequent purchasers;
5. **Previous purchases** established customers or new business.

Micro bases are more concerned with the characteristics of the decision making units (DMUs). The strategy of the purchasers is important in terms of whether they are satisficers or optimizers. The relative importance of the purchase to the organization is also significant, as are the personalities of the decision makers. The manufacturer will thus look at purchasers from the following viewpoints:

1. **Reason for purchase** e.g. new plant or replacement plant;
2. **Previous manufacturers used** i.e. who these are, their structure and their offerings;
3. **Satisfaction with previous suppliers** i.e. low, medium or high;
4. **Perceived risk of situation** i.e. low, medium or high;
5. **Attitude to risk of deciders or key influencers** i.e. risk-takers, risk-avers or satisficers.

Conclusion

Both these examples demonstrate the fact that firms face tight budgets for marketing their products. ‘Market niching’ policies, especially in the business to business sector, enable scarce resources to be used to the best effect. Target marketing aims at the areas that offer the best short-term prospects. One important point for consumer marketers in particular is the use of below-the-line forms of promotion. These can be used to break down consumers’ existing brand loyalties.
Chapter 4 Product and innovation strategies

Discuss the assembly of a company’s product mix, giving reasons for mix optimization and ways in which this might be achieved.

Objective

To ensure that the candidate understands the structure of, and inter-relations within, a ‘typical’ product mix.

Approach

The answer to this question should be concise and straightforward and should include a description of how a product line forms part of the total ‘mix’. As is true of all answers, any reference to actual products and real situations will add to the marks that you will be awarded.

Answer

Suggested introduction

In terms of both organizational and consumer goods and services it is unusual to find a company that markets only one product. More usually firms market a range of products. The experience and capabilities of a company (both in marketing and manufacturing) usually combine to produce product that are in some way related to each other in the physical or market sense. Of course, if a company continues to expand, there is a likelihood that any such relationship between product or services will become more tenuous. Whatever the relationship between products, their sum total constitutes the ‘product mix’ of a company. The idea of regarding a group of products as a ‘mix’ gives form to the company’s activities, allows analysis to be carried out, and so permits the products to be optimized in terms of profitability, conformity to the company image and in terms of how the products relate to each other.

Product mix

The ‘product mix’ is the term used to describe the total number of products a company offers for sale. This mix is divided into groups of product lines. A product line is a group of products closely related to each other, either because they have similar functions, or because they are marketed to similar customer groups. Some companies consider products to belong to the same line if they are complementary. The figure that follows portrays the total assembly of a company’s products. The number of product lines denotes the ‘width’ of the product mix and the number of products in a particular line is described as the product line ‘depth’. The example portrays a company that has originated through manufacturing chocolate confectionery. The example traces the imaginary development of a product mix assembly which is typical of the evolution experienced in many companies.

Total assembly of company products
Line 1 represents the company’s original products, or at least the type of products which provided the basis for expansion, and for which the company is still probably most famous. The experience in manufacturing and marketing the company gained in this market led naturally to the development of a range of gift products in chocolate.

Line 2 shows that although the same retail outlets may be used, customer motives and buying behaviour would differ from those of line 1, and a completely different marketing strategy may be called for in order to promote and sustain growth in this market.

Line 3 represents another break from the original products. Here, similarity in raw materials may have stimulated the development of a chocolate drink. Once the company has entered this market, it would be natural to add coffee and tea as well as other ideas to the line. If, say, coffee become particularly successful, it would be logical to think of coffee products as forming a line of their own.

Line 4 is a further addition to the width of the product mix. As the company continues to expand, both the width and the depth may increase, perhaps to include increasing dissimilar product areas.

There is considerable pressure on a company to add to the depth of product lines as well as to the total mix, since a strongly marketing orientated company should in any case be constantly engaged in a policy of new product development. The sales force might be continually requesting new products in order to accommodate clients’ needs and match competitive action, which is itself a stimulus to new product development. A further reason for the expansion of the product mix is often the need to take up excess capacity in the manufacture of existing lines.

Even in the most efficient of companies it is not uncommon for the product mix to become ‘less than optimum’. This can occur because of changes in the market place or because too many, or not enough, product have been added to the mix. The following rule is simple enough to relate, but considered more difficult to carry out in practice: ‘If no extra profit can be made either by adding or subtracting from the mix, then the product mix can be said to be at an optimum level’.

General reasons for adding to the lines in the mix have been mentioned already, but there are several product strategies that can be applied to product mix management which attempt to achieve the optimum level. Taking into account the market conditions and the capabilities of the firm the following options are open:

- A company can add lines to its mix in a way similar to that described in the figure. This is organized and planned expansion, but the company runs the risk of entering markets with which it is unfamiliar, and not equipped to service. On the other hand, new markets represent risk reduction when problems occur in any one of them.
- Some companies extend their lines downwards and introduce products that are cheaper than their original products. Here, there is a risk that new cheaper product can harm the image of their superior counterparts. The company can, however, enter very large, lucrative and previously untapped markets in this way. BMW and Mercedes have extended their product lines downwards over the years.
- Another alternative is to extend the line upwards into more prestigious product areas. This is likely to be more difficult to achieve than moving downwards and it will be costly to establish and appropriate quality and image.
- When a company has product in a line which covers a wide range of prices and qualities, it is tempting and often worthwhile to ‘fill’ any gaps that may exist. A certain amount of risk comes with this strategy, because the products are ‘too close together’ in the market sense; all that is achieved by introducing a new product is reduced sales for existing products.

An optimum product mix can only be achieved by effective market planning and careful and constant control and analysis of performance, culminating in an annual review or ‘marketing audit’ of the product mix. The system of control should be such that costs and profits can be ascertained product-by-product.

The marketing ramifications of this analysis must also be considered. Although a certain product may be contributing little or nothing to profits, it may have strategic importance in terms of the image it has for the company and the line. In such a case it would be unwise to remove the product from the line. Line reduction is of course an acceptable product mix strategy, and it makes sense for any products that are expensive to market and contribute little to the well-being of the company to be removed. The possibility of developing a ‘sub-optimal’ product mix is reduced by following the strategies already outlined and by effective market segmentation.

Conclusion
Even after the market has been effectively segmented, and the company considers its product mix to be optimum, both in cost/profit and marketing strategy terms, it must be appreciated that the dynamic nature of markets makes this situation a very transitory phenomenon. Marketing control is, therefore, a vitally important part of ‘mix’ management analogous to ‘fine tuning’, with major change always under consideration. Too frequent changes are likely to detract from favourable customer perceptions of a company, but it is just as damaging to keep product for too long as it is to neglect the development of new ones.

**Chapter 5 Pricing strategies**

**What limitations are inherent in the economist’s view of pricing? How might price be determined in a practical marketing situation?**

**Objective**

To ensure that the student is able to distinguish clearly between economic price theory and the determinants of price, and to establish a thorough understanding of pricing and alternative and the marketing goals which may affect a company’s pricing structure.

**Approach**

This particular question provides a good example of the necessity of carefully reading the question before answering. The first key word is ‘limitations’. Although it would be useful to display knowledge of economic pricing theory, you are really only being asked to discuss its limitations. This section should not, therefore, form the major part of the answer.

Similarly, ‘how might’ is a vital part of the question. The word ‘might’ allows you the freedom to consider price setting in its widest sense. You should, therefore, discuss actual methods of price setting and the various marketing objectives and situation that may call for a more flexible approach to pricing. An answer format might be:

1. Brief discussion of the economist’s view of pricing;
2. Discussion of how this approach can be inappropriate for marketing practitioners;
3. A paragraph that introduces pricing in marketing situations;
4. Influences on pricing, such as competitive activity and marketing objectives;
5. Common methods of pricing;
6. Conclusion

**Answer**

**Suggested introduction**

Economics is essentially concerned with theory. The purpose of theory is to simplify cause and effect relationship in given situations. The fact that one such situation may not be entirely realistic does not detract from the validity of the theory, because theory is necessary to provide the basis for action in more varied situations. Economics is one of the disciplines from which marketing gains a basis for understanding how markets work and how firms should behave in order to function efficiently. Marketing practitioners recognize, as do economists, that economic theory does not represent or explain a number of real-life situations, but it does provide certain fundamental precepts that serve as a basis for analysis.

With reference to price, the economic basis for marketing strategy is concerned with theories of supply and demand and costs. A basic assumption of economic theory is that of the downward sloping demand curve that assumes that consumers will buy more of a product as the price falls. Economic theory also assumes that consumers act ‘rationally’ with respect to price, and that in so doing they will always attempt to maximize the ‘total utility’ that they can obtain from good that they purchase.

The traditional economic theory of the firm assumes that firms will always attempt to increase output to a level where profits are ‘maximized’, i.e. where marginal costs are equal to marginal revenue, the cost of one more unit of output being equal to the addition to total revenue that this last unit provides.

The above assumptions are basic to economic theory and provide a rather inflexible view of business activity. More detailed study will reveal that economic theory does provide considerable explanation as to variants in consumer behaviour. It provides models for diminishing utility which relate to ‘inferior’ or ‘prestige’ goods as far as marketing practitioners are concerned, because it ignores the effects of sociological and psychological influences on the consumer, except in the most general of terms.
Pricing and marketing
Economics thus provides a valuable insight into the nature of markets, and can show how demand will change according to competitive influences. It is also invaluable in its consideration of elastic and inelastic demand. Thus, an understanding of the theoretical relationships between price and quality in various situations is a ‘jumping off point’ for devising marketing strategies that cannot possibly be overlooked. Marketing is, however, concerned with specific situations. It is in this respect, that the limitations of economics as a tool of marketing, begins to become apparent.

Thus far it has been established that economic theory, while being inadequate on its own for the needs of marketers, is nevertheless fundamental in providing an understanding of supply and demand. We now consider how, with the aid of this understanding, marketing management approaches to the problem of pricing in marketing situations.

All companies must pay attention to, and are influenced by, the nature of the markets in which they operate and thus by the degree of competition that prevails. Well managed marketing orientated companies can exercise an element of control over these external factors according to how they employ the marketing mix, of which price is one of the component parts. Marketing management is also concerned with basic company objectives that should guide pricing, the relationship between costs and price, and how prices may require modification to suit a changing market.

Influences on pricing
Some companies are faced with a market situation that demands that their sole preoccupation is with survival. While the company is devising plans to improve the situation, its attitude to pricing may be one which merely enables it to remain solvent. In normal circumstances, however, companies will adopt pricing strategies whose implementation will help to realize formal company objectives. They may wish to establish a certain percentage market share or become market leaders. Some strategists suggest that the volume production associated with market leadership will reduce costs. A low price is likely to be a part of marketing strategy in order to achieve this aim, and until market leadership is obtained, profit objectives might have to be curtailed.

Some companies deliberately set high prices because the company objective is to establish themselves as a quality brand leader. The criteria for pricing are to reflect this image.

Increasingly where smaller companies have been taken over by large groups, very stringent demands are made as to profit requirements and return on investment. It may be in such cases that longer term strategies are inappropriate and that the company must concentrate upon profit maximization. This is perfectly acceptable while favourable market conditions prevail. On the other hand, such short term financial pressure may prevent the company from planning for the longer term changes in the market place.

Whatever the objectives of the company where price is concerned, attention must be paid to production costs. Such costs will vary according to differing levels of production, this being an aspect of price setting where economics is particularly useful for the marketer. An essential element of pricing is to prepare an estimate of demand in order to forecast potential sales and thus production requirements over a given period. How different companies consider costs in relation to price is a management decision which must be made by taking all market and company factors into account.

Pricing methods
A popular pricing method is ‘cost plus’ pricing, where the retailer or manufacturer adds a fixed percentage mark-up to the cost of each unit. The mark-up applied will vary according to the type of industry and the type of market.

Break-even pricing is another popular pricing method. Here the company must decide by analysis the number of units of production required to cover fixed costs and variable costs at different levels of production, settle on the profit required, and produce and sell accordingly. A drawback of this method is that little attention is paid to market conditions and the current level of demand.

Prices can be set and modified on purely marketing grounds. It must be assumed that cost and demand analysis has previously taken place. Then companies can improve their margins on a consumer psychological basis in terms of ‘what the market will bear’ or by applying non-price factors of pricing that render price relatively less important to the buyer. Here, there are two strategies of penetration pricing which is a low price to achieve
volume sales from the beginning, or market skimming to skim off different price layers in the market by starting at a high price and then successively lowering this price.

**Conclusion**

One can say that pricing is intrinsically based upon economic theory. Marketing practitioners must, therefore, have a sound knowledge of economics in relation to supply and demand, so as to have a basis for their pricing and marketing strategies. Although economics recognizes that prices must be modified according to a variety of market conditions, the discipline is limited for the marketer because specific situations are not dealt with. Armed with an economic grounding, the marketer can devise pricing methods according to company objectives e.g. market share acquisition, or market conditions e.g. different stages in the product life cycle, or movements in the structure of competition.

**Chapter 6 Channels of distribution and logistics**

What considerations do you consider to be essential to the design of marketing channels? Comment as to the effects of conflicts and the exercise of power within marketing channels.

**Objective**

To assess the candidate’s basic knowledge of channel structure and to ensure that an awareness of the problems associated with the implantation of channel design is in evidence.

**Approach**

The first part of your answer that refers to channel design merely requires that you introduce the idea of a marketing channel. Then, by describing its basic structure you should show how the choice of channel should complement the other elements of the marketing mix. Channel design is of course one feature of distribution, referred to as ‘place’.

You should then give examples of power bases within channels and show that, although the desired role of channel members is to facilitate the smooth flow of goods and services to the final consumer, the goals of individual members are sometimes in conflict with one another.

Your answer should contain examples where possible, and should be presented in an ordered and thoughtful manner. However, this does not require detailed discursive arguments. It is sufficient to make an orderly presentation of basic subject knowledge.

**Answer**

**Suggested introduction**

An elementary marketing system merely requires a seller and a buyer, which represents the transfer of title of goods or services from one party to another. This is the most basic of channels. The idea and study of channel systems is concerned with, and incorporates, the final end user, since the end user ultimately controls the rate of flow of goods for all other parties who manufacture, convert and distribute them. The design and choice of the most appropriate channel system to perform this function is one of the main marketing decisions. All elements of the marketing mix are vital and interdependent. Whatever ‘mix’ strategy is employed, it is of no value if the end users cannot physically and easily obtain the product.

**Intermediaries**

The members of a channel who lie between the manufacturer and the consumer are by implication ‘intermediaries’ who physically pass on goods and title from one to another. The length of a channel depends upon the nature and structure of the market and will vary according to how close a manufacturer is to the supply of a finished product. It is convenient to consider channels in relation to the manufacturer of a finished product and the final consumer.

‘Cutting out the middleman’ is a popular phrase as it implies cost savings and greater control over the marketing of a product. Middlemen are nevertheless used by most companies; channel design is concerned with the choice and number of middlemen and the degree of power that the manufacturer is prepared to extend to them. In general, intermediaries are used for the following reasons:

- Logistical problems are reduced because only one intermediate channel member is able to deal with many suppliers and many end users;
• The middleman possesses specialism, contacts and expertise that the manufacturer does not;
• The early transfer of title reduces the cost of stockholding, reduces risk and speeds up receipt of payment;
• The middleman may bear the cost of certain marketing activities, such as promotion, research and sales activities.

Channel design is a function of a company’s resources in these areas. Manufacturers that are capable of performing and financing all of these functions might establish their own retail premises and dispense with intermediaries altogether. However, most prefer to concentrate on production rather than distribution.

Channel selection
Thus far channel design has been discussed in relation to how far choice is dictated by the resources and capabilities of the firm. These are now considered in relation to the potentialities of prospective members. Once a framework for choice has been established, the selection of channel alternatives should be related to the marketing objectives and tasks which the company wishes to achieve. These objectives, such as target market selection and service level, should already have been decided, and a channel structure that makes these objectives realizable should now be established.

If a highly specialized market segment is chosen, the firm may wish to keep distribution as exclusive as possible. Specialist and limited retail outlets will be sought. Intermediate organizations like wholesalers, agents and distributors should also be specialists, acquainted with the product type and possessing good contacts with retailers. Such a channel would be appropriate for new products where ‘innovators’ and ‘early adopters’ form the first target segment. Exclusivity in distribution is also in harmony with marketing objectives that aim to promote a high quality ‘prestige’ image.

In many consumer markets companies aim to achieve the highest rate of penetration across a wide range of consumers. Here, the role of the channel is to obtain correspondingly intensive distribution. The company may have to consider multiple channel systems in order to obtain the desired coverage. Filling stations proved a good example of outlets for intensive distribution. In recent years companies like Esso and Shell have extended their range of products on sale in filling stations from automotive related products only to mini-markets and indeed large retailers have similarly extended their services to include filling stations.

Sometimes, through taking account of prevailing market conditions and the nature of the product, companies take the decision to control the extent of their distribution in both retail and intermediary environments. The objective of this ‘selective’ form of channel design is to create a core of middlemen with whom close ties can be established, thereby creating loyalty and co-operation. In return for this close selective partnership the chosen middlemen may share promotional costs.

Companies can radically alter their channel systems by integrating vertically (backwards or forwards). Vertical integration is concerned with the acquisition of, or merging with, intermediaries. This can produce financial savings through increases in efficiency and improvements in control. Such action also incurs the danger of increasing risks. When markets change, or retail outlets decide to change suppliers, the heavily vertically integrated company must bear the full effects of stockholding, and search for new activities for companies along the supply chain.

Manufacturers who have circumvented their channel members by dealing directly with retailers and consumers has increased significantly in recent years, as evidenced by increased numbers of specialist mail order companies, ‘door-to-door’ activity and ‘party plans’. Avon Cosmetics is a classic example of a highly successful direct marketing organization.

Channel design is also determined by the nature of the product itself. Perishable or short ‘life cycle’ products will generally be distributed through short channels. Similarly, high turnover products will require short channels, operated by intermediaries who specialize in speed and flexibility like the supermarket chains.

Channel conflict
Although it is in the interests of all channel members that the channel runs smoothly and functions to their mutual benefit, it sometimes occurs that ‘power play’ and ‘conflict’ become a feature of channel management. In retailing the role of ‘channel captain’ has traditionally been played by manufacturers of FMCGs. However, as large retail chains have now become the ‘norm’ with Tesco being the largest player, so power within the channel has tended to switch from manufacturers to retailers, especially with the advance of ‘own label’ merchandise, which has tended to break down the power of larger FMCG manufacturers.
**Chapter 7 Communications**

Discuss the role of Public Relations (PR) in the context of an organization’s marketing activities.

**Objective**

Public Relations is an area of business activity that is not always viewed as being solely the province of marketing. PR is in reality a business function in its own right. Unlike, say, human resource management, PR is concerned about the image of the organization as a whole and this includes functions other than marketing. The question thus asks you to recognize this relationship by displaying knowledge of the role of PR in a wider context than marketing.

**Approach**

Your introduction should display to the examiner that you have a clear idea of where and how PR fits into the totality of the organization’s business activities, and how this is relevant to marketing.

From an answer planning viewpoint it would probably be easiest to deal with the main issues of PR, step by step, and to relate these to marketing as a whole rather than splitting the answer into two distinct parts. Whatever your approach, it is important that your answer is not merely a discussion of PR as such. The essence of the answer should be to show how marketing and PR are related.

**Answer**

**Suggested introduction**

PR is a field of business activity that is often misunderstood, and hence misquoted. Most frequently and erroneously PR is classified alongside advertising and promotion. This problem is further compounded by the tendency to view PR as publicity (which is part of marketing communications). In reality, PR is a distinct business function which complements advertising in particular and marketing in general. Another misconception is that PR is a form of promotion whose task is to promote good news, or to cover up adverse publicity in relation to an organization’s image. While there is an element of promotion in PR, and while companies are not likely to seek out harmful information to communicate to the outside world, the real role of PR is to establish understanding between a company and those ‘publics’ (e.g. customers, banks, suppliers, the general public) that have an interest in it.

**The organization’s marketing environment**

A study of the marketing environment will reveal that its responsibilities and its range of interested parties extend far beyond the immediate customer and supplier. Past and future customers must be considered, because they represent potential users, and because they can influence the attitudes to the company held by existing users. There is, moreover, a wide range of ‘publics’ whose attitudes and actions can have a direct effect upon the firm. These publics include the financial community, shareholders, the media, the government and local government. Marketing activity cannot therefore be successful if these ‘publics’ are not kept informed about company activities in a way that displays a sense of responsibility to its wider environment. PR’s task is, therefore, to build up trust and understanding by honest communication, so that marketing strategies can be implemented in an atmosphere of goodwill towards the organization. It is important to recognize that it is still possible to generate goodwill (or at least a non-hostile attitude) even though the company may have unpleasant announcements to make to its publics. Lay-offs and redundancies can, for example, be alleviated if the company communicates its position honestly and effectively through its PR media, especially if it has a clear policy in terms of how employees will be treated, compensated or retrained.

The first role of PR is to provide corporate and long-term backing to the company, whose business activities are otherwise expressed to the informed public through its marketing function. Typical areas where PR might provide such background support to marketing might include announcements of an intention to expand, or news of actions taken to reduce pollution. A firm may wish to sponsor certain charities or simply wish to keep its publics informed of its general activities. Such communications can be made in various ways – through press releases, public meetings, company publications or open days.

**Other areas of PR**

PR also has an important role to play with respect to direct support to the organization’s marketing activities. One task is to keep its publics informed about new product development, an area of direct relevance to
marketing. The role of advertising and promotion in this context is to appeal directly to potential customers – the first step being to create awareness. PR can support this activity by communicating through the press, TV, radio or the internet. The fact is that something new exists, thereby fulfilling a corporate function as well as aiding the product launch in a tactical sense.

PR can also prepare the ground for marketing activity by explaining policy changes such as an updating in distribution strategy or by new methods of raw material usage e.g. when supermarket groups announced their intention to list all additives that were to be found in the products they sold, this was clearly aimed at a new group of concerned and health conscious consumers. This was announced by PR media rather than by advertising, because it was aimed to show that a responsible and caring attitude had been engendered in the company as a whole.

If a company makes an error of judgement that leads to an unfavourable or hostile reaction from its publics, then PR is the best method of offering an explanation or an apology. A single PR announcement can often be more effective than laborious corrective action by the sales force.

**PR in context**
The primary role of the marketing function is one of promoting, distributing, selling and improving the company’s products and service. The role of PR can be put into context if it is considered as one of promoting reputation, goodwill and image for the company as a whole. While the success or failure of PR strategy will of course depend on how well the marketing functions are carried out, marketing and PR are essentially complementary. Working together should then produce a synergistic effect on the total company operation. The opportunity for synergy within the company is heightened because the respective roles of marketing and PR are approached in the same way i.e. defining objectives and assessing results and the efficacy of those methods used to achieve them. Marketing strategy, say for a new product, and a PR campaign for any goal can be compared as follows:

### PR | Marketing
---|---
1. Appreciation of the situation | 1. Exploratory research
2. Definition of objectives | 2. Definition of objectives
3. Definition of publics | 3. Selection of target markets
5. Budget | 5. Budget
6. Assessment of results | 6. Assessment of results

Whether or not both PR and marketing programmes are aimed at the same objectives, in this case a new product launch, or at different objectives is not really important; the significance is that PR and marketing personnel understand each other’s roles, and both employ similar methods to carry these out. In some organizations, publicity is effected by the PR department for marketing, but this does not make PR subordinate to marketing. Indeed, the public relations officer will act as the ‘voice’ of the organization and will report in this sensitive role to top management.

**Conclusion**
Marketing and PR must work closely together to achieve the corporate aims of the company. PR has the potential to aid marketing as a tactical level, but one cannot be substituted for the other. For example, the marketing function of advertising is essentially concerned with persuasion, whereas PR is concerned with communicating understanding and establishing credibility among a wider audience, but among an audience that includes that of advertising’s target group. The goodwill and positive image that PR can engender should create a receptive environment for the marketing function to work in.

Although advertising has been used as a specific example, the same marketing/PR relationship can be extended to all areas of marketing at both strategic and functional levels. The essential difference is located in the fact that marketing announcements are avowedly of self interest, whereas PR announcement must have at least the appearance of objectivity, for without this they would not be likely to gain the necessary credibility.

**Chapter 8 Selling**
What guidelines would you give to a sales manager wishing to recruit and train members of a sales force to achieve the results desired?
Objectives
The question is slightly ambiguous, and be prepared to expect such ambiguity in an examination setting. It is not altogether clear whether the sales manager is setting up the sales organization from scratch, or whether he or she is conducting the above as part of his/her regular duties.

After that the objectives are straightforward. Their purpose is to test guideline knowledge about recruitment and training of a sales force.

Approach
The introduction should begin by mentioning that the sales force mentioned may be either a new or existing one. You should then develop the body of the answer with these two points in mind, as the principles will not differ much for either situation.

In the case of a new force the problem is essentially mechanical, in that plenty of guidelines exist as to how it should be organized effectively; and recruiting and training the existing sales force is largely a question of attitude and approach by the sales manager. The question would, therefore, best be tackled on the above straightforward basis.

Answer
Suggested introduction
This question poses two problems: whether recruitment and training of the sales force is part of a regular process, or whether it is a question of setting up from scratch. Clearly in the latter case the situation will be much ‘cleaner’ in that one can begin with a new ‘rulebook’ and a new organization chart. If recruitment and training is part of a regular process, the problem will be complicated by the fact that old attitudes and rules, both official and unofficial, will exist, and there may be problems in attempting to overcome certain prejudices that might have built up over a period of time. The following account, therefore, takes both situations into account.

Background to the problem
A sales department, like any other department within an organization, comprises a set of activities and duties that are required to be performed in order to meet departmental and ultimately company objectives and targets.

In setting up a completely new sales department, an important consideration would be what activities would need to be performed in the department e.g. one would have to decide whether or not the sales force would be required to undertake market research. Similarly, one would have to decide the extent to which the sales force should have the power to negotiate upon prices and conditions of contracts.

The specific tasks of a salesperson will vary between different organizations e.g. in small companies many duties usually considered to be extraneous to selling might have to be covered like merchandising, money taking and market research, in addition to regular selling duties. The design of a new sales department must reflect these differences, as too must the detailed set of activities that are to be performed.

Recruitment
An organization should be prepared, if one is not in existence already, to have an organization chart showing the relation between the sales function and marketing. Job titles, their respective levels and formal communication should be represented. What the chart cannot show is the detailed activities, responsibilities and methods of working of each incumbent in the various ‘boxes’ on the chart. Such details are embodied in a job description. This document, and the job analysis on which it is based, are the cornerstones of the selection approach. This is based on a careful analysis of each position in the organization chart. The idea is that each job in the sales department is analysed with respect to the activities that are required to be carried out for effective performance.

On the basis of the job analysis, a job description is prepared. It includes such factors as:
- Job title;
- Main duties;
- Ancillary duties;
- Communication/liaison requirements;
- Special working conditions/requirements.
It is important to emphasize that the characteristics specified in the job specification are derived from the analysis of requirements for effective performance for each job position.

The final stage in the selection process would be to recruit and select employees who match the manpower specification reasonably well.

One can thus see how in principle this approach to staffing makes sense. It constitutes a logical and ordered approach to the design of work and the selection of individuals to perform this work.

In practice the selection approach suffers from two disadvantages:

1. It may prove impossible to find and recruit an individual who matches precisely the specification developed from the job analysis. This may be because no such individual exists in that the range of skills, abilities and experience required is beyond the scope of any single individual, or perhaps the ideal cannot be found or attracted within the salary constraints imposed on the particular position.
2. The ordered and logical selection approach does not take sufficient account of informal factors e.g. an individual who entirely matches the formal job description requirements may be selected, but may be unpopular with existing employees who see this person as a threat.

This classification approach to job design and selection takes account of the individual, technical and social constraints on job design and employee selection. The essence of this approach is much more on designing the job to fit these constraints than specifying the ‘ideal’ way to do the job and then selecting the ‘ideal’ candidate to perform that job.

Training
Selling is a skill and like any other profession it has to be learned. Many sales people have to learn two quite separate skills: that associated with the product or service they are selling and the skill of selling as a separate activity. There are four generally recognized stages of learning:

1. Unconsciously unable;
2. Consciously unable;
3. Consciously able;
4. Unconsciously able.

What these stages represent is self evident. They show the process of learning from being totally unable, right up to the stage of being able to perform a task without thinking about it. A training programme should thus endeavour to take trainees to at least the third stage; the last stage largely being reached through practice in the field.

The initial sales training course should inculcate into the individual much of what is widely known, e.g. concepts of segmentation, organizational buying behaviour and sales techniques. Empathy is important, as is commercial sense. Some sales personnel may have these characteristics in abundance, but effective training should help to bring them out. Effective selling is as much about what you do not say as what you do say. Omissions create interest.

Effective presentation is about being an actor. It is the focal point of the sales interview. This can only be learned with training; so to can the skill of effective negotiation and closing. The two go together, especially when financial matters are being discussed. Negotiation techniques are weapons that an astute buyer can use on an inexperienced salesperson to good effect, so the salesperson should be intimately aware of the intricacies of negotiation.

Sales training should not end with the initial training programme. In order to be truly effective it should be continuous, and this means an active role for sales management in the field as well as in an instructional situation.

Conclusion
Performance in the field depends on three criteria:
1. The ability to perform competently;
2. The motivation to succeed;
3. The means to carry out the task.
It may also be said that the result is the product of the multiplication of these factors, not their addition. Thus, if any of them is zero, then the result will be zero!

Ability depends upon intelligence and acquired skills. Motivation depends on the relevance and salience of the goals that the salesperson is able to set. The means to carry out the task in hand is often, at least in part, dependent on others, in other words, correct recruitment and good training and such other forms of back-up as sales aids. More important, however, it is good sales management that must provide the ultimate back-up, and the maxim that ‘a good sales force is only as good as its sales management’ is a true one.

**Chapter 9 Customer care and relationship marketing**

What factors must be considered by an organization wishing to establish a level of customer service which is appropriate to its markets? Show how such a service level can be employed to gain competitive advantage.

**Objectives**

To ensure that the student is able to consider the major variables affecting the setting of a service level, and that the candidate has a sufficient depth of understanding to regard the service level as a competitive tool.

**Approach**

This answer can be presented in three sections. The ideas contained in each of these are:

1. The main areas of service management are concerned with costs, delivery, stock/inventory control and warehousing. These should, therefore, be the primary factors to be considered.
2. It is how these factors are deployed which determines a specific level of customer service and its effectiveness. This then brings into play the notion of how appropriate the service level is to the markets it seeks to serve. Factors concerning the market (size, type and location) must be considered. The type of product and the nature of the competition should also be included here. To close this section it is worth mentioning that any attempt to establish a customer service level is unlikely to succeed without recognition of the ‘total distribution’ concept.
3. The final part of the question allows you to show that you understand not only the elements of service, but also service’s wider implications as a competitive tool.

You should discuss such factors as non-price competition, the idea of service as a product in itself, the ‘extended product’ and the ‘total product offering’.

**Answer**

**Suggested introduction**

The level of service that a company decides to apply to its customers is one of the most important marketing decisions it must take. It comprises detailed analysis of ‘what the customer requires’ and how well the company is equipped to provide this. Whatever level of service is decided upon, it must not be forgotten that this must be a level that provides profits. It is axiomatic that maximum service cannot be provided at minimum cost. If a market demands high service levels, the costs should be reflected in the price.

**Service level considerations**

In setting service levels, the organization must consider:

- What are the market requirements with regard to service? The levels employed by competitive companies are an important consideration here.
- What are the marketing objectives that have been set to accommodate this market, so as to achieve profits and ensure success in marketing strategy?
- What resources does the company have with which to implement these objectives?

It goes without saying that the organization’s marketing objectives must be set realistically in the first place. The stage of resource examination is not only to ‘fine tune’ these, but to decide the mix of distribution resources that will be most effective in terms of profit and service objectives.

Physical distribution costs usually amount to around 15 per cent of manufacturers’ sales volumes, and even more for companies that resell goods. There is a need to examine the deployment of cost with great care. The individual cost centres within the distribution system include transport, warehousing, stock control and order
processing. These functions are interrelated e.g. an increase in delivery service through improved transport systems cannot be undertaken without an effect being felt by the other distributive functions. In such a case the company will most likely have to increase stocks and thus the cost of stockholding, which in turn will affect warehousing and order processing. Changes and plans must, therefore, be made by considering the distribution system in its entirety. It could be that in a market that is not a demanding one in terms of speed of delivery, a company may decide to reduce costs in transportation. If, as a result of this, lower stock are required, valuable space may be under-utilized and the purchasing department may lose the opportunity to buy at bulk discount prices.

The company must, therefore, consider all these ramifications before deciding upon a service strategy. Typical objectives may be:

1. To hold 90 per cent of all products in the portfolio;
2. To deliver to all customers in 3 days;
3. To confirm and process all orders within 48 hours.

Such ambitious goals must also be realized at an acceptable level of profit. To achieve this, the company must organize its distributive units so that they work in unison. It may be that some units, and their costs, may be reduced while others are expanded. The marketing distribution manager must then look again at the costs to see where savings can be made, but it is vital that no aspect of the service level that has been decided upon should be sacrificed in so doing. The price charged, can however be adjusted if the service objectives are being met. It is normal to think that good service should merit higher prices, although this view is sometimes resisted.

Establishment of a service level

This is a function of the marketing objectives the company sets. These in turn must be functions of the type of market in which the company operates. Market factors include:

- **The nature of the product.** Perishable products clearly require a sophisticated distribution system and a high level of service. FMCGs are distributed to a wide range of outlets with a high turnover. Additionally, large retail chains possess a level of power that dictates the level of service for FMCGs.
- **Competitive activity.** Unless a company has a particularly sought after product with minimal competition, the level of service is largely dictated by the ‘best’ of the competition.
- **Market location.** Companies engaged in markets with a wide geographical spread may have to offer a ‘scale’ of service levels, for which the internal distribution must be prepared. The goal of exporters should be to provide a level of service equal to that provided by competitors in the customer’s domestic market.

Previous discussion on the setting of service levels has stressed the need for co-ordination between the various functional units of distribution. This is required to achieve ‘total cost’ optimization, based on the market requirements. For example, if a particular export market requires a level of service that is expensive to the firm in comparison to local markets, the high costs of transportation must be considered in relation to the value that market represents to the firm.

The level of service required in a market represents a cost and a physical function. Marketing orientated companies should, however, consider service as more than a physical function; they should use it as a tool to increase loyalty, and as a weapon to fight ‘non-price’ competitive battles.

Price is invariably a major determinant in the supply of goods and services, but its importance can be eroded by skilful and continuing provision of good service. Service as a feature can be build into advertising campaigns, so as to counter the physical similarities many products possess. Sales personnel can often obtain orders despite price differentials, provided the company has a good reputation in matters like emergency deliveries and total reliability.

Commodity markets in particular provide enormous scope for non-price competition based on service levels. If a company can operate successfully in the price environment of a commodity market, it has the opportunity to increase market share on the basis of good service and the company should present its products and services as a total package, referred to as the ‘total’ or ‘extended’ product or services. This includes elements like design, quality, packaging, reliability, adherence to delivery promises, etc. ‘Customer care’ is the term used in this context.

Conclusion

It has been demonstrated that service level considerations are more than merely tactical decisions. They are very much strategic considerations. In markets where delivery is very important it is often service levels rather than
price that can influence customers to consider long term relationships with a company that is prepared to invest in a better level of service than its competitors.

**Chapter 10 Direct marketing**

Direct marketing has been one of the fastest growing areas of distribution over the past 30 years. Describe what is meant by direct marketing and account for its success.

**Objectives**

To test the candidate’s knowledge of direct marketing and its place within the area of retailing. Thus, a certain amount of factual and strategic discussion is required in order to fulfil the questioning objectives.

**Approach**

Direct marketing should be first put into the context of retailing in general. Then the term should be defined through the use of illustrations and examples. Finally, a conclusion should discuss the relatively recent popularity of this form of selling and its future.

**Answer**

**Suggested introduction**

During the past 30 years there have been a number of developments in retailing marketing channels. We have witnessed the development of supermarkets, superstores, hypermarkets, limited line discount stores and direct marketing (or non-shop selling). Increasingly customers buy many kinds of products, ranging from clothes, books, CDs, electrical goods to wines and food from non-retail outlets. Thus, the conventional retailer has been bypassed, driving many small retailers out of business. Various forms of non-shop selling are now discussed.

**Party plan**

This method started with the ‘up market’ plastic houseware company, Tupperware, but has since been adopted for products like bedding, nightwear and cosmetics. The notion is that through accepting an invitation to such a ‘party’ upon which the hostess receives a commission from the company’s local organizer, the invitee is then under a moral obligation to purchase. However, the idea is now so widespread that it tends to be viewed more positively as a social gathering. Many such parties are now organized with a view to the profits being given to charity.

**Door to door selling**

This method of selling was the earliest direct marketing method and is still associated with Bettaware and Kleeneze which are companies supplying household cleaning and other materials. Ringtons tea merchants also use this method, taking regular orders and delivering through their van delivery network. The main facet of such a market is repeat business.

‘One off’ purchases are also associated with this method like encyclopaedias which were probably the first, although these are now sold through more traditional methods. Products that are sold by this method now include double glazing, security systems, home insulation and insurance policies. Some less scrupulous companies sell under the guise of conducting a market research survey (termed sugging). It is only well into the interview that the true nature of the survey is discovered.

**Mail-order catalogues**

Mail-order houses rely upon an expensively produced glossy catalogue to obtain sales, and often use local agents who work among relatives and friends to promote sales and then receive commission for goods sold. However, this type of business is now so competitive that virtually anybody who wants one can receive a catalogue for purely personal purchases. Payments can be spread interest free over a number of weeks which probably accounts for the fact that prices are usually higher than the same goods in traditional shops.

**Non-catalogue mail order**

This method has more recently become popular especially through the weekend newspaper supplements and also through small advertisements in national newspapers. Reliance is place on advertising a specialist range of merchandise, and bulk purchasing is possible because of this limited range (often one product).

**Direct mail**
Here the mailing list is the key to successful targeting, and it is well known that if one subscribes to certain magazines, then that magazine is likely to sell subscribers’ contact details to other companies, although nowadays there is an opt out clause that specifically requests that personal details should not be passed on in this manner.

**Television direct response advertising**

Especially towards the Christmas season, goods like CD record collections or video collections are promoted through a series of single advertisements, with the caveat that they are not available in the shops. Simple methods of ordering and paying are cited at the time of the advertisement like telephoning a local number and quoting your credit card number, name and address.

**Email advertising**

When you order through, for example Dell, Amazon or Staples, these companies then regularly email customers with special offers that are less than less than the usual price, but with the proviso that the order is placed within a limited period of time.

**Clubs**

Book clubs and record clubs use this method to sell their products, normally ‘below the manufacturer’s recommended price’, with the rule being that one has to make a commitment to make a certain number of purchases within a limited period.

**Automatic vending**

The most common products sold in this manner are beverages, soft drinks, confectionery, cigarettes and contraceptives. Machines are located conveniently at transport depots, offices, colleges, pubs and toilets. Vending machines also supply services like juke box entertainment, arcade games and computer games. ‘Cash points’ outside banks and in other convenient locations are offered in a money dispensing and depositing role.

**Reasons for the popularity of direct marketing**

Nowadays, women, who account for around 40 per cent of the workforce have less time to engage in leisurely shopping activity. Shopping is now less of a ‘leisure pursuit’ as a wider range of leisure activities are now available e.g. fitness centres, swimming, multi-channel television programmes, etc. and people simply have more interesting things to do in their leisure time.

A further reason for the popularity of direct marketing is that shopping, particularly in city centres, is a less pleasant and secure activity, although with the growth of ‘metro centres’ this has changed matters. Therefore, traffic congestion, parking charges and the sheer trouble of reaching a city centre have caused people to turn to direct marketing for such items as fitness machines, garden furniture, clothing, books and much more. In addition, non-shop purchasing is often cheaper than purchasing through a retail outlet and customers can now do comparison shopping through internet websites.

**Conclusion**

The popularity of non-shop selling will continue to increase because of the factors already mentioned, and because non-shop selling is now more sophisticated and easy, especially when one simply has to make a local telephone call or simply click with a computer mouse and quote a credit card number.

This answer has tended to relate to consumer goods, but it must also be remembered that many forms of industrial product are sold in this manner. Manufacturers sell direct to customers all manner of goods and services.

**Chapter 11 Sales forecasting**

The purpose of planning is to allocate company resources in such a manner as to achieve sales anticipated from the sales forecast. Such forecasts are for the short, medium and long terms. Describe and discuss the purpose of each of these forecasts and state their implications for the various functional areas of a business.

**Objective**

This is a lengthy question that could easily have been asked in less than half the wordage. Do not attempt to read too much into such questions, because the idea behind the long introduction to the question is to give candidates a ‘feel’ for the problem. Simply put, this question is about resource planning for the short, medium and long
terms. The question is not about discussing different methods of forecasting, so avoid the temptation to write about such methods.

**Approach**

The question is about forecasting horizons (short, medium and long term) and how these apply to individual aspects of business activity.

The answer could be tackled in one of two ways: first, by taking each of the aspects of forecasting and applying individual aspects of business and discussing each in turn in the context of short, medium and long term forecasting. An alternative approach, and the one favoured in the answer given is to explain each type of forecast briefly and then go on at greater length to discuss how each might apply to each area of business.

To pass, candidates have to provide at least an adequate explanation of each type of forecast, with some reasoned discussion within the context of business activity. Forecasting is a sales and marketing activity, so it is important that students of marketing understand the place it plays within planning activity.

**Answer**

**Possible introduction**

Before consideration is made of individual aspects of business activity in relation to forecasting and planning, a brief description is given of the three types of forecasting in question:

1. **Short term** is for less than one year, with a normal range of up to three months. It is made for tactical planning purposes.
2. **Medium term** is normally for one year, and it is from this forecast that the annual company budget for the year ahead is made.
3. **Long term** can mean different times for different goods and services. For example, in steel-making, 10 years or more is coming, whereas for companies engaged in computer technological applications 3 years can be viewed as long term. Such forecasts are principally used for major strategic decision making.

Companies prepare for change by planning and this demands that forecasts be made. An assessment should then be made of how the planning goals are to be reached. The sales forecast thus acts as the planning base upon which all internal forecasting and budgeting takes place. The effect of this is to reduce uncertainty and to allow companies to plan on a logical basis,

**Forecasting and planning**

At this stage it is useful to distinguish between forecasting and planning. The forecaster can predict what will happen for a set of decisions in a given set of circumstances. Planning, on the other hand, states that by taking certain actions the decision maker can alter the subsequent events in relation to a particular situation. Consequently, if a forecast which predicts a fall in demand is made, management can prepare a plan to attempt to prevent sales from falling, e.g. increase promotional activity or cut prices.

**Forecasting as it affects the functional aspects of business**

*Human resource management* needs forecasts to be able to predict future manning levels. It will assist training and recruitment. Longer term forecasts can be used for management succession.

*Production* is in need of short-term forecasts so production can be planned and scheduled on an orderly basis. This will lead to more effective use of machinery and manpower. In the longer term, production will need to make decisions on levels of plant operation to be able to meet production levels to achieve the planned-for sales. *Purchasing* requirements can be achieved on a more timely basis with accurate forecasts. Strategic purchasing can be entered into rather than simply responding to the more immediate needs of production. Longer lead times means that purchasing can buy at a more competitive price. Stock control can also be improved with accurate forecasts, which means that stock levels can be more effectively controlled and the danger of over-stocking, with resultant pressures on working capital and possible obsolescence and deterioration of stocks, can be lessened. Stock-outs can also be avoided together with their resultant disruption to production programmes.

*Research, design and development* requires technological forecast. From time to time products need updating or changing. A particular product line may be obsolescent, and R,D&D will need to plan and develop a new product or modify an existing product to keep it competitive. Marketing research should thus liaise with R,D&D and through the medium and long term forecasts should co-ordinate new product developments and product launches.
Finance is in need of forecasting in the medium terms in particular to establish budgets that can be based on the planned-for sales. Accuracy is extremely important because if the medium term forecast is incorrect the whole budgeting process will be incorrect. In the case of an over-optimistic forecast the company will overspend which will be a drain on working capital. If the forecast is too pessimistic, then sales opportunities will be missed, because there will not be enough working capital to be able to capture marketing opportunities presented by better market conditions than had been forecasted. Finance is also in need of long term forecasts to engage in long-range profit planning activities. Such requirements include provision of capital for plant, machinery, land and buildings to meet expansion plans. Marketing is in need of accurate forecasts so it can plan promotional campaigns and strategies to back up such campaigns. Remuneration plans will also need to be prepared, particularly if these are linked to sales targets and quotas. Such data is a reflection of the sales forecast broken down among individual products and sales personnel. Long term forecasts are also needed by marketing in order to plan for aspect like channel arrangements e.g. if sales are predicted to increase substantially, then new channel arrangements might be called for or more dealers might need to be signed up. At a short term level, marketing needs forecasts to be able to plan tactically which means ensuring that customer are satisfied with regard to their immediate deliveries of goods or services.

Conclusion
There is an inter-dependency between the plans and the operation of each of the functions described, since they are all based on the sales forecast. If, indeed, the original sales forecast turns out to be incorrect, then it will affect every function within the business, because each has used the forecast as its starting point. Thus, the importance of timely and accurate production of sales forecasts cannot be over-emphasized because of their influence upon the effective operation of a business.

Chapter 12 Marketing information systems and research
What do you understand by the term ‘marketing information system’? How does it differ from ‘marketing research’?

Objective
The aim of this question is simple and straightforward: to establish that the candidate can clearly distinguish between the two topics in question, and to outline their respective functions.

Approach
Like the motive for the question, the answer should be simple, posing no problems of interpretation or presentation. If adequately prepared for, this should be easy as there is no requirement for discussion and nothing is hidden within the question’s phrasing.

The answer should, therefore, be as direct as possible. To convey this approach to the examiner and display your confidence, you should give a short answer to the question in your introduction and then go on to describe a marketing information system followed by marketing research. Your account of a marketing information system should, by implication, go a long way towards answering this second part, because you will have already described the basics of marketing research. Your concluding section should be devoted to emphasizing the differences between the two.

Answer
Possible introduction
As is true for the subject of marketing, marketing research (MR) is a subject of confusion and misinterpretation among those who are not directly concerned with it. Many texts deal exclusively with marketing research, and this has led to a tendency for the practice to be regarded as the principal means that a company employs to find out about its customers and markets. Marketing research is of course a fundamental element of marketing; its function is to discover what the needs and wants of customers are, who the customers are, and where, when and how they wish product to be offered to them. MR techniques can also be used to study the wider market in an attempt to predict the future wants and needs of customers and to monitor the progress of a company and competitive strategies. MR’s main purpose is, however, to study cause and effect in specific situations: as such, it constitutes only part of the company’s requirement to understand what is going on around it and it is in fact one component of the wide ranging company activity that is the operation of a marketing information system (MkIS). The purpose of a MkIS is to collect, analyse and evaluate all information that is of interest to all the company’s activities in the short and long term.
Not all companies will necessarily operate a formal MkIS. Usually, the larger the company, the more sophisticated and formal a MkIS will be. All companies assimilate marketing information, although this may not necessarily be a conscious process. As companies grow, and because the marketing environment is dynamic, there is a positive need for a formal system to be implemented so that marketing management is constantly informed and kept up-to-date about the environment in which it operates.

The management process is one of decision making. Since decision can only be made on the basis of information it follows that the quality of decision making will improve if the information on which it is based is comprehensive and as precise and up-to-date as possible. The components of a MkIS are:

- Internal information;
- Market intelligence;
- Marketing research;
- Marketing analysis.

The first three units are responsible for the generation and collection of information drawn from the whole marketing environment. The role of marketing analysis is to sort and interpret this information and present it to key decision makers so that action can be taken. This is a continuous process, not only because the marketing environment is dynamic, but also because the results of marketing action are fed back into the system so that analysis can judge its effectiveness and recommend appropriate action. Each of the above is now discussed.

**Internal information**
The collection of internal data has traditionally been considered to be the province of accountants who need sales and profit information, production and stock figures. The marketer requires the same basic information from a different perspective to the accountant. Analysis of the customer base, for example, offers a wealth of information to both of them, and it can be collected and analysed within the confines of the company.

From a marketing standpoint what is needed are geographical locations of customers, when and how often they require deliveries, what the most frequently ordered products are, etc. In this way the marketing analyst can discover how to target marketing efforts. Marketing needs to know which products generate most profit and who the most profitable customers are. Such information can be used to steer marketing effort most effectively.

Computer analysis can assist managers in analysing data and allow them to make decisions on distribution and service, sales and profits by region, by customer and product type.

**Market intelligence**
Market intelligence is concerned with gathering information from the immediate and the wider marketing environment. The basis of marketing intelligence is to ensure that the correct information reaches the company on a regular basis. Such information includes bank reports, stock-market reports, reports from sales representatives, Government publications and trade institute information.

In time the intelligence databank can build up a picture of trends in the company’s environment. This is background information which can assist marketing management in its strategic planning routine. The field sales force in particular is a useful form of intelligence as in just-in-time (lean manufacturing) situations the job of the salesperson is to service the customer as orders are guaranteed on a long-term basis. Thus the salesperson’s task is more to listen and report than to talk.

All of this information should be placed on the decision support system that is the marketing information system and this, in turn, is a part of the organization’s overall corporate planning system.

**Marketing research**
Once desk research has been completed and secondary data has been gathered it is the task of marketing research to uncover information that is not already available and that is new to the company, covering specific situations. A MR project is undertaken so that investigations can be undertaken in relation, among other things, to:

- New product research;
- Advertising research;
- Packaging research;
- Pricing research and
- Brand penetration issues.
Marketing research is, therefore, a subset of the MkIS.

**Marketing analysis**
Internal information, market intelligence and marketing research are inputs to the information system. Marketing analysis is the output in terms of marketing planning. Such planning is based upon information that is placed on the decision support system and more meaningful and accurate marketing plans can be generated as a result. Marketing analysis is put into action through the marketing planning process and once the plan is put into action it very rarely turns out exactly as planned for. Therefore, there is a feedback from marketing analysis into the MkIS to adjust the plan in the light of what has actually happened.

**Conclusion**
Marketing research is therefore a component of the MkIS and this understanding of the role of the MkIS is vital, as each of the units of the MkIS are dependent upon each other. Their work should thus be co-ordinated and synchronized so as to work as one unit whose role is to provide information for and minimize the risks of marketing decision making.

**Chapter 13 Analysing the environment: (opportunities and threats) and appraising resources (strengths and weaknesses)**

Comment on the essential nature of marketing planning and strategy formulation. Illustrate your answer with appropriate industry product or service analogies.

**Objective**
This is a relatively straightforward question that is designed to test the candidate’s ability to recount what is known about marketing planning and strategy through the medium of practical illustrations.

**Approach**
Start by defining the purpose of a formal marketing plan, and then go on to explain different planning horizons. In addition, point out how the marketing plan fits into the company’s overall corporate plan. The question calls for analogies, so you must understand the practical implications. The main body of the question should then relate to the following key marketing plan elements:
- Situation analysis;
- Statement of marketing objectives;
- Summary of strategy and action programmes.

**Answer**

**Suggested introduction**
A formal marketing planning process is intended to guide the future operations of the marketing function, and this symbolizes the principle of purposeful marketing management. The marketing plan thus sets out, in written form, the goals for the component elements of the marketing function and the ways in which such goals are to be achieved. In this sense, the marketing plan is a carefully prepared statement of intent.

The marketing plan forms a sub-component of a general company wide strategic plan. Plans are often financial in nature, and rather general in terms of objectives. Marketing plans tend to be operational and more specific in nature; they are in effect functional plans at the operating level, carried out in support of strategic planning.

**Time horizons**
The marketing planning horizon tends to be for one year ahead – usually for the forthcoming financial year. Firms engaged in multi-product marketing will usually prepare a marketing plan for each separate product line. Such individual plans are often aggregated to form the marketing plan for the organization. Many companies pay particular attention to the planning activities relating to important new products. New-product plans thus tend to be set out in considerable detail and are often separate from the general plan.

The time horizon of the marketing plan will depend to a certain extent upon the type of industry in which the firm is operating. Firms in the fashion industry, for example, will tend to prepare plans for periods shorter than 1 year ahead. Often firms will prepare detailed plans for the next 12 months, with the subsequent 12, 24 or even 36 months in broad outline only. Some firms set marketing objectives and strategies for the next 5 or 10 years,
although these tend to be very general in nature, and are more like a business plan than a functional marketing plan.

**Key questions in marketing planning**

Because the marketing plan is intended as a detailed statement of intent, it has to cover three broad fundamental questions from a marketing perspective:

(a) Where are we now?
(b) Where do we want to go?
(c) How do we get there?

In order to answer these three fundamental questions, the marketing plan will have to cover three key elements:

1. **Situation analysis**
2. **Statement of marketing objectives**
3. **Summary of strategy and action programmes**

Each of these key elements is now dealt with in turn.

1. **Situation analysis.** Plans often begin with a review of the current market situation for the products or product lines covered by the plan. This review will include trend data, information on competitors’ positions, relative strengths and weaknesses of products, information upon past promotional expenditure, etc. Companies differ widely in what they include in this section of the plan, as well as the degree of detail given. Generally this section of the plan will be sub-divided in the following way:

   (a) Product sales
   (b) Previous performance, related to objectives
   (c) Present market situation
   (d) Details of the competitive environment
   (e) Identification of possible problems and potential opportunities

2. **Statement of marketing objectives.** This section of the plan sets clear objectives for the marketing function in terms of the planning period ahead. Many firms give a statement of objectives for each element of marketing, e.g. sales, advertising, sales promotion, training, marketing research, dealer activities, distribution, etc.

3. **Summary of strategy and action programmes.** Strategy and proposed action are often considered under a single heading. The strategy statements act as a connecting link between objectives and action. An example of a strategy statement might be:

   It is the company’s intention to increase its market share of roller ball pens from the current 15 per cent to 23 per cent over the next 12 months by:

   (a) Increasing the amount spent on above the line promotion.
   (b) Redesigning the packaging.
   (c) Increasing the distribution base.

Action programmes detail the action steps by which the strategy will be implemented. The steps are usually stated in terms of priorities. A time schedule for the action programme is also given, along with an indication as to which individuals will be responsible for each part of the programme.

A final part of the marketing plan is usually a contingency plan. Internal or external circumstances may alter, owing to unpredictable circumstances, or poor performance during the planning period may indicate the need for alternative courses of action.

**Conclusion**

In summary the marketing plan is a plan of intent. It sets out the current situation, the goals and objectives that marketing hopes to achieve during the planning period, together with a strategy for achieving these objectives. These in turn are interpreted in terms of a specific action programme. The object of the plan is thus to guide the future operations of the marketing function, and its style and content reflects its purpose.
Chapter 14 Evaluating and controlling strategic marketing

Marketing strategy and planning are of little value without a system of control. What control procedures can be employed by marketing management?

Objective

Systems of control or evaluation are often taught in the final stages of a marketing programme. This question is designed to ensure that the candidate has a basic knowledge of control systems. The student should also demonstrate that control systems extend across the whole spectrum of marketing activity, from daily tactical operations to the evaluation of long-term strategic plans.

Approach

The basis of the answer is to give an account of the marketing control methods that have been studied. The opening statement in the question does, however, imply that a basic account should be embellished by giving reasons for the importance of control, and by emphasizing the futility of making plans without any form of evaluation.

Your answer should cover the whole range of marketing control. It would seem logical to begin with an account of the basic elements of marketing and conclude with a discussion of strategic marketing and the marketing audit.

Answer

Suggested introduction
Marketing planning and corresponding control systems have their basic origins in budgeting. When a company sets a budget for expenditure, it is comparatively easy to keep a continuous check on whether this is being adhered to or not. Clearly, if there is difficulty in operating within the budget, an attempt will be made to find out the reason why. Either the budget has been badly set, or circumstances have changed to such an extent during a given period that the budget has become inappropriate.

Much of the planning for marketing is similar to budgeting in that the company makes plans to spend ‘x’ amount on advertising and ‘y’ amount on sales. The idea of controlling this expenditure is relatively straightforward. Marketing planning and control become complicated, however, because marketing is concerned with more than financial considerations. A company must, of necessity, work within a set of limited financial resources (a budget), but marketing is concerned with utilizing these resources to achieve the best results for the company as a whole by meeting corporate objectives. Firstly, therefore, major objectives are set, and these are achieved by the setting of a series of tactical objectives. Control is required at both levels. In addition, the purpose of control is to evaluate whether tactical objectives are working to mutual benefit or if they are working against each other.

Marketing control is concerned therefore with finding out whether objectives are being met and with providing the mechanism for any corrective action that may be required.

Control systems

Control systems comprise an analysis of the following company objectives:

1 Sales and profit objectives
2 Financial objectives and the marketing function
3 Marketing objectives of the marketing functions
4 Strategic objectives of the company

The financial and marketing aspects cannot be regarded independently of each other. While marketing objectives are formulated in order to develop the company, in reality these are only as feasible as the financial resources of the company will allow.

A control system is a relatively simple procedure as outlined in the following diagram. The control system shown in the figure covers all the activities of the company. It is useful at this point to examine each area of control in more detail.
**Sales and profit control.** A major aspect of marketing within this content is sales forecasting. The sales forecast is the basis for a variety of decisions which must be made with reference to the marketing functions. The first task of sales control is to assess whether or not the forecast has been achieved. If the answer is ‘yes’, the company still needs to find out whether this could have been achieved by using less resources or whether the forecast has in fact been an underestimation. If forecasted sales have not been reached, the company must attempt to pinpoint the cause – by detailed analysis of sales by area, by customer and by product. The second element of sales control concerns analysis of sales costs. As with all other aspects of control, the objective is to assess how efficiently resources are being used.

The control of profit is achieved by analysing the expenses or cost of the marketing function. ‘Costs’ are often associated only with production. Marketing managers must analyse each marketing function so as to provide precise figures from within that area popularly described as selling expenses. For example, advertising may have the objective to increase brand recall by ‘x’ per cent. It is obvious that the more expensive such objectives are to achieve, the less profit will be left over at the end of the year.

It is relatively easy to find out if the objectives are being achieved, - that is profit control’s function. One method is to treat each functional area as if it were a ‘mini-company’, and produce individual accounts for each one. This can be refined still further by taking this information and applying it to a single product or to a series of channels or retail outlet types. The analyst should be searching for anomalies and continually asking questions. Many of a company’s methods are a reflection of tradition or even convenience – not efficiency or cost. Care should, however, be taken by senior management not to sub-optimize the marketing functions (see Question 25) when reacting to the results of such analyses.

**Marketing control.** In contrast to pure financial control, marketing control reduces the risks of sub-optimization because it considers the marketing objectives of the company ‘in conjunction’ with financial questions. Thus, it may be that expenditure on distribution in one area of marketing is disproportionate to that in another.
Companies may be prepared to bear this seemingly inefficient cost in order to meet a service objective. Companies spending money on advertising when entering new markets or launching new products is one such example.

It is also the function of marketing control to consider the strategic objectives of the firm as well as being concerned with long-term goals which shape the future of the company. Decisions to enter and leave markets, to increase market share or to embark upon big investment programmes are described as ‘strategic’. Strategic decisions can only be made on the basis of knowledge about the total marketing environment. The control process should examine the marketing strategy, or strategies, and judge whether it is still appropriate in the current environment.

**Marketing audit.** Strategic control is usually effected as a part of the marketing audit. Although control processes are carried out on a continuous basis for both strategic and functional activities, the marketing audit is a periodic (usually once a year) exercise which examines all the marketing activities of the organization. It is best if the audit is undertaken by parties who are not influenced by the aims and activities of the marketing department. The audit team could come from outside the organization or consist of experienced company employees who are familiar with the nature of marketing. The audit should cover the following dimensions:

1. The wider marketing environment;
2. The functional or immediate marketing environment;
3. The strategic objectives;
4. The functional objectives;
5. The marketing systems;
6. The marketing organization;
7. The marketing functions;
8. Marketing cost and profitability analysis.

The above list illustrates that the marketing audit is a periodic overhaul of many of the areas that are the subject of continuous control. The strategic element is vital in order to keep the company ‘on course’, to ensure ‘what business the company is in’, ‘why and where the business expects to be in the future’ and that this is understood. The marketing audit also investigates ‘how’ marketing is being carried out as well as ‘what’ it is doing. In this respect, marketing organization and marketing systems come under scrutiny.

It should be apparent that the control system itself relies heavily upon the marketing information system. Although each functional area should be accountable, it is only through the medium of a well developed MkIS that such information can be co-ordinated and related to external influences upon the company.

**Conclusion**

The existence of a well developed control system provides evidence that a company is being managed according to a marketing orientation. Objectives are being set and evaluated. The company is also shown to be self-critical and prepared for change through a flexible system of planning.

**Chapter 15 Strategic marketing planning tools**

Porter has suggested that there are three possible separate generic strategies for competing successfully in markets, namely:

(a) Cost leadership  
(b) Differentiation  
(e) Focus

Discuss the work of Porter, in particular the meaning and implications of each of these generic strategies and how they might apply in the context of strategic marketing.

**Objective**

To test the candidates’ awareness of the classic work of Michael Porter. Then to explain the meaning of each of the suggested strategies. Application is required in terms of demonstrating how they might apply in practice.
**Approach**

It is suggested that the answer starts with a general statement about the work of Porter with appropriate illustrations of this. It should then go on to illustrate that in this respect the fact is that these generic strategies are now ‘classic’ in both the general strategic management context and also in the context of marketing strategy.

**Answer**

**Suggested introduction**

Porter’s thinking in terms of generic strategies is now ‘classic’ reading for management students and permeates literature and strategy texts in both the general management and marketing management contexts.

In this context his work is now summarized and then each of the strategies of cost leadership, differentiation and focus is discussed in more detail.

**Porter’s stages of evolution**

Porter distinguishes between the following three broad stages in the evolution of an industry/market:

- Emerging industry;
- Transition to maturity;
- Decline.

Each of these stages has its own particular characteristics, some of the more important of which are shown for each stage:

**Emerging industry:**
- Uncertainty among buyers over:
  - product performance;
  - potential applications;
  - likelihood of obsolescence.
- Uncertainty among sellers over:
  - customer needs;
  - demand levels;
  - technological developments.

**Transition to maturity**
- Falling industry profits;
- Slow down in growth;
- Customers knowledgeable about products and competitive offerings;
- Less product innovation;
- Competition in non-product aspects.

**Decline**
- Competition from substitutes;
- Changing customer needs;
- Demographic and other macro-environmental forces and factors affecting markets.

He then uses the characteristics of each stage to suggest the following strategies as being appropriate to each:

**Emerging industry:**
- Strategies developed to take account of industry competitive structure characteristics i.e.:
  - Threat of entry;
  - Rivalry among competitors;
  - Pressure of substitutes;
  - Bargaining power of buyers and suppliers.

**Transition to maturity:**
- Strategies focused on:
  - Developing new market segments;
  - Focus strategies for specific segments;
  - More efficient organizations.

**Decline**
- Seek pockets of enduring demand;
- Or
- Divest.
This approach is similar to the conventional concept of product life cycle analysis in identifying the stage, specifying the characteristics of each stage, and suggesting appropriate strategies for the stages. Porter has developed the notion of industry life cycle further by linking it to the ‘strategic position’ of the individual organization. Strategic position is categorized in terms of whether the individual organization is a leader or a follower.

Genetic engineering and biotechnology are examples of what Porter would classify as ‘emerging’ industries. At the moment in these industries there is substantial jockeying for position amongst the incumbents. Some organizations, however, are already emerging as leaders. For example, in genetic engineering, particularly in the area of food production, Monsanto is probably ahead of the field.

A good example of an industry in Porter’s stage of ‘transition to maturity’ is the market for cars, in the West that has seen companies such as Mercedes and Volkswagen have paying more attention to developing new market segments.

It is not difficult to find examples of industries in Porter’s ‘decline’ stage. The textile industry in the UK is probably a good example of this. Coates Viyella, a once major employer in the UK textile industry has recently pursued strategies of divestment whilst at the same time seeking pockets of enduring demand – just as Porter suggests.

Cost leadership, differentiation and focus

- Cost leadership is based on the achievement of an overall cost leadership position in an industry by bringing costs down to a level substantially lower than that of competitors. Provided that a company can do this, whilst at the same time not significantly reducing the quality of its products or service compared to other suppliers, it will experience higher rates of return and be in a position to sustain a long-term competitive position.

- Differentiation is based on differentiating a company by offering the market something perceived industry wide as being unique. For example a company might seek to differentiate itself by offering a unique level of after sales service or delivery. Other ways include design, price, quality, dealer support, etc. Pursuit of this strategy requires first that a company be able to develop and sustain a differential advantage and second that the differential advantage be one that is valued by customers.

- Focus consists of focusing on a smaller highly defined part of the overall market for a product or service, for example, a particular buyer group, segment of the product line, or geographic market. By thus focusing, a company can achieve either a low cost position, high differentiation, or both, but in the context of a particular part of a market rather than industry-wide. A focus strategy is particularly suited to the smaller company that cannot compete on an industry wide basis, but can lead to problems if the selected market target declines or becomes over-competitive.

Conclusion

In Porter’s approach we see a strong flavour of their intellectual forebear, the basic product life cycle. This, in itself, is a measure of the enduring impact which the PLC concept continues to have in strategic market planning.

Chapter 16 Global marketing

By regarding the multi-national as a final stage, explain how a company may develop as it becomes increasingly committed to exporting activities.

Objective

The aim of this question is to ensure that the candidate is familiar with international trade in all its main forms. The question is, therefore, a test of broad knowledge and wider reading.

Approach

The multi-national company represents the maximum possible participation in international trade. Candidates should approach this problem beginning with its opposites i.e. the company just beginning to export, and suggest reasons why this first stage might develop. ‘Increasingly committed’ implies increased overseas trade, and thus a change in sales volume, sales methods and an evolution of the company in international terms. Of course it is not suggested that every company that begins to export will eventually become a multi-national, but
the question affords the opportunity and requires that candidates should describe the intermediate stages between the two extremes.

The answer itself should not be complicated or excessively discursive. It would be irrelevant to discuss the nature of export/international marketing: the essential requirement is one of describing increasing engagement in overseas trade stage by stage.

**Answer**

**Suggested introduction**

International trade is carried out by a wide variety of companies at a varied level. Many companies, chiefly concerned with the domestic market, may only be on the fringes of exporting. If, for whatever reason, exports increase, it is inevitable that the company structure will change so as to deal more efficiently with its new markets. It is not suggested that a company will necessarily follow a fixed pattern of well defined stages; many companies will remain at a certain level of export sales and not develop further. Similarly, some companies might continue to expand export commitment without altering their existing basic methods. It is true, however, that the more commitment to overseas marketing is increased, the more likely it is that the strategy will alter.

The distinction between ‘exporting’ and ‘international marketing’ is usually made when a company begins to manufacture its product in other countries rather than send good made within the home market.

**Exporting**

Companies may begin to export for a variety of reasons:

1. A company may initially receive an isolated and unsolicited order from overseas. Although management may be pleased to supply this order, as well as others in the future, this will only apply as long as such business does not interfere with existing, home based activities. At this stage the firm has no active plans to extend its markets and makes no particular effort to modify its approach to suit overseas customers.

2. Some companies make a conscious decision to export if, for example, their production capacity is under-utilized for a period of time. This may be because of seasonal activity or there may be no pattern whatsoever to it. Another reason may be to dispose of surplus stocks. The company may become quite adept and professional in its approach to this form of exporting, or it may simply ‘offload’ its surplus abroad. Such activity may make sound business sense in tactical terms, and it may be that export customers are happy to deal in this erratic manner. The core business remains in the home market and the likelihood of developing lasting relationships is not good. Price is probably the principal factor in the buying decision. Furthermore, if one company has need to export in this manner, it is likely that competing home-based firms will also be suffering under-capacity and these may also enter overseas markets on the ‘hit or miss’ basis.

3. The company that is considering planned growth often finds that exporting is the best means to achieve it. The home market may be saturated, or for strategic reasons it may be inadvisable to attempt to gain too much control over that market. The conscious decision is thus made to enter export markets, so that growth can be facilitated. In this situation the company must thoroughly prepare itself and tackle its new markets with the same amount of commitment that it applies to the home market. Exporting then becomes an intrinsic part of strategy, and some measure of control can be exercised. It is normal for a company to aim for a certain percentage of its total turnover to come from exports.

The first two types of exporting that have been described could be called ‘passive’, as no real effort is made to obtain orders and it is also ‘tactical’. Experience of tactical exporting, combined with changes in the market may lead to ‘planned exporting’.

Whatever the scale of planned exporting, it implies long-term commitment. Many firms operate large and highly successful export businesses without the need to employ methods other than simply shipping products direct to customers or distributors, while control of the business remains firmly in the home country. There comes a stage, however, when further growth is impractical or impossible if it is based solely on classical exporting procedures. At this point the company must look at alternative methods of marketing its products, methods perhaps better suited to increased volumes. Export management is likely to notice indicators of the need for strategic change, such as a requirement for an ever-increasing sales force, or for larger stocks to be held in client countries. Such indications suggest that control from the home base is becoming more difficult, and that some element of local control is now appropriate.
**Branch offices**
The establishment of a branch office is the first step outside straightforward exporting that a firm may take so as to handle its export affairs more efficiently. The branch office is merely an extension of the firm’s export department. Export volumes will have grown to such an extent that the use of agents or middlemen will have become inappropriate.

The branch office is staffed by employees of the firm whose roles include marketing, sales and distribution. The employees may or may not be nationals of the country. Major decision are made at head office which should receive regular reports from branch offices. The advantage of branch offices are that greater control and better feedback of market information. The branch office will also be concerned exclusively with the company’s products, whereas an agent or distributor may be concerned with several principals. For the customer, the advantages should be an increased level of service, motivation and interest shown by the supplier.

The logical expansion to a branch office would be for a firm to install its own manufacturing capacity in the overseas market which might be because domestic production can no longer cope with levels of sales. Such a step is, however, risky and expensive. Many firms will consider alternative methods before investing directly in an overseas market.

**Contract or commission manufacturing**
Alternatively, a foreign manufacturer may be selected to produce goods on behalf of the home producer. These goods can then be marketed by the branch office. The contractor must be chosen carefully to ensure that standards of quality and service are equal to those of the home market, as control of manufacture is ‘entrusted’ to the contractor. The advantages are that contracting out can be effected with low investment and minimum risk and is a relatively rapid method of increasing production and sales to export markets. If this method is chosen first, it also leaves the parent producer free to consider other alternatives after the agreed contract period has ended.

**Licensing**
A licensing agreement gives a foreign manufacturer, for a financial consideration, the right to manufacture and market goods whose brand name or trademark belongs to the home-based company.

Like contract manufacturing, licensing is a relatively inexpensive method of increasing turnover abroad. Unlike contract manufacturing, however, licensing brings with it a significant loss of control. The disadvantages are that the licensee may not exploit the market to its full potential or may fail to live up to the standards previously established by the licensor. Although the costs of licensing are significantly less than direct investment, the licensor has no control over profit levels as will only receive a ‘licence fee’, which may be much below the profits that could be obtained, say, under a contract agreement. On the positive side, licensing agreements are usually encouraged by foreign governments because they create wealth and provide employment. A licence agreement may also provide a method of entry into a country which was previously closed to foreign competition because of trade barriers, quota restrictions or high import tariffs.

**Joint ventures**
The joint venture is not necessarily restricted to the production and marketing of the home-based company’s own product. The joint venture decision can be a method of increasing foreign commitment rather than one of increasing sales of existing products. In this sense it is a strategic ‘investment’ decision rather than a purely marketing or product based strategy. Whatever the motive, a joint venture means investment by a company in one country in a business in another country. The business may be completely new or well established. If investment is ‘joint’, this obviously reduces costs, but, as in any form of partnership, control is also shared. This may cause short-term conflict and hinder long-term growth. As is true for any investment decision, the key to success is careful selection and planning from the outset. The responsibilities and spheres of influence should be clearly delineated for both parties, so as to minimize the risk of conflict.

**Direct investment**
The major disadvantages of the stages described so far, apart from pure exporting, concern the potential and actual lack of control a company submits itself to when relying upon another party to carry out some, or all, of its production and marketing functions. When a company’s export interests reach a certain level, however, there may be no other alternative than to choose a growth route such as licensing or contract manufacturing.
If sufficient funds and management expertise are available, control can be retained by the home based company if it decides to increase its international interests by direct investment in a foreign market. This stage may result from a company acquiring one that was formerly contracted to it, or from simply installing its own manufacturing and marketing operation in another country. Of course it should be recognized that a company may be at any of the stages described in different countries at any one time. While market methods and product types may differ in each separate country, direct investment in as many countries as possible does allow a company to achieve greater control and establish a corporate identity throughout its markets. This identity is as important for employees as it is for customers, because the company is able to establish standards of quality, management style and philosophy in all its divisions.

The multi-national organization
This final stage in international trade is referred to as ‘global marketing’. To be a true multi-national the company must consider the world as its market place, so the idea of a home base from which a company controls its international affairs is no longer applicable, although its headquarters may be situated in a particular country and operating units will report to, and be directed by it. The operating units themselves will think of themselves as independent entities.

Although a multi-national operating unit may appear to be, and think of itself as being, independent in the short-term, the headquarters based corporate management does in reality control the strategic destiny of the operating units. As a holding company, headquarters will manage its portfolio of companies. The sheer size of multi-national organizations is such that if they withdraw from a country, the social consequences can be grave.

A final factor concerns the spread of ‘culture free’ products throughout the world such as Levis Jeans and Coca-Cola. Distributive methods, and sometimes advertising, may vary from country to country, but no product modifications are made. These are ‘global’ products in a global marketing system.

Conclusion
International trade is carried out by companies of all sizes in a variety of organizational and strategic ways. It is often the case that a company will not develop at the same rate in all its overseas markets. Many companies are, therefore, going through more than one stage of development at the same time in different overseas markets. Exporting is the simplest method but it is likely to diminish in efficiency as the company moves into and develops its international markets. When this occurs, intermediate stages of trade like licensing can be considered, but these will be at the expense of control over the firm’s activities. Direct investment in an overseas market, although costly and risky, offers the best opportunity for a company to plan for growth while exercising greater control over its own affairs. The logical extension to direct investment in many markets is to adopt a multi-national organizational structure and management approach although few companies graduate to this stage.

Chapter 17 Services marketing and not-for-profit marketing
Why it is considered that application of relationship marketing principles are particularly important to firms involved with services marketing? In your answer suggest how it is possible to evaluate and measure success in delivering service quality to customers.

Objective
To test candidates’ awareness of relationship marketing in a service marketing setting and how this compares to traditional transactional marketing. To see if candidates appreciate that if any organisation is serious about providing a quality service to customers they must measure their service satisfaction.

Approach
A good starting point is to discuss the nature of services and compare and contrast with products – intangibility, etc., and then go on to explain why it is so it is very important for firms to retain existing customers, especially potentially profitable key accounts. Emphasis should be laid upon why it is essential that marketing firms spend time and energy to find out what customers really want.

When a company monitors and measures the quality of their service marketing management it can obtain the necessary information that will enable them to satisfy and retain existing customers as service satisfaction depends on the experience and the perception of the customer. Emphasis should be laid on the fact that this is
largely a subjective thing, so it is vitally important for the marketing firm to monitor their service offering to the customer and to ensure that they are at least matching and even exceeding the customer service expectations.

Answer

Suggested introduction

The concept of relationship marketing is particularly important in the area of services. Research has shown that it is five times more expensive to win a new customer, than it is to keep an established one. Hence it is important for firms to retain existing customers, especially potentially profitable key accounts.

Intangibility

Much of the G7 countries economies are service based in terms of gross domestic product (GDP) output. Service offerings are largely intangible. Most service offerings have a minor tangible product component and most products have some service component. For example, a financial service such as a bank account or an investment scheme is largely intangible. Because services are largely intangible it is more difficult for the marketing firm to tell whether they are providing what the customer wants. Service satisfaction depends on the experience and the perception of the customer. It is a largely subjective issue. Hence, it is vitally important for the marketing firm to monitor their service offering to customers and ensure that they are at least matching and possibly exceeding the customer service expectations.

7Ps of service marketing

Because of the nature of services the traditional marketing mix is extended from the 4Ps paradigm to the 7Ps model. We retain the existing 4Ps of Product, Price, Place and Promotion and add to these People, Processes and Physical evidence. Here we are concerned with issues like the efficiency of the process used in the delivery of the service, for example how well a travel firm booked and organised your holiday.

It is essential that marketing firms spend time to find out what customers really want.

In certain service marketing situations when a firm loses a customer they are often ‘lost for good’. This can also be the case for products, but this fact is more so for services. For example, a person in their 50s might have been with one of the high street banks since university days. He or she may still hold an account at his or her old university branch. Such a person is likely to be inundated with direct mail and other personalised direct marketing messages e.g. on the Internet, to try and persuade them to ‘switch’ their account to another branch. If such a person ever did switch the account then he or she would be unlikely ever to return to the original bank. From the bank’s point of view, the customer would be ‘lost for good’. On the other hand, if the same person switched their loyalty from say Sainsbury’s supermarket to Asda because they felt Asda offered better sales promotions, it might still be possible to get that person back. Such a person is unlikely never to visit Sainsbury’s again. In such a situation such a customer could be classified by Sainsbury’s as ‘always a share’. The concepts of ‘Lost for good’ and ‘Always a share’ type customer situations are:

- Always a share – low transaction and switching costs, if you lose a customer you can always get them back;
- Lost for good – if transaction and switching costs are high, then when you lose a customer you are unlikely to get them back.

Relationship Marketing is particularly important in ‘Lost for Good’ situations because once the firm has lost the customer is highly unlikely that they will ever manage to get them back, so relationship marketing and customer care issues are paramount in the context of services marketing.

Evaluation and measurement of success

Research has shown that the quality of the service provided by an organization can be measured by determining the discrepancy or ‘gap’ between what customers want (customer expectations) and how customers experience the service (i.e. customer perceptions). Customer perceptions are formed by the customer experiencing what is termed ‘moments of truth’. This is the basic concept of service marketing and is used to describe each episode in which a customer comes into contact with any aspect of your organisation.

Parasuraman, Zeithaml and Berry developed a methodology which is now widely used in the measurement of service delivery and customer satisfaction. The methodology is based on a series of standard questionnaires in order to determine whether such ‘gaps’ exist in an organisation. The general idea is to be able to close the gaps. The model they developed was termed the SERVQUAL instrument which can be used to measure the quality of service. This enables firms to measure the effectiveness of their service offering in relation to customers’ perceptions. There are other methods such as standard qualitative interviews but these tend to be less sophisticated than the now well accepted Servqual/ GAPS framework.

Conclusion
It has been demonstrated that in the 7Ps situation of service marketing, issues like relationship marketing and the tactics of customer care are paramount in terms of an organization being able to satisfy and retain its customers. Measurements of the effectiveness of service quality have been highlighted, and it is very important that service organizations institute procedures that put such measurement instruments in place.