

# Marketing

## Marketing and Market research

**What is marketing?** Marketing involves identifying, understanding and satisfying customer needs profitably. Firms find out what customers want and provide matching products

**Why is marketing important?** Firms survive by identifying customer requirements and then making products customers need - profitably

**How can firms identify customer needs?** Firms use market research to find out what customers want from products

**How can firms understand customer needs?** Firms use the results of market research to identify customer requirements for products eg the desired functions of a mobile phone

**How can firms satisfy customer needs?** Successful firms create products with the features functions and appearance that meet or even exceed customer requirements

**How can firms satisfy customer needs profitably?** Firms need to make items that meet customer requirements that sell at a price that more than covers cost.

**Give an example of satisfying customer needs profitably.** The Apple iPad both meets the requirements of customers and sells at a price that more than covers expenses of production.

**Is marketing another name for selling?** Firms can only sell if they create products that meet customer needs. This requires a good understanding of what customers want from items

**What is market research?** Market research is the process of finding information about potential customers, markets and products.

**Why do market research?** Market research helps a business gather data that better helps them understand their customers, competitors and markets - at a cost

**State the two main methods used in market research.** *Primary* (field) research gathers *new* information for the first time eg by doing a survey. *Secondary* (desk) research collects data from *existing* information already published eg government statistics, or past sales records

**State the two main characteristics of primary research.** Primary research data has never been collected before. It is therefore targeted (gathered for a specific reason) and up-to-date

**List methods used to collect primary data.** Entrepreneurs can collect new information using

- *Surveys* asking questions eg street interviews or sending questionnaires in the mail
- *Focus group*: a small meeting of customers discuss a product, guided by a researcher
- *Observation* of consumers' eg how they shop in a supermarket
- *Experiment* eg test marketing a new product in a regional trial

**State the two main characteristics of secondary research.** Secondary research data already exists and was therefore collected for another purpose. Facts and figures may be out of date.

**What is qualitative research?** Qualitative research seeks to identify customer's attitudes and opinions eg why customers prefer one brand to another.

**What is quantitative research?** Quantitative research seeks to identify facts and figures about customers, competitors and markets eg how many people buy a newspaper every week

**How can market research results benefit a business?** Firms interpret (analyse) market research data to help decide the 'ideal' marketing mix for their products. Data can reveal the best combination of product, price promotion and place to meet identified customer needs.

## Product trial and repeat purchases

**What is product trial?** Product trial occurs when customers buy and try out an item to see if it is worth buying again.

**How can firms encourage product trials?** A firm can launch a promotion campaign or use penetration pricing.

**What is penetration pricing?** Penetration pricing is setting a relatively low price to boost sales particularly when launching a new product eg 50p a loaf for a new brand of bread

**What are repeat purchases?** When customers keep buying the firm's products

**Why are repeat purchases important?** Unless customers continue to buy a product after a trial purchase, sales decline and losses mount. Repeat purchases help build brand loyalty.

**How can firms encourage repeat purchases?** By building customer loyalty

**Explain customer loyalty.** The willingness of customers to make repeat purchases

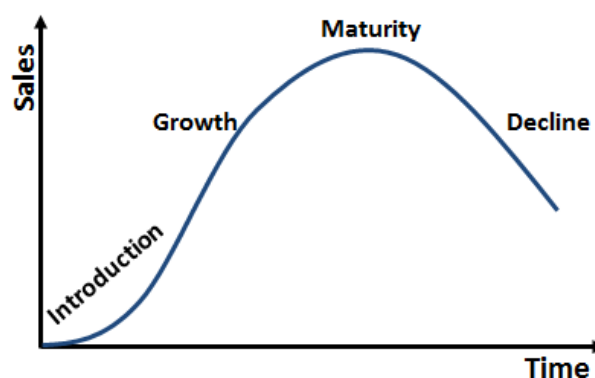
**How can firms best build customer loyalty?** By producing products that meet or exceed customer expectations and offer the best value for money when compared with rival items. This means ensuring the marketing mix is appropriate given customer requirements

## Product life-cycle

**What is the product life cycle?** The product life cycle is the period of time consumers are willing to buy a given product – products go through different stages.

**List the phases in a typical product life cycle.**

- *Launch:* the item is first brought out and offered for sale
- *Growth:* sales rise as the item becomes popular. Rivals enter the market
- *Maturity:* sales reach a peak
- *Decline:* sales fall in the item fall. Managers must opt to stop making the product or use an extension strategy to boost sales



**Do all products have the same product life cycle?**

No. Many items can fail at the introduction stage. Well-known brands can maintain sales at the maturity stage over many years eg Hoovers.

**What is cash flow?** The movement of money in and out of the business over a period of time

**What is net cash flow?** Net cash flow is the difference between money coming in and money going out over a period. Eg if £200 comes in and £180 leaves, net cash flow is +£20

**Explain the link between the product life cycle and cash flow.**

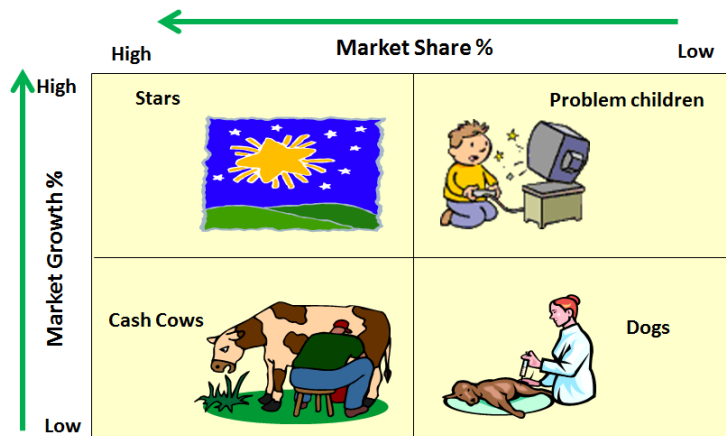
- At the launch phase, the cost of promotion and hiring staff probably outweighs the money coming in from early sales. Net cash flow is likely to be negative.
- In the growth phase, firms often need to invest in new equipment and staff to supply extra sales. Net cash flow begins to become positive
- In the maturity phase, there is no need to invest in new equipment staff. If promotion costs are low, net cash flow is likely to be positive and at its highest. The cost of extension strategies reduces net cash flow

**What is an extension strategy?** Steps taken by a firm to maintain sales of mature product.

List potential extension strategies. Extension strategies to extend the life cycle include

- Updating the product's function and appearance so that it is 'new and improved'
- Encourage *repeat use* eg suggesting customers also eat breakfast cereal at lunch
- Cut prices to attract on sales
- Find *new markets* or *new uses* eg selling Lucozade as a sports energy drink

## The Boston Matrix



**What is the product portfolio?** A product portfolio, sometimes called a product mix, is the range (portfolio) of items sold by a business

**How do firms analyse their product portfolio?** Businesses use the Boston Matrix to assess the range of items offered for sale

**Explain the Boston Matrix.** The Boston Matrix is a tool used to analyse the product portfolio of a

business against market share and market growth.

**Explain the term market size.** Market size is the amount of sales made by all firms operating in an industry eg the pizza take away market is valued at, say, £300m a year.

**What is market growth?** Market growth occurs when market size increases over time.

**Give an example of a growing market.** If total sales of pizzas rise from £300m to £310m,

**What is market share?** The percentage of total sales in a market accounted for by one firm.

**Give an example of a firm with a high market share.** In 2010 Nokia has a 53% share of the smart mobile phone market. This means Nokia sells more than half of all the mobile phones

**List the types of product in the Boston Matrix**

- Stars products have a high market share in a fast growing market
- Cash Cows have a high market share in slow growing market
- Problem children products have a low market share in fast growing markets
- Dogs are products with a low market share in slow growing markets.

**Why is the Boston Matrix useful?** The Boston Matrix helps firms assess their product portfolio and take decisions about what to do with items within their product portfolio. Eg

- Dogs: is there any point in investing in products with a low market share in a slow growing market. If the product is not making sufficient profit, then withdraw from sale
- Problem child: why is market share low in a fast growing market? Is it worth investing in product improvements and a re-launch with supporting promotion campaign?
- Cash cows are usually in the maturity phase of the product life cycle and generate positive cash flow and profits. Do they need an extension strategy?
- Stars need support as they are in the growth stage. They may be absorbing cash now but they are tomorrow's cash cows

## Branding

**What is a brand?** A brand is a named product customers distinguish from other products and which they can identify with eg Nike

**Why is branding important?** Branding establishes the identity of a product and helps customers distinguish between items made by the firm and its rivals. This means the firm can:

- Add value
- Achieve greater customer awareness and hence sales in a crowded market place
- Charge higher prices of products customers believe to be 'different and better'
- Increase market share
- Make it harder for rivals to compete with its 'different and better' product portfolio

**How can branding help repeat purchases?** Customers tend to stick to named products they like know and trust.

**How can branding help trial purchases?** Existing customers who trust a brand are likely to be willing to try out new product lines launched by the firm

**Explain product differentiation.** Product differentiation is about making a good or service look different in the eyes of consumers

**How can a business create product differentiation?** Firms can make an item appear different from its rivals by adjusting the product's features, appearance design, packaging or brand logo

**How can a business manage its brand?** Firms can change the image and personality of a product by adjusting its marketing mix eg improved promotion or better product features

## Building a successful marketing mix

**What is the marketing mix?** The marketing mix is the combination of factors firms use to create products that meet customer needs.

**List the elements in the marketing mix.** The 4Ps in the marketing mix are:

- *Product*: the features and appearance of a good or service
- *Price*: how much customers pay for a product
- *Promotion*: how customers are informed about products
- *Place*: the point where products are made available for customers to purchase

**What are the typical features of a premium brand?** Typically a premium brand hand bag is made out of long lasting, quality components and is expensive to buy. Premium brand items are often only on sale in exclusive shops and advertised in luxury magazines

**Are all branded items premium brands?** No. For example, many supermarkets offer value-for-money *own brand* items which combine good quality components, minimal design and packaging with affordable prices eg Waitrose Essential peas, milk etc

**Describe some potential marketing mix options**

- *Product*: to use expensive long-lasting components or cheaper options
- *Price*: do we charge a low 'value' price or high 'premium' price?
- *Promotion*: what is the most cost effective method of informing customers eg advertising or sales promotions
- *Place*: do we sell in supermarkets, exclusive shops, the Internet or everywhere we can?

**List factors firms take into account when setting price.** Price must *cover costs* if the firm is to make a profit and be *competitive*. Customers must be willing to pay the price being asked.

**List the main methods of promotion.** Firms can inform customers about their products using

- *Advertising* where a business pays for messages about itself in mass media such as television or newspapers.
- *Sales Promotion* are schemes which encourage customers to buy now rather than later eg point of sale displays, 2-for-1 offers, free gifts, samples, coupons or competitions
- *Personal selling* using face-to-face communication eg employing a sales person to make direct contact with customers
- *Direct marketing* using say 'junk' mail shots and weekly 'special offer' emails.

**Distinguish between strategy and tactics.** The dividing line between strategy and tactics is blurred. However, strategic decisions are normally taken by senior managers and affect the long-term direction of the business. Tactical decisions are normally taken by junior managers and affect the day-to-day operation of the firm

**Give an example of a strategic marketing decision.** Opting to invest in R&D to launch a new major product involves significant resources and effects of long-term direction of the firm

**Give an example of a tactical marketing decision.** Running a special offer BOGOF campaign can be taken by junior managers and mainly affects the short-term direction of the firm