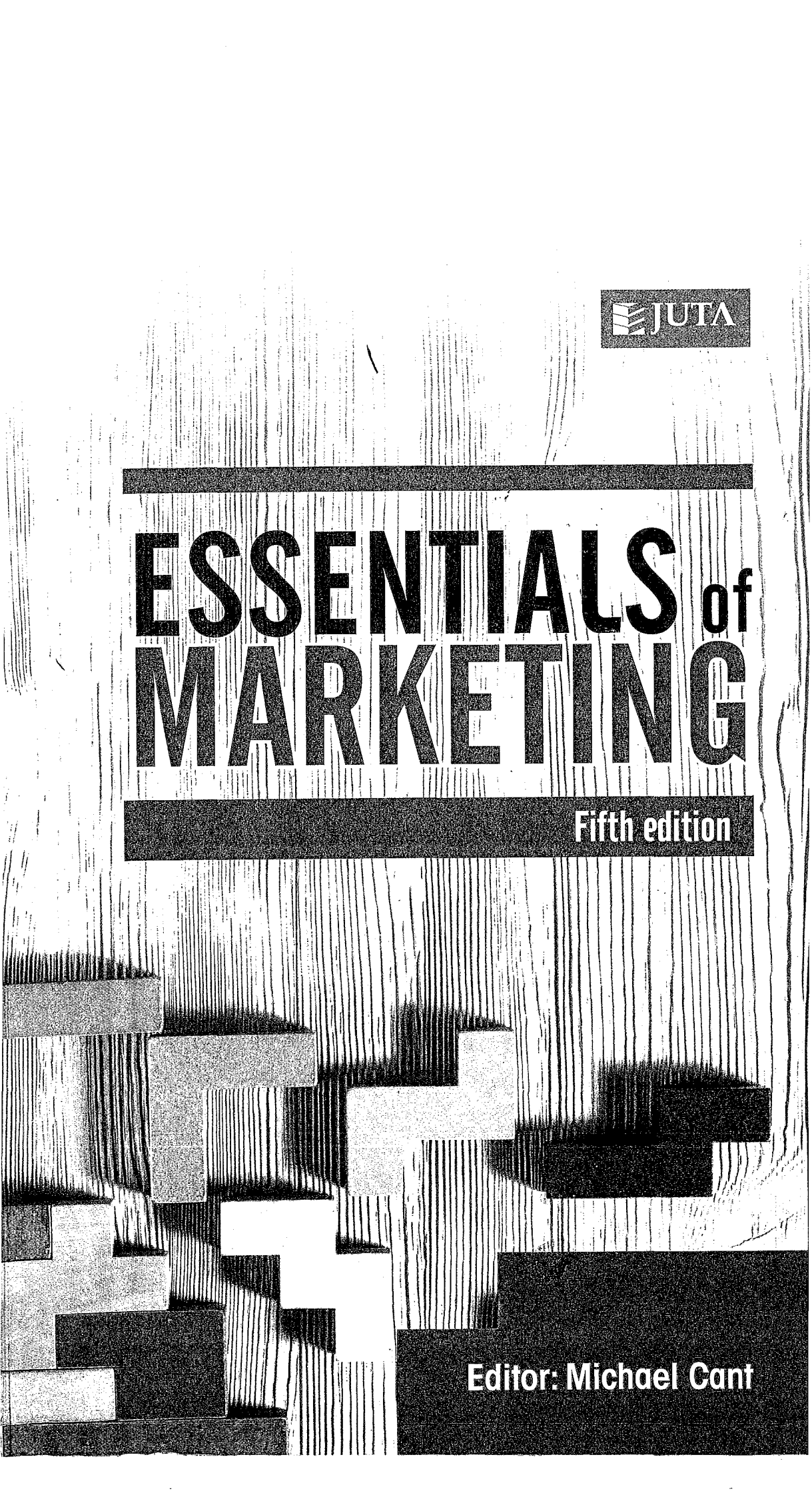

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Preface

Marketing is that function in the organisation that has been tasked with identifying customers' needs and wants, establishing which segments or target markets to serve based on the identified needs and available resources, and designing the appropriate products to be offered at the right time and place. This is, however, not all that marketing is; it is also the philosophy that governs the business and provides direction to all in the organisation, in order to satisfy customers' needs and to ensure that the service and experience of customers is such that they are satisfied.

However, this is not possible without all the departments in the organisation working together to ensure that the total value delivery process provides exceptional value to customers. Everybody in the organisation, therefore, needs to be focused on the customer in order to provide this superior value. Decisions have to be made based on the impact it will have on the customer and the organisation.

Marketing is not just advertising and selling – there is much more to it. There first needs to be an understanding of what the customer wants and then to find solutions to these wants that will satisfy customers through the quality, service, and superior value offered.

Marketing is not limited to businesses – it takes place all around us. Businesses, politicians, churches and individuals all use marketing. Doctors, churches and lawyers have all realised the value of marketing and are implementing these essentials in their businesses on a daily basis.

It is important that all of these organisations know what the marketing environment is and what marketing entails, which factors influence consumers' behaviour, how to do proper market research and how to segment the market. All these tasks are performed in order to understand what will satisfy customers' needs, which in turn influences the decision on what specific product(s) and/or service(s) to offer, where they should be offered and at what price, and how customers should be informed about these offerings.

Essentials of Marketing, 5th edition, is aimed at providing a broad-based knowledge of what marketing is and how to use it in order to create value. It is structured in a logical and systematic manner to provide student marketers with an understanding of the underlying principles of marketing, as well as changes and developments in the field. Case studies, which students should find particularly interesting, are used to explain and demonstrate the theory. This book, which is ideally suited for a modular course in marketing, will provide students with an excellent foundation to enable them to formulate marketing strategies in the real world.

The authors are all specialists in their fields and embody this knowledge in the theory. Their extensive practical experience in the field ensures that this lively text achieves a good balance between the academic and practical approaches to marketing.

Enjoy *Essentials of Marketing*, 5th edition, and apply these principles in your own environment.

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Chapter 1

The basics of marketing

Learning objectives

After you have studied this chapter, you should be able to:

- understand and explain what marketing is
- explain the concept of marketing
- be aware of what type of marketing activities there are and describe them
- understand and explain the five main marketing orientations
- identify the core aspects of marketing
- understand and explain the marketing process
- discuss the marketing mix elements
- explain the marketing function in an organisation
- explain the value of marketing to the consumer.

1.1 Introduction

As consumers, we are constantly involved and affected by what happens around us – in our daily lives as well as in business. It is therefore safe to say that marketing is a central part of the daily lives of everybody – individuals and businesses alike – and that as a society, we are not only bombarded with sales calls, e-mail pitches, television commercials, catalogues, social media such as Twitter and Facebook, and more,[1] but about half of every rand we spend pays for marketing costs. Marketing costs are widespread and include a range of activities, such as research, product development, packaging, transportation, storage, advertising and sales expenses to name a few. Therefore, if you as the consumer develop a better understanding of marketing, you will not only become a better-informed consumer, but you will also understand the buying process better and be able to negotiate more successfully with sellers. What's more, you will also be better equipped to demand satisfaction when the goods and services you buy do not meet the standards promised to you by an organisation.

Marketing has many functions, but the role that marketing plays within an organisation is strongly influenced by its philosophy or orientation. A *production-orientated* organisation does not place emphasis on the desires and needs of the

marketplace but focuses on the organisation's internal capabilities. An organisation with a product orientation concentrates on providing the market with new products that focus on innovation, design and quality.[2] A *sales-orientated* organisation believes that high sales volumes produce high profits and therefore focuses on the belief that individuals will buy more products if forceful sales techniques are utilised. A *market orientation*, on the other hand, is when an organisation places its core focus on satisfying organisational objectives while also satisfying customer needs and wants. Lastly, an organisation can take on a societal market-orientated philosophy, whereby the organisation goes beyond a pure marketing orientation to include consumers' wellbeing and long-term best interests.

The core aims of marketing are to ensure that customers' needs and wants are understood, met and satisfied, and in order to achieve this, a marketer needs to have an understanding of the target market that the organisation wishes to serve. In order to understand the market, the marketer will need to follow a process. This process is the marketing process and comprises the following:

- an understanding of the organisation's mission and the role that marketing plays in fulfilling it
- setting marketing objectives
- scanning the environment
- developing and implementing a marketing strategy by selecting a target market strategy
- developing and implementing a marketing mix
- implementing the strategy
- designing performance measures
- evaluating marketing efforts and making changes if needed.

By ensuring that customers' needs and wants are satisfied a marketer will realise a mutually satisfying exchange between the customer and the organisation. However, in order to achieve such an exchange, marketers need to ensure that the marketing mix – which comprises the product or service, pricing, promotion and distribution – meets the needs of the market.

The above concepts will be discussed in greater detail in this chapter so as to provide a basic understanding of what marketing is all about, the new ways in which marketers are getting their messages across to consumers, and the value that marketing creates for the organisation and the consumer.

1.2 What marketing is

Marketing covers a diverse and wide range of aspects and functions, which makes it difficult to find one definition that suits all. If you were to ask people what they understand marketing to mean, you would most likely get many different responses.[3] Too often people only see marketing as consisting of advertising or selling,[4] while others seem to think that marketing has something to do with the availability of

products in store, making sure there is sufficient stock on hand for future sales and for the display of products.[5] Marketing includes all these activities and many more.[6] What is more important, however, is that marketing actually begins long before a product is placed on a shelf.[7] Before a product is placed on a shelf, attention must be given to analysing customer needs, and gaining the necessary information so that the organisation can design and produce goods and services that meet buyer expectations and customer preferences, thus ensuring that relationships are created and maintained with customers and suppliers.[8] Therefore, according to Kotler and Armstrong, sound marketing is vital to the success of all organisations and must be seen as such by all dealing with the customer, be it directly (eg salesperson) or indirectly (ie finance and administration).[9]

Essentially, marketing can be seen to be made up of two parts. First, marketing is an attitude, a philosophy or a management orientation that aims to retain and grow current customers through delivery satisfaction and to attract new customers by promising better value of products or services.[10] Secondly, marketing is a combination of actions and processes used to deliver this philosophy.[11]

In a broad sense, marketing can be defined as a managerial and social process in which organisations and individuals acquire what they need, want or desire through the creation and exchange of value with others. In a narrower context, marketing can be seen as building profitable and valuable exchange relationships with customers.[12] The American Marketing Association defines marketing as an 'activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large'.[13] Therefore, according to this definition, the goal of marketing is to develop relationships with organisations, customers and other entities that affect the organisation.[14]

A more simplistic and slightly more traditional definition is that marketing:[15]

- discovers consumers' needs and wants
- creates goods and services that meet these needs and wants
- prices, promotes and delivers goods and services that meet these identified needs and wants.

In order to fully understand the importance of marketing, one must first understand that there are various gaps between the production of a product and the consumption of that product by a purchasing consumer, and it is the function of marketers to assist in closing these gaps. The following section identifies possible gaps between the production of a product and customer consumption.

1.2.1 Gaps between production and consumption

The place where a product is produced is not necessarily the place at which it is consumed and this results in gaps in the marketing process. According to Nieuwenhuizen, several types of gaps can be distinguished:[16]

- *Space gap.* This is a geological space that exists between a consumer and manufacturer. For example, maize is grown in certain geographical areas, but consumed locally and internationally.
- *Time gap.* This is the gap between the time of production and the time of consumption. Bananas, for example, are only grown at specific times of the year, but kept by distributors in cold storage to be distributed throughout the year.[17]
- *Information gap.* For the market to be able to use or buy a product, they need to be informed of the product or service. If a new hotel was to open in a town, it will be of no use if the market is not informed about it, where it is located, its tariffs and so forth.[18]
- *Ownership gap.* When buying a car, the buyer only becomes the owner once the car is registered in his or her name. This means the ownership is transferred to the buyer of the product.
- *Value gap.* This is the gap that sellers and buyers must bridge in order to agree on an acceptable exchange – that is, an exchange that is regarded as offering value to both parties. If a buyer regards a price of R125 000 for a car to be acceptable, he or she will more than likely purchase the car. This means that the value the buyer places on the product is the same as that placed by the seller.

The gaps described above are a constant battle for organisations to overcome and, as transporting products and conveying information are becoming increasingly complicated owing to an increase in customer demand, opportunities have been created for the specialised services of intermediaries, who bridge the gap between buyer and seller and act as go-betweens for participants who are no longer in close contact. There are three main kinds of intermediaries:

1. *Middlemen* are directly involved in taking title of products that are later sold to others. The first middlemen were probably hawkers who traded in a variety of products and also conveyed vital information about potential markets and desirable new products. They later made way for large wholesalers and retailers to facilitate exchanges between buyers and sellers. House and Home, for example, can be seen as a middleman for a wide variety of house and home products offered to customers under the same roof.
2. *Sales intermediaries* are agents who do not take title of products they sell. They provide and are paid for services to facilitate the sales process.
3. *Auxiliary enterprises* are not directly involved in the transfer of title but provide support services to facilitate the selling process. Examples include Transnet, advertising agencies and commercial banks.

This section explained the gaps that exist between the producer and the consumer; the following section addresses the functions marketing has in assisting to close these gaps.

1.3 Universal functions or activities of marketing

According to Cant, Van Heerden and Ngambi, marketing fulfils a number of functions or performs a variety of activities, and these activities can be categorised into three groups: primary, auxiliary/facilitating and exchange activities.[19] Marketing functions or activities can be defined as those activities used to transfer the market offering to a buyer. The eight universal functions of marketing that are performed by manufacturers, retailers or intermediaries are briefly discussed below.[20]

1.3.1 The primary function of marketing[21]

The primary marketing activity is *transport* and its aim is to deliver the product to the customer in the fastest, most efficient and safest way possible. This function involves moving goods from a seller to where they are purchased or needed by a buyer. This can be done by means of road, air or sea transport, or via a pipeline, or even by means of animals, such as donkeys. Each of these methods has its advantages and disadvantages.

1.3.2 Facilitating or auxiliary functions[22]

These functions include the following:

- *Storing.* This is a function that entails holding goods in a temporary location, such as a warehouse, until the goods are needed. For example, petrol is stored in tanks and made available as and when needed. Many types of products are stored either in raw or processed form to be made available as and when required; for example, wheat is stored in silos until it is forwarded to mills to be processed.
- *Standardising and grading.* This refers to measures set in place to ensure that products or services are manufactured or provided in such a way as to meet rules and standards set by governments. These rules and standards usually refer to quality and quantity and reduce or eliminate the need for the inspection of products. Potatoes, for example, are graded according to specific criteria into small, medium and large, as well as washed or unwashed potatoes. This makes it easier for a buyer to distinguish between the varieties and at the same time be assured of a certain minimum standard.
- *Financing.* This is considered a function as funding may occur between channel members. Sellers such as retailers may offer credit to customers, or wholesalers may offer credit to retailers in order to make it possible for them to buy their products. This provision of financing comes at a cost in terms of interest that has to be paid. It is therefore important that these costs are kept as low as possible. For example, very few people can purchase houses and cars with cash; most people require financing from a bank to be able to afford these expensive items.
- *Risk taking.* There is always a risk that the products or services on offer by a seller may not be in demand by the consumer. It is necessary for organisations to continuously try to match their supply of goods and services to those they estimate

the consumers will want, based on their knowledge about the consumers' needs and wants as identified via their research, and other beliefs about consumers.

- *Securing marketing information.* This function entails sellers gathering information about consumers in order to know who and where potential buyers are. Once the collected information has been analysed, this helps marketers to understand why certain consumers purchase particular products, at certain locations, at certain intervals and in a certain manner. Alternatively, gathered information provides insight on what customers seek from product offerings.

1.3.3 Exchange functions[23]

The third category of marketing functions refers to the actual exchange between the parties who are buying and selling. Here ownership is transferred between the parties: the buyer and seller.

- *Buying.* This is critical as marketers should seek to buy products that consumers will find appealing. Understanding consumers' buying behaviour is key to the buying function, as buying creates time, place and ownership utilities.
- *Selling.* This sets out to match the organisation's offerings to the needs of consumers through promotional sales, advertisements of products or services or through the use of personal sales techniques.

These activities, however, do not stay constant over time, but are influenced and affected by a range of factors and the prevailing marketing orientations of the time. The different marketing orientations that have evolved over time are discussed in more detail in the following section.

1.4 Different marketing orientations

The way an organisation acts in its marketing activities is largely influenced by that organisation's marketing orientation. The type of orientation the organisation follows will influence the overall actions in the organisation. The five main orientations are: production, product, sales/selling, marketing or societal orientation. Each of these orientations is discussed briefly below.

1.4.1 Production orientation

Companies that are production orientated base their orientation on the belief that the most favoured products are those that are low in cost and readily available. An organisation with a production orientation should, therefore, focus on ways to speed up the production and distribution of its products. It should also focus on the internal capabilities of the organisation and not on the needs of the market. The starting point for these organisations is, therefore, to ask themselves what they are good at, what expertise they have and what they can manufacture at low cost. This orientation may be useful in some situations, but it lacks the ability to focus on building relationships between sellers and buyers through satisfying consumers' needs.[24]

The production orientation can be summarised as follows:[25]

- focus lies on increasing production and internal capability
- cost reduction and control
- increase in profits as a result of an increase in sales.

The major shortcoming of this orientation is that it does not consider whether the goods and services it produces also meet the needs of the market.

1.4.2 Product orientation

When following a product orientation, companies believe that consumers will favour products that offer the most in performance, innovation and quality. This orientation focuses marketing strategy on making continuous improvements to products; organisations with a product orientation see this as their main focus as opposed to the view of the customer.[26] They assume that by continuously improving their products and through innovation, consumers will keep buying their products. This is true and applicable in some instances, particularly in the technological field.

Product orientation

A company that follows a production orientation chooses to ignore their customers' needs and focus only on efficiently building a quality product. This type of company believes that if they can make the best 'mousetrap', their customers will come to them.

Source: study.com/academy/lesson/sales-orientation-definition-examples-quiz.html (Accessed 11 May 2016).

For many years, cellular phone companies and computer companies have been extending themselves in order to have better products on the market, with new, improved features. This seems to work very well for this market segment.

The product-orientated company can be summarised as follows:[27]

- It assumes that good-quality products will sell themselves.
- Improving products and quality control are the company's core focus.
- Quality products lead to an increase in sales and a subsequent increase in profits.

1.4.3 Sales orientation

Companies that focus 100% of their marketing efforts on selling their products use a *sales-orientated marketing strategy*. These companies are so focused on selling their products to their consumers that they pay little attention to other areas of marketing such as market research or surveying their customers to measure their level of satisfaction. A company that uses a sales-orientated marketing strategy makes the following assumptions regarding their customers:

- Everyone is a potential customer.

- Their customers do not want to spend their dollars to buy what the company has to offer.
- Their customers will buy more products and services if they use aggressive sales techniques in order to persuade them to buy.
- High sales volumes equal high profits for the company.

Source: http://study.com/academy/lesson/sales-orientation-definition-examples-quiz.html (Accessed 11 May 2016).

When a company decides to follow a sales orientation, it believes that forceful sales techniques will make people buy more goods and services, and higher sales result in higher profits. To a company that follows a sales orientation, marketing is understood as selling things for the collection of money. The fundamental problem with a sales-orientated company is that it may have a lack of understanding of the needs and wants of their consumers. Sales-orientated companies often find that, despite having an excellent selling force, they cannot convince consumers to buy products that they simply do not want or need.[28]

Sales orientation can be summarised as follows:[29]

- The focus is on clearance of stock.
- Companies make use of a forceful sales and promotion strategy.
- Companies earn profits through quick sales of high volumes.

1.4.4 Marketing orientation (pure marketing concept)

A marketing orientation is a very simple and appealing orientation, as it states that socially and economically the justification of an organisation's existence lies in satisfying consumer needs and wants while simultaneously meeting organisational objectives. A company with this orientation understands that for a sale to occur an aggressive sales force is not always necessary, but that a sale is more dependent on an individual's decision to purchase.[30] According to McDaniel, Lamb and Hair, the marketing concept/marketing orientation includes the following:[31]

- The company focuses on the wants and needs of consumers to distinguish its products from the offerings of competitors.
- It focuses on integrating all the organisational functions to satisfy the needs and wants of the market.
- The company focuses on achieving the long-term goals and objectives of the organisation by satisfying consumers' needs and wants responsibly and legally.

The secret to success lies in delivering a consistent, unique experience to one's customers, which competitors cannot match, but also offerings that satisfy the preferences and intentions of one's targeted market. However, in order to do this, marketers require an understanding of their customers, as well as the distinctive capabilities that enable their company to execute strategic plans – keeping in mind

their newly formed understanding of their customers. Lastly, marketers must be able to deliver a desired experience by using all integrated organisational resources.[32]

In order for an organisation to be considered market orientated it would need to obtain information on its customers, markets and competitors, and evaluate this information from a business perspective. It would also have to identify how to deliver superior customer value, as well as conduct specific actions to provide value to the target market.[33]

According to Cant et al, the essence of the (pure) marketing concept can be broken up into three basic principles:[34]

1. *Consumer orientation.* This means that all actions an organisation takes should be directed towards the satisfaction of customer needs and wants. The customer can be seen as a dictator, in other words, the aim or objective of the organisation is to delight the customer. In customer-orientated businesses, the requirement of a customer comes first. Customers can be seen as the focal point of decision-making, whereby all other functional areas are geared towards the satisfaction of customer needs and wants.
2. *Profit orientation.* In the process of meeting customer needs and wants (customer orientation) the company will aim to meet its primary objective, namely maximising profits. By providing a product that satisfies a customer's needs and wants the business will be able to fulfil its own aims and goals.
3. *Organisational integration.* This refers to an integrated whole, a group of units that works together to achieve a shared objective. In other words, all functional departments and people in an organisation should work together to achieve the successful marketing of the market offering of the business. All activities should be integrated so as to satisfy customer needs and wants, and to achieve a satisfactory rate of return on investment. It takes only one person to undo all the good work the others have done and to lose a customer.

1.4.5 Societal orientation

The societal marketing orientation queries whether or not the marketing concept/orientation avoids possible clashes between the short-term wants and the long-term well-being of customers. This orientation holds that a marketing strategy should provide value to customers in a way that sustains or enhances both the customer's and society's well-being. Such an orientation focuses on sustainable marketing, environmentally friendly and socially responsible marketing that can meet the consumer's and business' present needs while ensuring the ability of future generations to meet their needs.[35] Companies should learn to balance three considerations in setting marketing strategies, namely *company profits, consumer wants* and *societal interests.*

According to Cant, societal marketing orientation, also referred to as social responsibility, is 'a concept that maintains that businesses are part of the larger society in which they exist and are accountable to society for their performance'. Marketers,

therefore, should strike a balance between targeting customers' needs and wants, and the long-term financial goals of the business. The way in which businesses often demonstrate social responsibility is by spending large sums of money on projects contributing to the welfare of the community at large.

Another example of societal orientation is when organisations use green marketing.[36] *Green marketing* is the development and implementation of marketing programmes that are designed to enhance an organisation's environmental image.

The following list summarises the different market orientations and their main areas of focus:

- *A production orientation* focuses on what the organisation can make that could be considered superior to other products in the market.
- A *product orientation* focuses on what the organisation can design that will make it the best in the market.
- A *sales orientation* focuses on developing the best sales methods.
- A *market orientation* looks at what consumers are demanding.
- A *societal orientation* asks what consumers are demanding, and at how the organisation can benefit society.

Although marketing has been part of business for many years, according to Kurtz, four prominent eras have stood out; this indicates that marketing has been an evolving concept.[37] In the 1920s, a production orientation was prominent, after which a sales orientation took centre stage until the beginning of the 1950s, when a marketing orientation gained stature as the way for businesses to go, with a later focus on society as a central part of the marketing orientation. Today, however, not only are marketers wishing to satisfy both consumer and organisational needs, but they are actively focusing on building relationships with customers (and suppliers). Relationship marketing is discussed in greater detail in the next section.

1.5 Relationship marketing[38]

1.5.1 A broader view of the market[39]

As seen in the previous section, marketing is a concept that was developed over time to include the organisation's objectives, as well as the satisfaction of consumers' needs and wants. Logically, it followed that the next step of this evolution was relationship marketing. Relationship marketing places its main focus on sustaining and building long-term relationships with government, suppliers, customers (both present and potential) and the public, as well as organisational employees. Relationships with these stakeholders are critical to the survival and growth of any organisation.

1.5.2 Expansion of the market offering[40]

Different marketing strategies need to be used for different customer acquisitions and retentions and this fact is acknowledged by relationship marketing. According to

the relationship marketing philosophy and approach, the four traditional marketing instruments (product, place, promotion and price) are no longer enough to ensure full customer satisfaction. Therefore the traditional marketing mix needs to be extended to include people and processes.

- *People.* These are the employees who should be well trained in serving customers and who should realise that job satisfaction correlates directly with organisational success.
- *Processes.* These are the essential parts of the production, administration and marketing functions.

1.5.3 A bigger market[41]

A wider view of the market is observed through relationship marketing. When one looks to the total market, it is evident that there are smaller groupings that influence the marketing effort to a greater or lesser degree. These groupings could include, among others, an organisation's current and potential customers and suppliers. It is, therefore, important for an organisation to maintain close relationships with at least the more important groupings.

A wider view of the market can be taken as stated above, but relationship marketing also requires that organisations adapt to an individual customer approach once they have finalised the market they will serve.

Organisations are adapting to micro-segmentation because of three important changes that have rendered traditional segment-based marketing inappropriate. These changes are as follows:

1. Consumers have higher expectations as they have become more knowledgeable and sophisticated.
2. There has been a dramatic and constant change in technological development.
3. There is an increase in competition between products and vendors.

A change in company focus is evident in the explosion of the recent trend to market for a segment that consists of one consumer. One example is the use of a mass customisation approach by companies that cater for the individual needs of consumers through the use of new technology. Handling customer complaints is an important facet of an internal marketing programme.

Some car manufacturers have a customer-care number with a direct line to the managing director. It is important for companies to research the reasons for complaints. The best and cheapest solution is to ensure that there are no complaints; well-founded complaints must receive immediate attention. There must be ample opportunities for customers to direct complaints to responsible people who are able to take appropriate corrective action, and in so doing prevent the loss of customers. Consumers who are reluctant to complain, but who rather choose to avoid the unsatisfactory product or situation in future, are a grave threat to successful marketing. Consumers who are unhappy and who receive no satisfaction can also

direct their complaints to the many consumer-action programmes in the mass media, creating unwelcome negative publicity for the organisation. Relationship marketing is, in fact, the essence of a market-driven approach to marketing management. It was mentioned previously that marketing philosophy is an evolutionary process, which will probably continue, necessitating further adaptations in marketing thinking.

1.6 Core aspects of marketing

In order for an understanding of marketing to be achieved, several core marketing aspects need to be in place. Figure 1.1 illustrates these aspects.

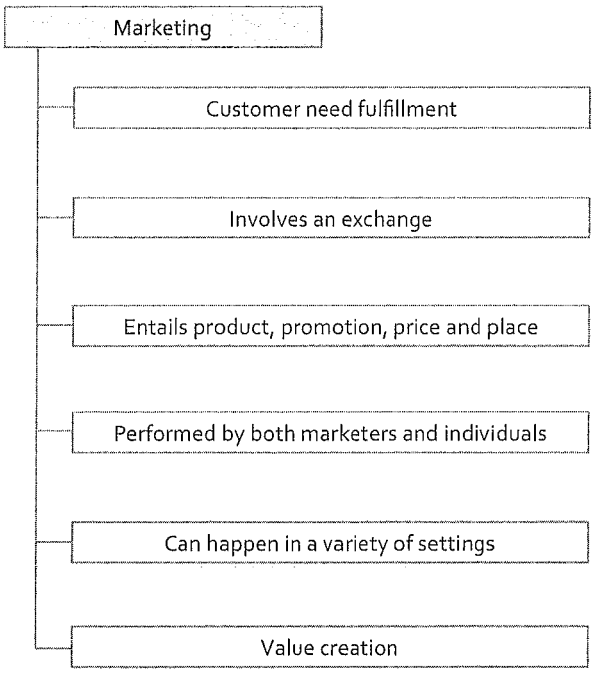


Figure 1.1 Core aspects of marketing

1.6.1 Marketing is about customer need fulfilment

In order for marketing to be effective and successful it is imperative that marketers understand the marketplace in which they provide their offerings and that they understand consumer needs and wants in particular, as this is one of the most important aspects of marketing success.[42] One of the most simple underlying concepts of marketing is that all humans have needs. A human need can be seen when an individual feels a state of deprivation. These needs may be physical, such as when someone needs food, warmth or safety; or social needs, such as the need to feel like they belong, or the need for affection; or individual needs, such as a need for an education or self-actualisation. Wants, on the other hand, are needs that are

influenced by an individual's personality, as well as by society. Wants are shaped by the society in which one lives; when wants can be backed by an individual's buying power, wants become demands. Successful companies will go to great lengths to acquire more knowledge of their customers and will try to understand their needs, wants and demands better than their competitors.[43] However, in order for customers' needs, wants and demands to be satisfied, marketers need to go through the marketing process in order to understand customer expectations and be able to fulfil these expectations in order to capture value from the customer in return.

1.6.1.1 *The marketing process*

The marketing process is a sequence of activities an organisation will follow in order to create value for customers, as well as build strong customer relationships in order to capture value from customers in return. This process consists of:

- knowing what customers want and the market in which you operate
- making sure a marketing strategy is in place to meet customers' needs
- ensuring that the value for customers is exceeded in the integrated plan
- developing profitable relationships and creating customer happiness
- generating value from customers to create profits and customer equity.

The first four points show that a company will work towards understanding the target market, design a customer-focused marketing strategy, strive to create customer value and attempt to build strong customer relationships. The final point expects the company to reap the rewards of creating customer value that is superior. Through creating value for customers, organisations will, in turn, capture value from customers in the form of sales, profits and long-term customer equity.[44] According to Cant, in essence, the marketing process encompasses numerous issues that have to be attended to, based on market needs and organisational objectives.

Once again, from the marketing process it is evident that forming a relationship with one's customers plays a vital role in achieving organisational goals. The following section addresses the exchange that occurs between the customer and the organisation.

1.6.2 Marketing involves an exchange

The next core aspect to be addressed is exchange. In essence, marketing is all about an exchange process, whereby two or more parties provide the other with something of value so as to satisfy a need. Sometimes individuals can exchange tangible goods such as deodorants, clothes, a house or a boat for money. In other situations, individuals exchange intangible services such as a manicure or personal training classes for money.[45] Therefore, an exchange can be seen as the trade of an item or service that has value between a buyer and the seller so that each benefits as a result. As illustrated in Figure 1.2, a seller will provide products or services and then communicate and facilitate the delivery thereof to the customer. It is then the

customer or buyer who completes the exchange by giving the seller money and information.[46]

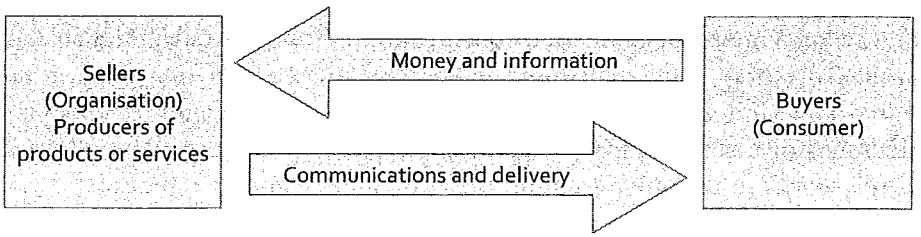


Figure 1.2 Exchange: underpinning of seller-buyer relationships

Source: Adapted from Grewal, D & Levy, M. 2008. *Marketing: Avenue of the Americas.* New York: McGraw-Hill Irwin, p 6.

In order for an exchange to take place the following five conditions need to be met:[47]

1. At least two parties must be present.
2. All parties must have something of value that could interest the other party.
3. Communication and delivery are possible from each party.
4. Acceptance or rejection of the offer is possible from both sides.
5. Both parties need to believe that it is desirable to trade with the other.

Even if the conditions exist as indicated, it does not mean that an exchange will take place, but these conditions are all necessary for an exchange to occur.[48]

1.6.3 Marketing involves product, price, place and promotion

In order to create a successful exchange between a consumer and an organisation, an ideal marketing mix needs to be in place; that is, a mix that meets the needs of the customer and the profit objectives of the organisation.

A marketing mix comprises a product, place (distribution), price and promotion. Figure 1.3 illustrates the importance of the marketing mix elements within exchange.

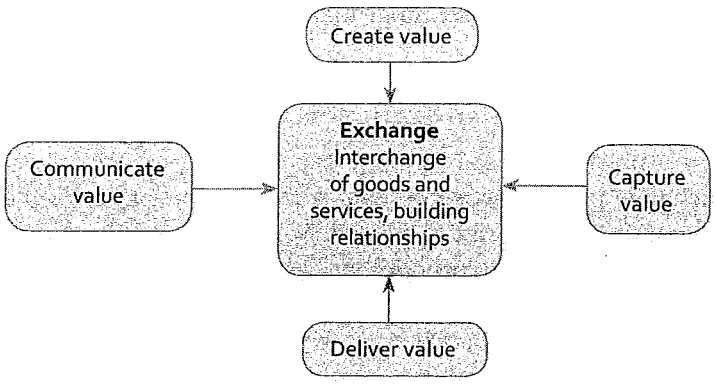


Figure 1.3 Marketing mix elements within exchange

Source: Adapted from McDaniel, C, Lamb, CW & Hair, JF. 2011. *Introduction to marketing.* 11th ed. Mason, OH: South-Western Cengage Learning, p 4.

The four Ps within the marketing mix create value in the following ways:[49]

1. *Product.* Create value: offering consumers a variety of goods, services or ideas, which serves to satisfy their needs.
2. *Price.* Capture value: this is everything a buyer will give up in exchange for a product. It must also be perceived by the customer as something of value.
3. *Place.* Deliver value: this is all the activities necessary to get the product to the right consumers when needed and to the place where the customer needs the product.
4. *Promotion.* Communicate value: communicating the value of the product to consumers. Marketers use promotion as a means to communicate with the market. It is used to inform, persuade and remind existing and potential buyers of products or services in an attempt to influence their opinions or to prompt a response.

1.6.4 Marketing can be performed by both marketers and individuals

Marketing is generally associated with organisations selling to consumers, which can be seen as *B2C* (*business-to-consumer*) marketing. However, other forms of marketing exist, such as *B2B* (*business-to-business*) marketing, which entails selling of goods and services between organisations, and *C2C* (*consumer-to-consumer*) marketing, which involves consumers selling among consumers, for example, consumers selling merchandise on websites such as Bid or Buy or OLX. Marketing can also occur on an individual basis, such as when one applies for a job.[50] The applicant researches the company on the internet and adapts his or her CV to better match the needs or requirements of the company.

1.6.5 Marketing can happen in a variety of settings

It is a common misconception that marketing is merely incorporated into a business to enhance the profitability of the company. For profit-seeking organisations this is correct, but marketing works equally well for consumers in the non-profit sector. Also, the consumer's decision depends on the type of decision that has to be made. Think of when you decided which university you were going to attend. Your selection could have been based on the opinions of family members or friends, or it may have been based on convenience and/or the university's reputation in the market and the programmes it offered. Many non-profit organisations such as museums, religious institutions or charities rely on marketing activities to communicate with their constituents. In the same way politicians rely on marketing to 'sell' their ideas to their constituents.[51]

1.6.6 Marketing helps create value

There is a well-known saying that 'beauty is in the eye of the beholder'. The same principle applies in marketing, where value is what the customer attaches to a

specific product offering. A customer is normally willing to pay a certain price if he or she considers it to offer a value that is in line with the price being charged. Customers want products or services that meet their specific needs or wants and that are offered at competitive prices. The challenge for a company is to establish what the needs of the customer are and then aim to provide those goods and services in such a way that they make a profit and customers see them as being value for money.[52] There are different forms of value and some of these, as identified by Fahy and Jobber, are discussed below.[53]

1.6.6.1 *Four forms of customer value*[54]

There are essentially four forms of customer value:

1. *Price value.* Price is one of the most powerful motivators for consumers to purchase an organisation's products. To a large extent consumers are motivated by the fact that the product is perceived as being cheaper than a competitor's product, especially if it is a product that is price sensitive. Many companies such as Pep Stores and Ackermans see themselves as value retailers offering products at lower prices but of a good quality in terms of the market they serve.
2. *Performance value.* While many consumers compare prices and want the lowest price, others compare product performance and want the best-performing product. Customers that gain value here are those who look for innovative design, modern features and are generally attracted to products by their functionality and quality.
3. *Emotional value.* A major challenge faced by marketers is how to differentiate very similar products in the minds of the consumer. You may find that a specific brand of vehicle is nearly double the price of a similar model of a different make because marketers have established an emotional link to their brand. This leads to the consumer attaching a certain emotional value to the better-known brand.
4. *Relational value.* A further important factor that a consumer will evaluate and to which they will attach a value is that of the service quality they receive after they purchase a product. When a consumer finds a product or service that satisfies their needs in all respects, they may be willing to stay with this provider for a long time. This relationship could build up over time and as this relationship develops, trust becomes established between the provider and purchaser, eventually leading to a loyal customer.

1.7 The marketing function within an organisation

1.7.1 The place of the marketing function

There are at least seven different departments that function in today's large organisations, and the marketing department plays a fundamental role in organisational success owing to its contribution to profits and the relationship the department forges with consumers. The managers who head these departments

must continually work together to ensure that organisational goals and objectives are achieved. A typical functional organisational structure is shown in Figure 1.4.

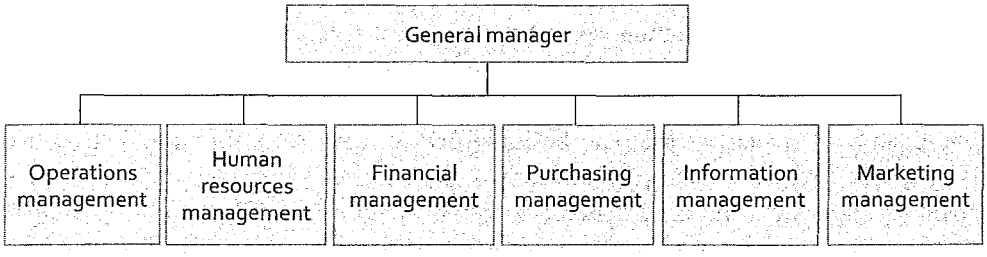


Figure 1.4 A typical functional organisational structure
Source: Cant, M. 2010. *Marketing: An introduction.* Cape Town: Juta, p 14.

The functions of these departments are described below:

- *The operations function.* This is the function whereby raw materials are converted into manufactured materials and finished products, usually in a factory setting.
- *The human resources function.* This function deals with selecting, training and utilising personnel.
- *The financial function.* This function plays the key role in acquiring, utilising and controlling the organisational funding that is needed to ensure the smooth running of the organisation. The core role is the acquisition and application of funds for the profitability, liquidity, solvency and continuity of the organisation.
- *The purchasing function.* This department ensures that the necessary materials for production are bought at the right places, at the right times, in the right quantities and at the right prices.
- *The public relations function.* This function ensures that the organisation's image is favourable in the eyes of those whose opinions are important to the achievement of overall business objectives. Although this function is not included in Figure 1.4, some large multinational corporations may have this as a separate department. Generally this function will report to the marketing function.
- *The information function.* This department ensures that sufficient internal information is made available for planning and control.
- *The marketing function.* This department is responsible for generating sales and is also in charge of the marketing process.
- *General management.* This is not a separate function as such, but is more of an integrated aspect of all functions. It refers to top, middle or lower management that has to plan, organise and control the entire organisation – as per the different functions.

In practice there are also other functions and structures, and indeed other names may be used. It is important, however, to realise that the tasks of the different functional departments must be performed in both large and small organisations.

The resources (capital) and abilities of various functionaries determine the existence and size of formal departments. In very large multi-product organisations there may be even more divisions than those shown in Figure 1.4. There may, for example, be a marketing director directing several marketing managers for different products or product ranges. The marketing director provides leadership and coordinates the activities of several different marketing departments. There are also many different organisational structures that can be identified, of which the functional structure is only one example. Examples of other organisational structures include matrix structures and line and staff structures, to name but a few. What does a manager do? Some workers might think that managers spend their working hours sitting and talking while there is real work to be done! However, there are three management tasks that must be performed by the management team. More about these tasks is provided in the section that follows.

1.8 The management tasks in marketing

The American Marketing Association describes marketing management as:

> the process of setting marketing goals for an organisation (considering internal resources and market opportunities), the planning and execution of activities to meet these goals, and measuring progress toward their achievement.

It also notes that this is an ongoing and repetitive process within a planning cycle to enable an organisation to continuously adapt to internal and external changes in an organisation.[55] These changes continuously create new problems and new opportunities. Therefore, with effective management, an organisation can stay ahead of competition by using changes in the company environment to its advantage. The management task consists of a continuous process of planning, implementing and controlling marketing activities.

According to Cant, marketing management performs the following functions:[56]

- identifies threats and opportunities in the marketing environment
- identifies opportunities which can be employed in terms of internal strengths and weaknesses
- collects marketing data
- selects a specific target market
- decides which products are to be produced so as to satisfy consumer needs
- decides what the selling price of the products will be in order to reach the profitability objective
- decides which specific distribution channels to utilise
- decides which marketing communication methods to utilise in order to inform, remind and persuade consumers
- decides on the selection, training, remuneration and motivation of marketing personnel

- leads and organises the activities of the marketing department
- controls the marketing process.

These responsibilities are part of the three management tasks, which are summarised in Figure 1.5.

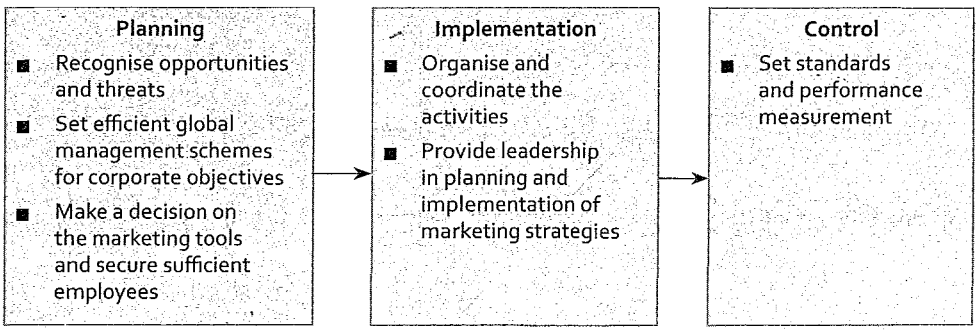


Figure 1.5 The management tasks of marketing management
Source: Adapted from Cant, M. 2013. *Marketing: An introduction.* Cape Town: Juta, p 25.

1.8.1 Planning[57]

A key function of marketing management entails the examination of various marketing opportunities and the choice of ways of utilising these to counter marketing threats and achieve marketing objectives. This means planning. Adaptive planning is a framework for organising information, analysis, issues and opinions that form part of strategic decision-making. A situation assessment is done to identify the internal and external factors impacting the organisation, as well as the organisation's past performance concerning these factors. Next, creative and strategic solutions are conceptualised to address these factors.

Marketing decisions therefore begin with the identification and evaluation of marketing opportunities and threats, and internal strengths and weaknesses. Contingency planning is another 'element' of planning that entails developing plans to provide an alternative to the main plan in the event that an unlikely, but possible, external factor has an impact on the original plan. It is the 'what will we do if ...?' of planning. The contingency plan 'deals not with unforeseen events, but with events that were foreseen but considered unlikely to occur'.[58]

1.8.2 Implementation[59]

Organising and coordinating calls for the creation of an organisational structure best suited to the implementation of the marketing decisions in order to achieve marketing objectives. Marketing activities are grouped rationally and individual divisions and managers are tasked with carrying them out. Finally, the levels of authority, areas of responsibility, lines of communication and methods of coordination between the divisions and individuals are determined. Cooperation is achieved by integrating

the interests of divisions, individuals, consumers, investors, suppliers and the community as a whole.

Figure 1.6 shows a typical organisational chart of the different divisions in the marketing department under the leadership of the marketing manager.

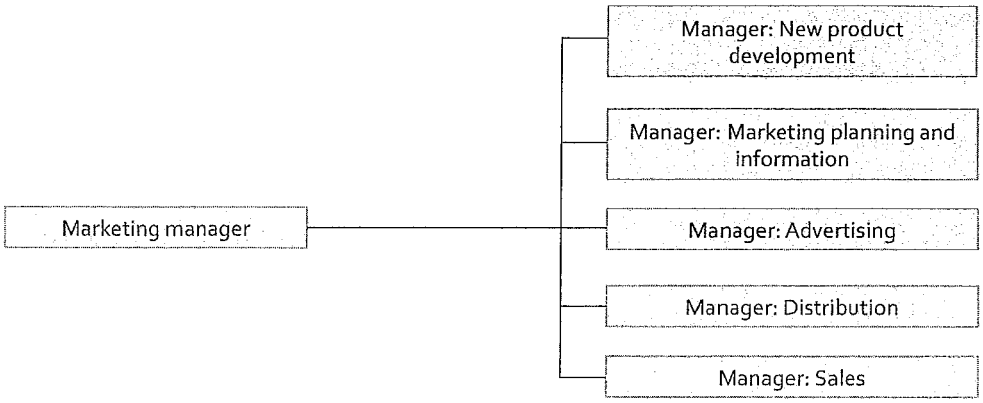


Figure 1.6 Functional marketing organisation

Source: Adapted from Cant, MC, Van Heerden, CH & Ngambi, HC. 2013. *Marketing management: A South African perspective.* Cape Town: Juta, p 26.

Leading involves a wide range of tasks, such as staffing, communicating and motivating. From a marketing viewpoint, leading embraces all the marketing decisions with regard to putting preparation (planning, organising, coordinating, controlling) into practice. Briefly, once the marketing strategy has been formulated, people have to be found to perform the required marketing activities (staffing); they have to be instructed as to what they should do and told how well they are doing it (communicating); and a positive attitude towards work and the organisation must be carefully cultivated and maintained (motivating). Leading is, therefore, of paramount importance in the effective performance of the other management tasks.

Over time, a few contemporary leadership styles have emerged:[60]

- *Contingent reward leadership* is a leadership style where management closely supervises personnel and facilitates all staff activities and tasks.
- *Laissez-faire leadership* is the opposite of contingent reward leadership in that management is minimally involved in the daily activities of personnel, leaving people to rely on to their own devices.
- *Management-by-exception leadership* is a leadership style where managers intervene only when personnel's performance standards have not been met.
- *Transformational leadership* is a leadership style where leaders use inspiration and charisma; they seek to stimulate the sales personnel intellectually and treat each employee as an individual. The ultimate goal of transformational leadership is to move personnel beyond their own self-interests towards those of the organisation.

1.8.3 Control[61]

Controlling or evaluating is the regulatory task of marketing management, and its purpose is to align actual performance with marketing plans. In order to exercise control, it is essential first to set standards; this requires determining what has to be controlled and where marketing control is necessary. Secondly, actual marketing performance has to be measured and compared with these standards. Thirdly, the differences between actual performance and standards have to be evaluated. Finally, if necessary, corrective measures should be taken to ensure that future performance is in line with marketing plans.

If marketing management tasks are not properly performed:

- purchasing management will not know which raw materials and components to purchase
- public relations management will not know how to perform or improve its liaison function
- financing management will not know how much funding is required
- human resources management will not know how many people to employ.

1.9 The technological revolution in marketing[62]

Innovation and developments in marketing have taken place over the past few years and are increasing at a fast pace. These are led by recent innovation and developments related to the internet, websites and social networks. Some marketing approaches even utilise cellular networks to promote offerings directly to users' cell phones.

Through these approaches, marketers aim to communicate directly with their potential customers on a more personal level than was previously possible. Through the use of modern technology, marketers seek to integrate consumers' lives with organisational brands and, in so doing, enrich the consumer's experience with the branded products. Unbeknown to most consumers, marketers are continuously hard at work behind the scenes performing activities that are aimed at capturing consumers' undivided attention.[63]

The revolution in technology has paved the way for fast and accurate storage, transfer, retrieval and even presentation of information; all this is achieved through the use of the internet, computer networks or any other electronic wireless devices.[64] Advances in technology force marketing to adapt and change on a continuous basis. The internet has become a new medium through which to advertise because it is estimated that more than half of all US households own at least one computer. Online advertisements are extremely dynamic and can be tailored to reach specific geographical areas. For instance, a site can be set up for zoned advertising programmes, which are able to target customers within a certain radius of a specific store.[65]

Through the use of technology, organisations or individuals can open up whole new markets. For example, cell phones allow individuals to keep in touch with the rest of the world without the restraints of a landline or pay phones.[66]

1.9.1 Interactive and internet marketing

Computer and telecommunications resources, when combined, are used to write software that can be tailored to an individual's needs or preferences. This combination of computers and infrastructure, such as phone lines or fibre-optic cables, facilitates the transfer and sharing of data in real time at a low cost. Information availability is vast through the use of the internet; internet users have access to worldwide resources for any and all desired information. Certain services are available on the internet that allow individuals to pay accounts, make phone or video calls or even send and receive documentation via e-mail.

Using the internet or the World Wide Web offers opportunities that were not possible 15 to 20 years ago. These benefits include speedy access to information (a few seconds compared to days or weeks), users have more control over the type of information they receive, and they are able to filter the relevant from the irrelevant information more quickly. The information is easily updated by site owners and this can be done in a very short period of time.[67]

- *Interactive marketing* is a communications concept that allows buyers to control the amount of information marketers send, but furthermore allows marketers to customise their communication with their markets. Interactive marketing is a useful tool for consumers as it allows them immediate access to key product information they may require, which they can access when it is needed. Furthermore, it allows customers to come to the organisation for information, thereby creating an opportunity for one-on-one marketing. Electronic communications media thus allow marketers to build relationships between the consumer and the technology and customise information based on the audiences' interests.[68]
- *Internet protocol television (IPTV)* is an interactive technology that allows for a two-way digital broadcast signal to be sent through a cable network or telephone or even a broadband connection to the consumer. The importance of this interactive technology is that it allows marketers and consumers to embrace one another.[69]
- *Interactive promotions* allow the consumer to be in control. Consumers can get information on how to use the product (tips), access consumer service queries and, most importantly, they can express what they do or do not like.[70]

1.9.2 Broadband

Broadband technology can deliver large amounts of data at once as it is an 'always-on' internet connection that runs at 200 kilobytes per second or more. Broadband

internet makes marketing even faster than before, thereby allowing consumers to access information and make payments quicker.[71]

1.9.3 Wireless

More and more people are starting to make use of wireless technology, be it connecting a laptop to the internet or using a handheld computer. Wireless technology provides many challenges and opportunities to marketers.

Wireless advertisements are also a medium that offers opportunities to companies to be more direct and focused in targeting certain audiences.[72]

Summary

A business does not operate in isolation, and many factors contribute to a company's success. Marketing is a managerial process aimed at satisfying the needs and wants of customers, which are met by creating the correct products and services. Marketing operates within a dynamic global environment, and is continually facing new challenges. The success of the marketing concept is now widely understood, spurring growth in non-profit marketing as these organisations begin to use the tools and techniques of marketing management. The environment is changing as well, with almost every company being affected by rapid globalisation. The changing world economy, which has been sluggish for several years, has resulted in more difficult times for consumers and marketers.

These challenges are intensified by demands that marketers conduct all of their business with stronger emphasis on ethics and social responsibility. Taken together, these changes define a new marketing landscape. Companies that succeed in this environment will have a strong focus on the changing marketplace and a total commitment to using the tools of marketing to provide real value to customers.

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Chapter 2

The marketing environment

Learning objectives

After you have studied this chapter, you should be able to:

- identify and explain the components of the micro-environment
- explain and demonstrate how these variables in the market environment will influence the business
- demonstrate the impact the macro-environment can have on a business
- conduct a SWOT analysis.

2.1 Introduction

It has been said that the only constant in business is change. One need only look at the events that have happened in South Africa since December 2015 to realise the effect these factors have on the economy, and the environment in which businesses operate. By nature, environments are dynamic and change all the time. Decisions taken today may be revised tomorrow owing to changes in the environment in which businesses operate. For example, the decision by the President to change the Minister of Finance in December 2015, had such a knee jerk and negative impact on businesses locally and internationally, that this decision was reversed only two days later – but only after damage worth billions of rands had been caused! Exchange rates change on a daily basis, the oil price fluctuates, as does the gold price, and it is the responsibility of management to be aware of these changes and the ways in which they may influence the business. In some instances, the impact of certain changes will affect some companies or industries more severely than others.

The environment in which a business operates encompasses internal and external factors or variables. Furthermore, this environment is constantly changing, which means that the business has to monitor these variables constantly to determine their impact on the business, its customers and its competitors. On the one hand, society depends largely on businesses to satisfy its wants and needs. Businesses, on the other hand, depend on their environment to supply them with resources such as labour, capital and raw materials. Businesses and society, therefore, influence each other through this exchange and depend on each other for their existence.[1] This mutual

dependence makes it important that businesses establish sound relations with the community and vice versa. The outside environment is, however, very complex and the business has little or no control over most of the variables in it.

2.2 Components of the marketing environment

A wide range of factors have an impact on the way businesses do business and the organisations have either some or no influence on these factors. The marketing environment basically refers to all the variables or factors that have a direct impact on the marketing activities of the organisation, and these variables or factors may be either controllable or not controllable. The marketing environment consists of three sub-environments or components and these environments are interrelated and affect each other. The three components are as follows:

1. *The micro-environment* refers to the internal variables that can be controlled by management, such as the staff to be appointed, funds to be used, the mission statement and the marketing objectives of the organisation.
2. *The market environment* refers to forces outside the business, such as consumers, competitors and suppliers. This environment can be influenced or partially controlled by management.
3. *The macro-environment* refers to the external forces, which the individual business cannot influence, but which directly or indirectly influence the business, such as economic, political and technological factors.

The three components of the marketing environment are illustrated in Figure 2.1.

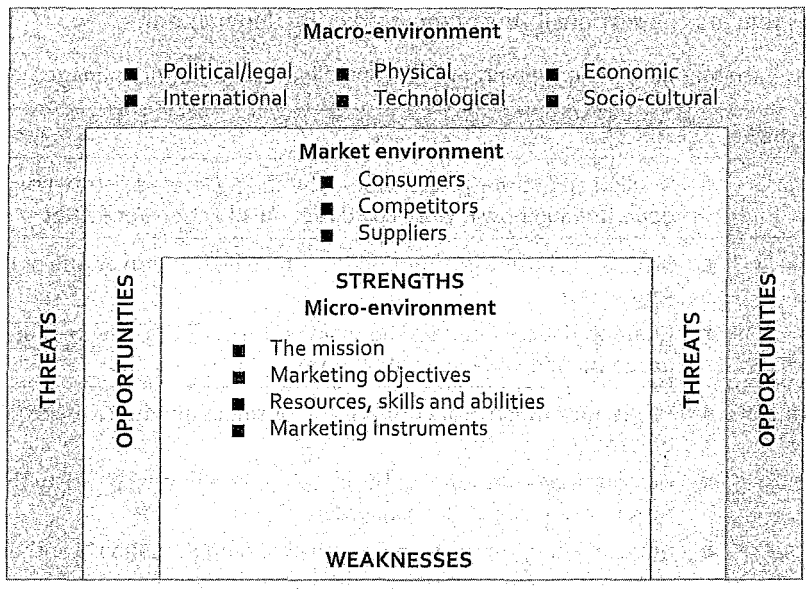


Figure 2.1 The three components of the marketing environment

Source: Adapted from Cant et al, 2013. *Marketing management: A South African perspective.* Cape Town: Juta, p 35.

The variables and forces as indicated in Figure 2.1 influence the business and constitute the marketing environment. For a business to succeed, management must be aware of the effect these variables have on the enterprise, and they must also have sufficient knowledge to steer the business in the right direction. Marketing management should, therefore, not only look inwards at the micro-environment to identify internal environmental variables, but it should also look outwards to identify the external variables that affect the business. Marketing management must recognise the effect of these variables on decision-making and conduct a SWOT analysis to identify internal strengths and weaknesses and external opportunities and threats. This chapter will focus on these three environments and will also pay attention to the steps involved in conducting a SWOT analysis.

2.3 The variables in the micro-environment

The micro-environment consists of the forces close to the business that affect its ability to serve its customers.[2] Marketing management on its own does not exercise direct control over all the variables in the internal environment, as this environment is made up of various functional areas. Usually, the marketing manager is a member of top management and is able to influence decisions regarding the use of resources. Similarly, the functional heads of finance, human resources and so on, can and do influence the decisions of the other functional heads. The marketing manager has direct control only over the activities of the marketing department, and particularly the marketing instruments. The marketing instruments and activities are, therefore, under the direct control of the marketing manager. Table 2.1 lists the internal variables that are the responsibility of the marketing department.

Table 2.1 Variables in the micro-environment controlled by marketing management

VARIABLES	ELEMENTS
Business aim	■ Mission and strategy: describes why the business exists, what the goals are and how it works by directing all actions/activities
Target market	■ Size: is the business targeting the whole population or one or more segments? ■ Characteristics: what are the main features of the selected target group (gender, age, education, etc)?
Marketing objectives	■ Profit: how much gross profit is the business aiming to make per line or item? ■ Customer orientation: the business's main focus is to satisfy the needs and wants of the consumer ■ Survival and growth: keep up with changing demands by either developing new products or cutting products ➡

VARIABLES	ELEMENTS
	■ Sales and market share: increase market share through differentiation, adding new lines or spreading to other geographic locations ■ Brand extensions: add complementary items
Resources, skills and abilities	■ Internal analysis: review the business's strengths, weaknesses and capabilities of finances, facilities and product knowledge
Marketing instruments	■ Product or service: determine the quality and sizes available and level of service needs ■ Distribution: how the product or service reaches the consumer through retailers, wholesalers, selected stores or mail orders ■ Price: decide which pricing strategy to use and how much the product or service will cost the consumer ■ Marketing communication: decide which medium will be used to communicate the desired message to the consumer

2.3.1 Mission of the business

A business is not defined by its name, statutes or articles of incorporation – it is defined by its *mission statement.* A mission statement defines the fundamental, unique purpose of a business and identifies its products or services and customers. It is a declaration of the 'reason for being' by a business.[3] For an organisation to be able to set clear and realistic business objectives, it needs to be certain about its mission and purpose. A business simply cannot survive if it does not know where it is going and what products or services it will offer.

The mission statement provides a concise statement of the current product market position (products offered and markets served) of the business. It also gives clear guidelines on where the resources of the business should be applied to achieve this mission. A mission defines the fundamental purpose that sets a company apart from others of its type and identifies the scope of its operations in product and market terms. The mission of a business is defined by a customer's satisfaction with its products and/or services. Defining the mission, therefore, starts with a clear description of its customers. Questions that need to be answered when formulating the mission are as follows:

- Who is the customer?
- What does the customer buy?
- Where is the customer located?
- How does the customer buy?
- How can the customer be reached?
- What does the customer regard as value for money?

A company's vision and mission statements should clearly be more concerned with its customers than with other processes or problems.

EXAMPLE: Vision statements

SAB
To be the most respected beverage company in the world.[4]

SEDA
To be the centre of excellence for small enterprise development in South Africa.[5]

UNISA
Towards the African university in the service of humanity.[6]

2.3.2 Selection of the target market

In line with the mission and objectives of the company, a target market must be selected. This target market must be big enough for the company to meet its stated objectives and to ensure the long-term survival and growth of the business. Sometimes a company will deliberately focus on a smaller segment of the market (niche market) that shows potential and that the company can exploit profitably with its available resources. Each market selected has specific characteristics, which the marketer must be aware of in order to develop his or her marketing strategy to secure the highest possible return. An example follows.

Thandi sells sports shoes in a market that can be divided into four segments based on customers' reasons for purchasing the sports shoes: elites, keeping fit, daily comfort and fashion. After conducting an analysis, Thandi determines that the 'daily comfort' segment best meets the above-mentioned requirements. Table 2.2 illustrates the factors that influence the selection of a target market.[7]

Table 2.2 Factors influencing the selection of a target market

SEGMENT ASSESSMENT FACTOR	DAILY COMFORT SEGMENT	RATING
Size	This segment would be the biggest segment	Good
Growth rate	This is a mature market and therefore will not have a big growth rate	Poor
Profit margins	This segment is expected to produce only moderate profit margins as there is likely to be a lot of competitors	Poor

SEGMENT ASSESSMENT FACTOR	DAILY COMFORT SEGMENT	RATING
Competitors	This segment is likely to have a lot of competitors, including indirect competitors	Poor
Distribution channels	The consumer preference of this segment is most likely to be department stores and discount stores	Good
Strategy	This is likely to be an easy market development strategy to implement	Good
Resources	This segment could be marketed with existing products at existing retailers, making it relatively low cost	Good
Capability	The main concern, which is minor for this segment, would be gaining access to the department stores and discount stores	Good
Role of brand	The brand would easily hold its own in the general market; however, the concern would be the eroding of the existing brand equity if introduced into the market	Fair
Overall assessment	Rating: Good	

2.3.3 Marketing objectives[8]

The mission and objectives set out the reason for the existence of the business. An objective can be defined as something the organisation wants to achieve over a set period of time. If there are no specific and definite objectives to aim for, there is no reason to exist. The objectives of a business are, therefore, directly linked to the mission statement. The mission leads to a hierarchy of objectives, such as the organisation's objectives, marketing objectives, financial objectives and production objectives. All objectives need to meet five requirements:

1. They should relate to a *single, specific topic.* An objective should not be vague, for example: 'To increase market share.' This is a vague objective, as you need to know what it was originally in order to make a comparison.
2. Objectives should *relate to a result, rather than an activity to be performed.*
3. Objectives should be *specific and measurable.* This means that the objective must be stated in specific terms, for example, 'to increase market share from 12% to 17% in 6 months'.
4. Objectives should be *challenging but achievable.* All too often managers set objectives that are not reasonable and if not attained, can demoralise

both management and employees. It is thus important not to set unrealistic objectives.
5. Objectives should be set *within a timeframe* (usually one financial year).

This definition implies that different kinds of objectives are encountered at different levels of the organisation. The next two sections will look at the organisation's long-term and short-term objectives.

2.3.3.1 Business or long-term objectives

The first group of objectives is the business objectives or long-term objectives. These objectives present a picture of a certain desirable future for the business. The objectives also serve as a standard or norm according to which the actual achievement or performance can be measured. Top management, which usually includes the marketing manager, financial manager and human resources manager, is responsible for setting business objectives.

According to Peter Drucker, there are eight major areas in which a business should set its objectives. These objectives refer to the whole enterprise, and are as follows:[9]

1. *Market standing.* A business should decide which products and services it wants to sell and to whom it wishes to sell them. The business should also target the share of the target market it aims to capture.
2. *Productivity.* This is the ratio of the inputs and outputs of a business. Objectives with regard to productivity improvement can be set in several areas, such as work methods, machinery and equipment advances, and increased worker efficiency.
3. *Innovation.* A business that plans to remain competitive in today's environment should be innovative, and should plan new products.
4. *Physical and financial resources.* Objectives should be established with regard to plant equipment and supply of raw materials. Objectives should also be set in terms of how financial resources are to be generated and utilised.
5. *Profitability.* Profit is the reward for the capital investor or the entrepreneur. Profit objectives should be set in terms of a particular financial index, for example, 'to achieve a return on investment (ROI) of 21 % during the next financial year'.
6. *Manager performance and development.* Businesses should set objectives that relate to the quality of management performance and ensure the development of people at all levels of management.
7. *Worker performance and attitudes.* Objectives should be set regarding factors such as output per employee and quality of product.
8. *Public and social responsibility.* Objectives should be set that will address the public and social responsibility initiatives of the business.

2.3.3.2 *Functional or short-term objectives*

The second group of objectives are the functional objectives. Functional objectives refer to those objectives set by functional managers in each functional area, for example, marketing objectives for the marketing department. These are medium- or short-term objectives.

As mentioned previously, the marketing objectives relate directly to the business objectives of the company. The most important marketing objectives are as follows:

- *Profit.* To maximise profitability and to achieve the highest possible rate of return on investment (ROI).
- *Customer orientation.* This marketing objective has been discussed as the first principle of the marketing concept. It was emphasised that the marketing strategy must be based on the satisfaction of customer needs and wants. If this is not achieved, the business will cease to exist.
- *Survival and growth.* Marketing management must continually strive to survive, particularly in difficult circumstances. It should, furthermore, encourage growth by promptly responding and adapting to the ever-changing environment.
- *Increase in sales and market share.* A large market share relative to that of competitors ensures a high sales volume and lower unit costs with regard to production and marketing.
- *Efficiency motive.* All companies strive for efficiency. For example, non-profit organisations strive towards maximum efficiency instead of increasing market share or sales.
- *Marketing instrument objectives.* Other marketing objectives can be set for the different functions in the marketing department, depending on environmental circumstances.

2.3.4 Resources, skills and abilities

The resources, skills and abilities of the organisation are controllable elements of the micro-environment and are employed to take advantage of external opportunities and to counter threats. The strategic use of these elements is important, and is the responsibility of management. These resources include available capital and the skills needed to create an effective organisational structure in which employees are able to function to the best of their abilities. They also include the marketing skills needed to compete successfully in the marketplace. Having an efficient marketing information system that supports decision-making, as well as experience and intuitive foresight, are internal strengths that will put the organisation a step ahead of its competitors.

2.3.5 The marketing instruments

The marketing instruments are under the direct control of marketing management. How these instruments are used, however, depends on the market to be targeted and the expected impact of the macro-environmental factors on the organisation.

Marketing management has to take decisions regarding these instruments against this background and with other environmental factors in mind. The marketing instruments are also known as the marketing mix or the four Ps of marketing. They are:

1. *Product.* Which product or products can be offered to meet the perceived needs of the consumer, given the resources and skills available in the company, as well as the broader business climate or environment? A restaurant selling home-made pizzas may tie in with the experience of the owner, as well as the demand from the market for home-made pizzas.
2. *Price.* The price of the product must reflect its value to the consumer. Another aspect to consider is the relative price versus quality level that the product maintains against competing products. When setting the price, marketing management has to consider the economic climate, customers' willingness to pay a specific price, prices of competitors' products and so forth. In an area where there are many people unemployed, prices will most likely reflect this scenario and be lower.
3. *Place.* Customers' buying patterns will determine where a product should be available. Management must decide which outlets should carry the product, based on whether these outlets will reach the organisation's customers. A bakery will try and sell its products at every café and garage it can, as it is more convenient for customers to purchase it at these outlets.
4. *Promotion.* Promotion concerns the marketing communication methods used to inform the target market of the product. This decision is made by the marketing manager and will be influenced by factors such as the target audience to be reached, cost and frequency of media.

How these instruments are combined will determine whether the consumer buys a market offering or not. The business must ensure that it has the right product, at the right price at the right place (at the right time) and that the product is promoted by informing the target market about the product and where and how to obtain it. These four variables are discussed in more detail later in this book.

2.4 The variables in the market environment

The market environment refers to those elements or variables that may be influenced by the organisation but which cannot be controlled by the organisation. This environment is the second environment shown in Figure 2.1 and is located just outside the micro-environment.

The market environment always has two sides: a *supply side* and a *demand side.* On the supply side are all the other businesses offering similar products to the market (competitors). There are also the suppliers who market their own products or services to the business. Manufacturers and wholesalers are usually the suppliers on

the supply side of the market. On the demand side are all the possible consumers of the products, services or raw material components the business offers. The marketer purchases merchandise from its suppliers and sells it to consumers.

To understand the interaction between the business and its market environment, we need to examine the variables in the market environment more closely.

2.4.1 Suppliers

Suppliers are businesses and individuals who provide the resources the business needs to produce its goods and services.[10] It has become increasingly important for organisations to ensure that their sources of supply meet their requirements in terms of delivery, quality, price and so forth. Having the right supplier may mean the difference between success and failure for the organisation, as suppliers are an important link in the organisation's overall customer 'value delivery system'. Without reliable suppliers, the business will not be able to meet its obligations to customers.

In South Africa, the purchasing function is increasingly being managed as part of the overall supply chain. The purchasing function is, therefore, regarded as part of a supply process. It includes all the activities in the materials flow chain, starting with the supplier, and includes all intermediate activities up to the stage at which the requirements are delivered to the end-user in the business.

The supply of materials and services is extremely important as it has a direct influence on the profit of the business and the price charged to customers. A large part of the cost of a product is directly related to the purchase of materials, which can ultimately mean the difference between success and failure. If the organisation pays too much for its supplies, it will not be competitive and therefore, it will not be able to survive. Ultimately, this will influence the acceptability of the product in the market.

2.4.2 Consumers

Without consumers the business is nothing and therefore consumers are the focal point of the business. Everything about consumers - their needs, purchasing power and behaviour patterns - are of primary importance to any business, and consequently consumers require an in-depth analysis.[11] The topic is touched on briefly here, as consumers and consumer behaviour will be dealt with in detail at a later stage.

In simple terms, a market can be defined as consisting of people with needs who have money to spend and the willingness to spend that money. It is the responsibility of marketing management to analyse the consumer market in order to see how it functions. Changes in the market composition or changes in consumer needs may create certain opportunities that, if taken advantage of, could influence the long-term growth and survival of the business.

Businesses operate in five types of customer markets.[12] These markets are as follows:

1. *Consumer markets* are individuals and households who buy goods and services for personal consumption.
2. *Industrial markets* or *business-to-business markets* are made up of organisations that buy goods and services for further processing or for use in their manufacturing processes.
3. *Reseller markets* buy goods and services and resell them at a profit.
4. *Government markets* are made up of government agencies that buy goods and services in order to produce public services or transfer these goods and services to others who need them.
5. *International markets* are foreign buyers, including consumers, producers, resellers and governments.

2.4.3 Competitors[13]

Competition can be defined as a situation in the market environment in which several businesses offer similar kinds of products or services and compete for the business patronage of the same customer.[14] Any business that offers a product or service is constantly faced with competition. In most instances, competition determines the price at which a product can be sold. It is essential that the business does not define its market too narrowly, as this may limit its target market. It is also important to realise that consumers have many different needs, which means they will be trying to satisfy as many of these needs as possible with their limited resources. This means the pool of competitors is great, until such a time as the customer decides which need to fulfil.

As soon as the consumer decides to buy a specific product, the competition moves to product competition. In Thandi's case, this would be other shoe retailers.

Competition also has positive aspects. It can help to keep excessive profits in check, stimulate higher profitability, promote better service and encourage technological innovation.

2.4.3.1 Competitive market structures

The number of businesses that sell a product may affect the strength of the competition. When many businesses sell a particular product, price considerations and product differences are more important than when only one business sells that product. Furthermore, the number of businesses selling a similar product determines the structure of the market. The advent of the internet has also led to a change in the total competitive structure. One of the fastest growing advertising mediums is advertising on the internet. Table 2.3 compares some characteristics of the four general types of competitive market structures.

Table 2.3 Characteristics of competitive market structures

MARKET STRUCTURE	EXAMPLE
Monopoly: there are no competitors and there are no substitutes available	Eskom
Oligopoly: there are a few competitors and there are a few differentiated products available	Cellular network providers
Monopolistic competition: there are many competitors and there are many differentiated products	Variety of breakfast cereals
Perfect competition: there are an unlimited number of competitors and there are many products with little differentiation	Fresh produce goods

These competitive market structures can be described briefly as follows:

- *A monopoly* exists when a business is marketing a product that has no real substitutes. The company essentially has complete control over the supply of the product. In South Africa monopolies are discouraged, but in some instances the government has allowed them.
- *An oligopoly* exists when there are relatively few businesses marketing a particular product, and they control much of its supply. Products in oligopolistic competition may be homogeneous (similar), such as coal or steel. On the other hand, they may be differentiated (having real or perceived differences), such as motorcars or cigarettes. The furniture and motor industries are examples of oligopolies.
- *Monopolistic competition* is found when a large number of businesses market the same or similar products. Each business attempts to differentiate its products to convince consumers that its products are better compared to those of competitors.
- *Perfect competition* is the ideal situation, but it does not exist. If it did it would be a market with an unlimited number of sellers, not one of which could significantly influence the price or supply of the products. The closest example of perfect competition is the market for agricultural products, sold informally at road stalls or at farmers' markets.

2.5 The variables in the macro-environment

The third and last component of the marketing environment in which a business operates is the macro-environment. The macro-environment refers to those factors or variables in the environment over which the individual business has no control and on which it has little effect. These factors influence the business and need to be monitored constantly as they continually change. These variables are found just outside the market environment.

The macro-environment is dynamic in that it changes rapidly and in today's global society the impact of such changes may be felt very quickly. The result of this interaction is often a changed business environment with new opportunities and new threats.

The different variables in the macro-environment will be discussed in the paragraphs that follow.

2.5.1 Political and legal environment

One of the single most important influencers of the marketing environment is political stability in a country. If there are doubts about political stability, particularly of developing countries, reaction from investors and tourists can be immediate. This is usually reflected in negative trends in the exchange rate and the number of foreigners visiting a country. During the first few months of 2016, the international rating agencies downgraded South Africa's status and left the country on the verge of junk status, which can and will result in serious contractions in the economy. The various political blunders made by government, including 'Nenegate' have resulted in the value of the rand dropping by more than 30 % against the US dollar. During early 2016, the rand dropped to its lowest exchange rate against the US dollar, and touched briefly at R16 to the dollar. If one compares this to the exchange rate only four years ago (2012) when the rand was around R8 to the dollar, the impact is clear.

Management must also be aware of international laws and regulations that regulate businesses and abide by these rules. In addition, businesses need to keep up to date with changes in legislation, at both national and provincial levels. After South Africa entered a new political era in April 1994, regulatory bodies made sweeping amendments to implement change. Political measures guide the economy in a specific direction. If, for example, the government of the day wants to increase the level of exports, regulatory guidelines need to reflect this. Decisions taken by government have an impact on the running of businesses and cannot be ignored at will. Individual companies can do little about this and will have to adapt to these changes if they are passed through parliament and become law.

2.5.2 International environment

The internet, e-commerce and communication technology have made the world a global village. In the past, news travelled slowly and reaction was even slower. Today, communication is instant. What happens anywhere in the world is reported virtually immediately and people and markets react to these events instantaneously. It is now much easier to source suppliers for products than it was in the past and competitors are not limited to local stores or outlets, as seen in the exponential growth of online shopping.

The changed political dispensation has opened new doors for South African businesses – both big and small – but these doors can be seen as a threat or opportunity.

South African businesses now compete on an equal footing internationally, which benefits both importers and exporters. However, new markets are opening up in countries such as China, India and Russia.

Businesses that intend marketing their products abroad and those intending to import goods must understand all the relevant regulations and conditions that apply in the countries with which they do business. They should also be aware of the implications of any cultural differences that may impact on trade. Organisations such as the Industrial Development Corporation (IDC) and the Department of Trade and Industry (DTI) can assist businesses in this regard.

2.5.3 Physical environment

Natural resources such as water, coal, oil, gold and other minerals are not available in infinite quantities. Businesses must be aware of these limitations as various factors can lead to a shortage of raw materials and rising costs. In some instances the supply of an ingredient for a specific pharmaceutical product has become so scarce that the product's price has sky-rocketed or it has been removed from the market. All businesses need to be aware of the availability of raw materials used in the manufacturing process as this can and will have an effect on the regular supply of the product. There is general consensus that oil reserves will run out in about 25 to 30 years. Companies that manufacture motor cars, engines and so forth will have to start looking seriously at alternative sources of energy to power their machines.

2.5.4 Technological environment

The one area in which change has been taking place at an alarming pace and virtually on a daily basis (some even say an hourly basis) is technology. One need only look at the increasingly sophisticated features on cell phones, the growing use of the internet, new applications of software and better and faster computer hardware to realise how rapidly technology is changing. These advances manifest in all areas of business, including advertising media, in the development of new products, delivery of products and many other ways. Most products that are bought today, with the exception of a few basic commodities, have originated over the past 70 years. The most recent inventions, which have already become 'indispensable' in modern society, such as laser surgery, silicon protein molecules, fibre optics, and 80% of the medicines available today, are products that have been developed in the past five to 10 years! These extreme changes in the environment are largely a result of technological innovation.

Technological innovation may be described as the process that expands people's capacity. It originates in research and development by enterprises and the state. It results not only in new machinery or products but also in new processes, methods and even management approaches, which in turn bring about changes in the environment. There is at present, worldwide, renewed pressure on the development

of renewable and alternative energy which will affect all spheres of business once it is commercialised. Technological innovation also has an impact on other environmental variables. Economic growth is affected by the number of new inventions and also by social change. For example, the introduction of a new product, such as cell phones, causes major changes in the way people live. Environmental variables, in turn, have an impact on technology, so that the process of innovation and change is constantly repeated.[15]

2.5.5 Economic environment

The most visible and recognisable variable in the macro-environment is the economy. It can be said that the economy is the heartbeat of a country as it affects every consumer and business. Mismanagement of the economy by any government can lead to serious complications on a global scale for that country.

The economic forces in a country in general and in the specific area in which a business operates will have certain implications for the business. Management must be aware of these economic forces, as any changes will bear upon other variables in both the market environment and the micro-environment. The economic environment includes the following:

- *Inflation.* The inflation rate in a country has a direct influence on consumer prices and spending. In South Africa, the fiscal policy of the government aims to keep inflation between 3 % and 6 %, but since the end of 2015 this has become increasingly difficult to maintain; inflation for 2016 is forecast to be above 6,8 %, and this with an expected GDP of less than 1 %.
- *Interest rates.* Since 2009 the interest rate has been dropping steadily, but this has changed and since 2015 the interest rate has increased by 2 % – with the expectation that this trend will continue well into 2017. Businesses set up with borrowed funds are particularly sensitive to interest rate fluctuations. A sharp rise in the interest rate can easily result in a business being unable to meet its commitments. At the time of writing in 2016, many countries still have an interest rate of between 0,5 % and 1 % because of the economic climate and the continued economic crisis in many countries. By keeping interest rates low, government wants to encourage businesses to use the money to grow their businesses and, in so doing, encourage economic growth.
- *Unemployment.* As a result of the worldwide recession since 2009, nearly one million South Africans have lost their jobs, bringing the unemployment figure to nearly 40 % of the economically active population in the country. During the first few months of 2015 alone, an additional 500 000 South Africans lost their jobs or became unemployed. This state of affairs has a direct effect on consumer expenditure and the demand for products and services. In such times, people tend to cut back on more expensive products and postpone purchases of durable goods for as long as possible.

- *Consumer income.* The structural changes in the income of the various consumer groups are of great importance to businesses, since they give rise to changed spending patterns with regard to products and services such as food, clothing, housing and insurance. As mentioned above, during hard economic times people have less money to spend (or have less disposable income).
- *Exchange rate.* In the past few months, the rand worsened against other currencies, and in May 2016 was trading at an average of about R15,15 to the US dollar. A weak rand means that imports are more expensive, but exports earn more money than would be the case if the exchange rate was lower. The prices of petrol and diesel, for example, are directly linked to the price of oil per barrel and are adjusted on a monthly basis. This means that as the price of oil increases, for example, as a result of a weak exchange rate, the price of petrol and diesel are adjusted accordingly. The exchange rate, therefore, has a direct influence on transport costs, the cost of imported goods and raw materials. Companies need to be aware of the impact of these fluctuations on their products and services.
- *Monetary policy.* Another variable affecting all businesses is the government's monetary policy. This policy regulates the money supply, interest rates and the level of the rand relative to other currencies. Fiscal (taxation) policy affects both businesses and consumers through tax reforms and the level of taxation.
- *The business cycle.* The business cycle also plays an important role in the performance of businesses. During a downward turn in the business cycle, less disposable income is available. This has a negative effect on business. The business reacts by buying fewer products from the manufacturer. In other words, a decrease in stock is a direct result of a downward turn in the business cycle.

It is clear from the above discussion that economic trends require continuous and vigilant attention from management.

2.5.6 The socio-cultural environment[16]

The integration of the South African population since independence in 1994, the focus on women in business, black economic empowerment (BEE), and other actions have led to changes in all areas of business. The socio-cultural environment has an impact on marketing techniques, media used, types of advertisements, organisational structures and products designed and offered for sale across all types of businesses and industries.

Social and cultural change is strongly influenced by the economy and technology. Social trends directly affect marketing strategies as they help to determine consumer needs and purchasing decisions. These trends include demographics, lifestyles, cultural values and sub-cultural influences. (Demographics describe the objective characteristics of an individual, for example, age, education, occupation, income and marital status.) Consumers' lifestyles are defined by their activities, interests and opinions. For example, a consumer may have a social lifestyle, a health-conscious

lifestyle, a liberal or conservative lifestyle. Cultural values can be defined as beliefs shared by a large number of people in a society, which lead to common patterns of behaviour. Sub-cultural influences involve the values and behaviour that distinguish sub-cultures from society as a whole.

2.6 SWOT analysis

A SWOT analysis is a useful instrument for helping managers to identify the internal strengths and weaknesses of a business and the external opportunities and threats it faces.

A SWOT analysis is based on the assumption that an effective strategy maximises the strengths and opportunities of a business and minimises its weaknesses and threats. Strengths should be matched to opportunities and threats should be seen as challenges. However, not all factors in a SWOT analysis are of equal value. The aim is, therefore, to identify those critical factors that can have a major effect on the business. Management should then build on vital strengths, correct obvious weaknesses, exploit significant opportunities and avoid potentially disastrous threats. The components of a SWOT analysis are discussed in more detail below.

2.6.1 Strengths

A strength is a resource, skill or other advantage relative to competitors and the needs of the market that the business serves or expects to serve. It is a distinctive competence that gives the business a competitive advantage in the marketplace. A distinctive strength is more than what it can do; it is what it can do particularly well. Strengths may exist with regard to financial resources, image, market leadership, buyer or supplier relations, expertise, skills and intuitive knowledge. In many industries the service, efficiency and personal attention offered to customers make a crucial difference in gaining leverage in the marketplace. Businesses that deliver superior service over their competitors have a real competitive strength.

2.6.2 Weaknesses

A weakness is a limitation or deficiency in resources, skills and capabilities that seriously impedes effective performance. Weaknesses are areas that a business needs to improve, should it not want its competitors to gain competitive advantage. Facilities, financial resources, management capabilities, marketing skills and brand image can be sources of weaknesses. For example, a business short of cash cannot afford to undertake a large-scale marketing communications campaign.

2.6.3 Opportunities

An opportunity is a favourable element within a business environment that can be exploited by management. The identification of promising opportunities is an absolute prerequisite for the profitability, survival and growth of a business.

Identification of a previously overlooked market segment, changes in competitive or regulatory circumstances, technical changes, and improved buyer or supplier relationships could present opportunities.

An opportunity should not be assessed in isolation, but should be evaluated on the ability of the business to capitalise on the opportunity. This implies that the business must have adequate resources to support the action required to take advantage of an opportunity.

2.6.4 Threats

A threat is a major unfavourable element within a business environment that can lead to the failure of a product or service, or ultimately the business itself. It is the responsibility of management to identify any such threats, real or potential, and to take the necessary steps to counteract these threats.

Threats can take different forms, for example, changes in the consumer market, an unexpected increase in competition, problems with suppliers, punitive legislation, recession or an unfavourable rate of exchange. These threats should not be accepted as a matter of course, but should rather be seen as challenges or possibly even as opportunities.

2.7 Environmental scanning

Environmental scanning is the measurement, projection and evaluation of change in the different environmental variables.

In order to adapt to changes in the environment, the internal and external environments should be monitored continuously. We have seen that a SWOT analysis can be a useful tool to shed light on those environmental variables that in some way either have a positive or negative impact on the success of the business.

The importance of environmental scanning or analysis may be summed up as follows:

- It helps the business to capitalise early on opportunities, rather than lose opportunities to competitors. In other words, it helps the business to obtain a 'first-mover' advantage by taking action before the competition.
- It provides an early signal of impending problems or threats, which can be defused if recognised well in advance.
- It sensitises a business to the changing needs and wants of its customers.
- It provides a base of objective information about the internal strengths and weaknesses of a business that determine its ability to counter threats or utilise opportunities.
- It improves the image of the business by showing that it is sensitive and responsive to its environment.

Monitoring the internal environment (in other words, analysing internal strengths and weaknesses) is part of the strategic management process. It should take place while management keeps an eye on the external environment. It is not important whether the internal or external analysis is done first. It is, however, of the utmost importance that this exercise is undertaken regularly. It is very important to do a thorough internal analysis, as it is only then that workable strategies can be developed and realistic objectives formulated.

The following two pertinent questions can be asked:

1. How does management identify strengths and weaknesses?
2. How should strengths and weaknesses be evaluated?

For top management to identify the strengths and weaknesses in the micro-environment, it needs to isolate the key success factors for the business. These success factors will depend on conditions in the industry, the market and the position of the business in that industry and market.

Finally, what methods can be used to scan the internal and external environments? Marketing research methods are used to analyse environmental variables. These methods are controlled by the marketing department.

Summary

This chapter describes the micro-, market and macro-environmental variables. Marketing activities take place in this environment and are influenced by environmental factors. Businesses should continually adapt themselves to the changing environment. The marketing environment should be closely monitored by means of a SWOT analysis. Internal strengths and weaknesses should be pitched against external opportunities and threats in the continuous battle against competitors.

Few businesses have the necessary resources, skills and abilities to serve the total mass market. For this reason, smaller sub-markets or segments are identified and suitable markets are selected as target markets. The products of the business are positioned in a niche in the market where they are protected, to a degree, from competitors.

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Chapter 3

The international marketing environment

Learning objectives

After you have studied this chapter, you should be able to:

- understand and explain the difference between local and international marketing
- identify and discuss the external factors influencing the international marketing environment
- explain the steps in the decision-making process
- discuss the deciding factors for entering the international marketing environment
- identify and discuss the marketing mix strategies marketers can use
- identify and explain the market-entry strategies an international marketer can use.

3.1 Introduction

We live in a global world where distance is a mere click away. Gone are the days when companies only had to be concerned about competitors in their own country and not be too concerned about what happens in the rest of the world. The days when businesses could consider their country of origin as the only country in which business could be conducted are long gone. Organisations operate in a global market with global players where borders are no deterrent for trade. Owing to technological advances the placing of an order is a click away, no matter where in the world the purchaser happens to be, and as a result the competitive environment has become far more intense. Because of these advances many other changes are taking place in the business landscape, such as more complex management structures, strategies and tactics, communication methods and technological innovations. The term 'globalisation' has a new meaning in the business context, referring to endless mobility and competitiveness in the area of socialisation, commerce and academia. International marketing is no longer just a decision companies need to make; it has become essential for any organisation to consider and evaluate the possibility of international marketing.[1]

Although the global market is becoming smaller, geographical distance and the difficulty of functioning in numerous markets where risk and doubt are elevated mean that the necessity for knowledge and understanding become more significant.[2] The international marketing environment is continuously evolving and growing at a much faster pace than ever before, and it has reached the stage where all marketing managers in today's competitive environment are affected by international concerns. Consequently, the marketing manager of today who does not understand various markets lacks the skills necessary to be a modern, professional marketing manager.[3]

It stands to reason that marketers need to possess knowledge about and an understanding of the international marketing environment in which they operate in order to ensure survival and profitability. This chapter introduces the various concepts of international marketing, providing an understanding of the challenges of this marketplace and how international marketing activities differ from those required when operating solely in a local market. The six external factors affecting the international marketing environment are also discussed, as are the factors to consider when deciding to enter the international market. Which specific market to enter, as well as the most effective way of reaching the intended market successfully, are also examined.

3.2 Defining international marketing

In order to define international marketing and put it into perspective, the differences between international marketing, global marketing and domestic marketing must be explained.

Some marketers see international marketing as simply selling across national borders. This is very simplistic and does not come close to identifying or capturing the intricacies involved. Marketing across national borders may suggest that an organisation is actively responding to an unsolicited foreign order, or it can indicate a company that is allocating most of its resources to foreign market activities.[4] Clearly, the term 'international marketing' involves a wide range of different activities and commitments.

International marketing, according to Doole and Lowe, 'involves operating in various foreign markets in which the uncontrollable variables and the controllable factors (in the form of cost structures, opportunities for advertising and distributive infrastructure), differ significantly between markets, countries and nationalities'.[5] In other words, international marketing occurs when the marketing performances of the organisation include activities, interests or operations in more than one country and when there is some kind of authority or management of these activities from outside the country.

Global marketing, on the other hand, is when an organisation manages, integrates and organises all the different marketing programmes into a considerable global endeavour. Here, the main aim of the company is to accomplish a degree of

synergy in the overall international marketing effort, in order for the organisation to capitalise on the different exchange rates, tax rates, labour rates, skill levels and market opportunities that prevail in these different markets.[6]

> Domestic (local) marketing involves the organisation influencing a series of controllable variables (such as price, advertising, distribution and product or service attributes) in largely uncontrollable external environments that are made up of different economic structures, competitors and legal structures within a specific political or geographic country's boundaries.[7]

This means that domestic (or local) marketing consists of marketing activities and operations within one country only (for example, one's home country, South Africa).

In short, international marketing can be defined as 'the practice of planning and accomplishing business across national boundaries to generate exchanges that satisfy the objectives or needs of individuals and organisations. The fact that a transaction takes place across national borders highlights the difference between domestic and international marketing field complexity, and intensity may vary significantly.'[8]

The international market is influenced by a number of external factors that are discussed in the next section.

3.3 External factors influencing the international marketing environment

When deciding to compete on an international platform the marketer needs to be aware of and evaluate the external factors that can and will have an influence on his or her marketing actions.

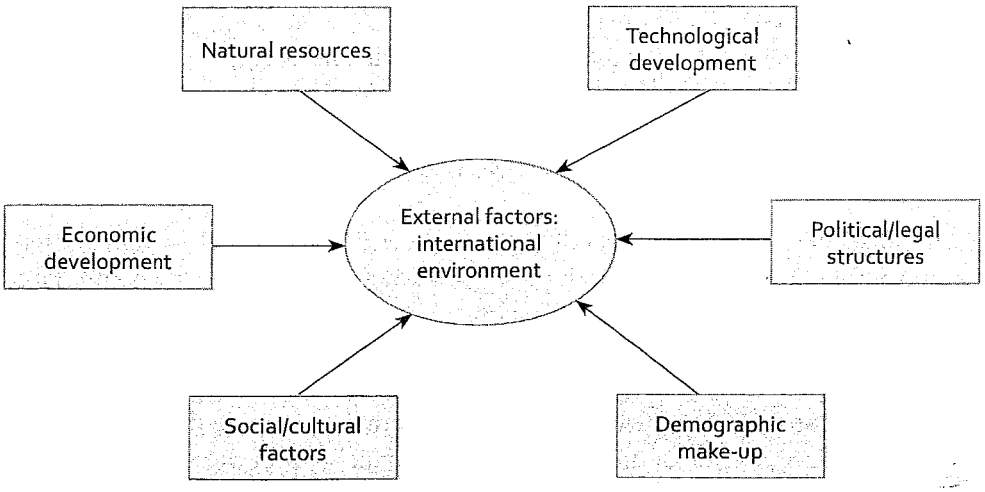


Figure 3.1 Six external factors facing international markets

Source: Adapted from McDaniel, C, Lamb, CW & Hair, JF. 2011. *Introduction to marketing.* Mason, OH: South-Western Cengage Learning, p 161.

The main differences between the local and international marketing environments are the multi-dimensionality and complexity of the different countries, with different nationalities, races, cultures and religious beliefs.[9] It must also be noted that all (or most) of the external factors that are applicable domestically are also applicable in an international context. These external factors include social/cultural variables, economic development, technological advances, political/legal structures, the demographic make-up of different countries and natural resources.[10] Figure 3.1 illustrates the various external factors that can have an effect on an organisation operating in international markets.

It is clear from Figure 3.1 that the same factors are applicable in a domestic market although the impact, interpretation and finer details will differ from country to country. Each factor is discussed briefly below.

3.3.1 Social/cultural factors

One of the major obstacles in international marketing lies in the social and cultural differences between nations – and a failure by marketers to ensure that they understand these cultures before embarking on new international business ventures. The social differences that exist between nationalities and the various cultural situations of consumers affect the perceptions and buying behaviour patterns of people.[11] A failure to become acquainted with the social and cultural values of a nation can affect an organisation operating in the international marketplace to such an extent that the business venture can be doomed. Countries have their own customs, standards and taboos, and marketers must understand how social and cultural factors affect the consumers' behaviour in the market(s) in which they wish to operate.[12]

As mentioned before, there are many additional complexities and problems that marketers face when marketing internationally, which originate from the differences in the cultural and social environment. Table 3.1 indicates the major differences between operating in local and international markets.

Table 3.1 Comparison between local and international marketing

	LOCAL MARKETS	INTERNATIONAL MARKETS
Language	Particular native language and known ethnic groups	Foreign language and multicultural groups
Market	Fairly homogeneous markets	Fragmented and heterogeneous markets
Stability	Rather stable business environment	Several unstable business environments that might be very profitable ➠

	LOCAL MARKETS	INTERNATIONAL MARKETS
Currency	Particular and notorious currency	Currencies and exchange rates fluctuate
Financial climate	Relatively consistent	Variety of financial climates that fluctuate
Data collection	Accurate and easily obtainable	Complex as it is a bigger and more diverse market and a bigger budget is allocated for a bigger workforce
Effect on the environment	An entity has minimal effect on the environment	Weakening of resources by bigger organisations in small countries
Governmental interference	Moderate interference from government	High governmental interference that controls business plans
Political factors	Somewhat unimportant	Vital
Vital	Known and understandable 'rules' for doing business	'Rules' for doing business are different, unclear and unknown
Management	Management is familiar with sharing responsibilities and using financial controls	Management is sometimes independent and unreasonable with budget and controls

Source: Adapted from Lancaster, G & Massingham, L. 2012. *Essentials of marketing* management. New York: Routledge, p 490.

Central to all cultures is the set of values that the citizens or specific ethnic groups share and which determine what is socially acceptable or not. Culture underlies family values, educational systems, religion and social classes. Being aware of these values and the effect they have on preferences and behaviour makes it possible for marketers to formulate appropriate strategies and action plans. An organisation that does not understand a country's culture is bound to fail. A lack of knowledge about different cultures leads to misunderstandings, inadvertent impoliteness and even incompetence.[13] Cultural and social diversity includes language barriers, ethical concerns, different belief systems, religion, changes in the demographic profile, and interpersonal relationships with others. These dissimilarities between countries and across cultures have a considerable impact on the way in which a product might be utilised in a market, the brand name selected, as well as the advertising campaign.[14]

EXAMPLE: Marketing mistakes in international markets

- The Swedish furniture giant IKEA somehow agreed upon the name 'FARTFULL' for one of its new desks.
- There are several examples of companies getting tangled up with bad translations of products due to the word 'mist'. We had 'Irish Mist' (an alcoholic drink), 'Mist Stick' (a curling iron from Clairol) and 'Silver Mist' (Rolls Royce car) all flopping as 'mist' in German means dung/manure.
- 'Traficante', an Italian mineral water, found a great reception in Spain's underworld. In Spanish it translates as 'drug dealer'.
- In 2002, Umbro, the UK sports manufacturer, had to withdraw its new trainers (sneakers) called the Zyklon. The firm received complaints from many organisations and individuals as it was the name of the gas used by the Nazi regime to murder millions of Jews in concentration camps.
- Sharwoods, a UK food manufacturer, spent £6 million on a campaign to launch its new ‹Bundh› sauces. It received calls from numerous Punjabi speakers telling them that 'bundh' sounded just like the Punjabi word for 'arse'.
- Honda introduced their new car 'Fitta' into Nordic countries in 2001. If they had taken the time to do some cross-cultural marketing research they may have discovered that 'fitta' was an old word used in vulgar language to refer to a woman's genitals in Swedish, Norwegian and Danish. In the end they renamed it 'Honda Jazz'.
- Here is a nice cross-cultural example of the fact that all pictures or symbols are not interpreted the same across the world: Staff at the African port of Stevadores saw the 'internationally recognised' symbol for 'fragile' (ie broken wine glass) and presumed it was a box of broken glass. Rather than waste space they threw all the boxes into the sea!

Source: Adapted from http://www.commisceo-global.com/component/easyblog/cross-cultural-marketing-blunders (Accessed 11 May 2016).

It is clear from these examples that mistakes are made by the best of companies and are not limited to those who are new to the notion of international marketing. Marketers have to recognise that these variations exist in the diverse regions and cultures in which they operate and adapt their offerings accordingly.

3.3.2 Economic development

The level of economic development in a country has a direct impact on the planned actions and offerings of marketers. If a country is in a downward spiral, unstable, or not sound, the risks associated with entering that market are compounded. For

example, any company that considers investing in South Africa will acquaint itself with the prevailing economic conditions and political pressures in this country, and the risks these circumstances pose to the long-term success of the investment to be made.[15] Therefore, it is important that international marketers consider the economic climate of the country in which they wish to operate. International economies have grown at a fast pace since the early 2000s, with China leading the way.[16] This has, however, changed since the economic crisis that began in 2008. A number of countries, most notably Greece, Spain and Portugal, experienced serious economic problems in 2012. These problems are still continuing in 2016 and are further exacerbated by the migrant crisis that has hit Europe. Even China has experienced a slowdown in economic growth – from over 10 % per annum before 2008 to about 6 % in 2016. A marketer ultimately has to try and forecast the problems of the changing growth in economies, as well as evaluate and gauge the possible impact on his or her company.[17, 18]

According to Kotler and Armstrong, there are two economic factors that a marketer needs to consider to determine whether the economic environment of a country is attractive or not.[19] These are the country's industrial structure and income distribution.

1. *Industrial structure.* This includes aspects such as the survival of the economy (subsistent economy), raw materials, emerging economies and industrial economies that shape the product and service needs, income levels and employment levels of that country.
2. *Income distribution.* Industrialised countries include low-, medium- or high-income households. A company needs to decide which of these groups it will target. In addition to the issues previously mentioned, the prospective international marketer needs to take note of a country's general economic issues, such as interest rates, exchange rates, unemployment and taxation. Since 2008, interest rates have dropped to very low levels with some countries offering only 1 %, and consequently consumers are increasingly borrowing money for capital investments such as housing. While this has meant an increase in sales and profits for certain industries such as construction and furniture retailers, the level of consumers' debt is rising because consumers are borrowing too much and spending too much on credit. According to Fahy and Jobber, 'direct and indirect taxes is another factor international marketers need to consider before marketing internationally'. Direct taxes are taxes on income and wealth (such as income tax and capital gains tax), while indirect taxes are included in the price of the goods and services consumers buy, for example, Value Added Tax (VAT), which have an effect on their buying behaviour.[20]

3.3.3 Technological development

The advances in technology have an impact on businesses all over the world. In fact, the lack of technology and technological advancement may seriously impede one's business in a particular country. Many developing countries are not capable of accommodating the latest technology within their business environment because of infrastructural limitations. This affects the international marketer who will find it difficult to conduct business with that country. Think of the internet and the speed with which information can be sent and then consider how an inability to handle internet transactions would slow down business.

Many developments in technology have taken place in recent years, which has led to an increase in the competitive environment of the business world and changed how business is conducted. One only has to look at the evolution that has taken place in the field of electronic communication to understand the opportunities these developments provide to the marketer. The use of tablets has changed the way businesses operate, making desktop PCs virtually obsolete, and with Wi-Fi freely available, offices have become a 'nice to have' for many people. Today's executive is able to conduct his or her business from coffee shops or the beach thanks to electronic connectivity. Organisations can communicate from any place around the world using a range of electronic media such as Skype. Cell phones have become central to connectivity, while landlines are falling in popularity. These changes in technology affect all areas of the marketing process and, as a result, should be considered by marketers who aspire to operate internationally. In other words, marketers need to establish whether the channels and means exist to communicate with the international market(s) effectively and immediately.[21, 22]

3.3.4 Political/legal structures

No company can do business in another country without acquainting itself with the laws of that country – as one has to abide by that law. Not knowing the laws of the country in which you operate or do business is no excuse if these laws are broken. Political forces are described by Fahy and Jobber as 'the close connections that politicians and senior business people often have.'[23] Politics is essentially linked to a government's attitude to business and the freedom within which it allows firms to operate. Conducting business in the international environment exposes companies to various risks – especially in countries that have unstable governments. In Africa, for example, there are a number of countries where businesses are at risk of nationalisation and government interference, such as Zimbabwe, and this must be factored into any decisions being made. This political arena suggests that the international marketing environment is not a stable area and the tendencies of governments to change regulations can have a huge effect on international strategies, presenting both opportunities and threats.[24]

Numerous issues face marketers in international markets where they have to comply with the smallest of issues that pertain to a particular country, for example, legal issues regarding food labels such as listing the ingredients used and the size of the lettering. In the case of pharmaceutical products, these types of rules and regulations are extremely strict and severe. Organisations also need to consider a foreign country's financial laws and regulations, especially if they want to take their profits in a currency that is of higher value to them.[25] Examples of legal structures that influence international marketers include the following:[26]

- tariffs that are levied on the goods entering a country
- limitations to or quotas on the amount of a specific product that may enter another country
- exchange control, which is the law that compels a company earning foreign exchange from its exports, to sell the foreign currency to a control agency (such as a central bank)
- trade alliances (or market groupings), which occur when numerous countries agree to work together to form a common trade area to enhance trade opportunities
- trade agreements.

While certain international markets are fairly accessible to international marketers, there are many countries, such as China and India, which are less accessible. India, for example, has strict import quotas, currency restrictions and various limitations that make it challenging to operate in that country. In a similar way, there are a number of countries that have a more open approach, which makes their markets much more accessible to international marketers. Countries such as Singapore and Thailand actively encourage international investors and provide them with incentives and favourable operating conditions in order to lure them to their respective countries.

Another concern when investigating the possibility of entering international markets is the political stability in a country - and the prognosis for it staying like that in future. The government in Greece is very unstable due to economic factors such as government overspending and mismanagement, which has resulted in an increased risk of doing business in that country.[27]

It is important that an organisation working in international markets assesses the countries in which it operates (or desires to operate) to measure the economic and political risks and to ensure it understands the irregularities and features of the market it desires to develop.[28]

3.3.5 Demographic make-up

The demographic make-up of a country refers to variations in the population and presents opportunities for marketers in the form of growth opportunities. It is not enough for a marketer to know the population size of a particular country; more details are needed in order to decide whether to enter a market or not. Information on the dispersion of the population in metropolitan and rural areas, and the

composition of the population in terms of income, sex, age, employment, education and so forth are needed. This is because urban markets might not be easily accessible or there may be a big gap between the older generation and the younger working-age population which can have an enormous impact on the economy, businesses and competitiveness of the individual country.[29] Globalisation has also given rise to increased demographic effects, namely population migration between countries and the rise of the middle class in countries with a low GDP per capita.[30]

3.3.6 Natural resources

There is not an abundance of raw materials in the world and in some countries the scarcity levels are much higher than in others. With the world population continuously increasing due to advances in medical science, which enables people to live longer, there are huge pressures on limited natural resources. Countries in the Middle East, for example, have flourished because of the large quantities of oil in those regions – oil which other countries are forced to buy. In the early 1970s the price of oil was a few dollars a barrel, but in 2012 it fluctuated between US $95 and US $125 a barrel. In 2016 it dropped below US $45 a barrel. This plays havoc with a country's economic growth. Saudi Arabia has, for example, experienced a huge drop in revenue in the first half of 2016 due to the drop in oil prices, and even replaced its energy minister to try and swing this reversal of fortunes. Countries such as Indonesia, Mexico and Venezuela were able to borrow heavily against oil reserves in order to develop more rapidly, but today they are experiencing serious economic problems due to the lower oil prices.[31]

The next section briefly discusses the key steps in the decision-making process to determine whether operating in the international environment will be feasible for a local organisation.

3.4 International decision-making process

The same as when selecting and developing domestic marketing strategies, international marketing strategies should be planned by taking all the relevant aspects into consideration. The key steps in the process in order to plan and implement international marketing programmes and strategies successfully are listed below.[32] The organisation should:

- decide on the extent and degree to which it wants to enter international markets
- determine the markets in which it wishes to operate, which markets offer the best opportunities, and which specific markets it is able to enter
- decide on the best method to enter the international market
- consider which marketing mix strategies to employ and how to apply the marketing mix components
- consider factors such as the organisational systems and procedures that will be most suitable for a particular product.

These important areas of the international marketing decision-making process will be integrated in the discussion in the remainder of this chapter. Besides these key areas, the decisions made by the organisation should be based on a careful evaluation of markets, including the market size, customers' needs and competitor activity.[33] The next section briefly discusses how a marketer should decide whether or not to enter the international marketing environment with his or her products and/or services.

3.5 Deciding whether to enter international markets

Entering a foreign market is not the only way for a company to grow and survive. Many companies operate solely in domestic markets and are very profitable. Others have a need to go global for various reasons, which include growth, expansion, capitalising on opportunities or survival. For many types of businesses, for example, small businesses, it might be easier and safer to operate only in their own country, as they will not have to learn and understand another country's market, culture, politics, language and laws. It may also be too costly for them to enter another market. Other organisations may have to consider marketing internationally in order to succeed because their strategic position in specific markets is strongly affected by their global position.[34]

There are many reasons why companies decide to enter the international market. Kotler and Armstrong indicate three of these:[35]

1. International competitors enter the domestic market and offer an improved and cheaper product or service. Consequently, the local company might decide to attack these competitors by offering its products in the competitors' markets.
2. The local company's customers enter foreign markets due to expansion, which requires the local company to serve these customers.
3. The international marketplace might provide an organisation with better opportunities and an increased chance of being successful.

In order for a company to make the decision of whether or not to enter the international market, it should evaluate its abilities in terms of knowledge and resources. It also needs to ascertain whether it is feasible to enter the international market, bearing in mind that it needs to understand the preferences and purchasing behaviour of consumers in the countries it intends to penetrate. The company will also need to evaluate its ability to offer a competitive product in terms of quality, price and customer service. For example, the exchange rate and import duties of a country may render the product uncompetitive due to the high selling price. The business culture and the way business is conducted will also play a role in a company's decision regarding whether to enter or not. Lastly, the impact of regulations on the organisation and the political environment will have to be considered.[36]

3.6 Deciding which markets to enter

After a company has decided to sell its products or services on an international level, it needs to make a decision regarding which markets it would like to enter. Based on the company's evaluation of its own competencies, resources and strengths, it must decide to what extent it wants to enter these markets. If the company has limited resources, it may initially adopt a strategy of limited exposure in foreign markets. On the other hand, if the company has the capability and resources it may decide to enter a number of countries. Whatever the circumstances, companies must make sure their policies and international marketing objectives are well thought out and in place before trying to operate internationally.[37]

After deciding on how many markets to enter, the company needs to decide on the type of country it wants to enter. A danger that international marketers face is entering too many countries, too soon, without the necessary capabilities, experience or resources, which may result in them being unable to establish a foothold in any country effectively. Sometimes the best option is to begin by firmly entrenching itself in one country and then, when the time is right, enter the next country. The attractiveness of a country can be affected by many factors, such as the product, geographical factors, income, population size and political climate.[38]

The various marketing mix strategies to consider before operating in an international market are discussed next.

3.6.1 Marketing mix strategies[39]

As previously mentioned, the marketing and promotional mix strategies are similar in local and international markets, with only a few differences. In international markets, the 'place' element of the marketing mix is crucial in many respects and is more likely to include specialised intermediaries in the channels of distribution. The distribution channels will also probably vary because of the geographical distances between countries, which make distribution more complex. In terms of pricing, the marketing manager has to consider exchange rates when quoting prices, as well as import duties, local restrictions and matters such as currency regulations and a provision for export credit guarantees.

Keegan (in Lancaster & Massingham) proposes five strategies for marketing internationally:[40]

1. *Straight extension of the current product or brand.* In this case, a product is introduced into international markets without making any changes to the physical product; it is exactly the same as in the local or domestic market. Examples of these products are Coca-Cola, Lacoste shirts and Guess jeans.
2. *Product adaptation.* A local product that is marketed internationally adapts the logos and advertising themes of the international brand, changing the product to make it more appropriate, for example, for another country's climate or religious values. An example is the different McDonald's offerings provided in different

countries: McDonald's in India sells more spicy food, whereas fish is popular in Norway, so McDonald's in Norway sells McLaks (salmon burgers).

3. *Communication adaptation.* The marketer changes the promotional strategy, not the product. This is generally very important as the promotional material must be based on the culture and values of the particular country. For example, the humour used in a South African context is understood by South Africans but will probably not be understood or appreciated by foreign consumers who are not familiar with the South African environment.
4. *Dual adaptation.* The organisation adapts the product to the international market and adapts the commercial message. Therefore, the product as well as the promotional strategy (advertising campaign) is changed in order to reflect the values and culture of the country to be entered.
5. *Product invention or re-invention.* This entails changing the product and promotional strategy considerably in order to meet customer needs. This implies a total change from what is offered in the domestic market and will be based on extensive research in the foreign market in order to meet that market's requirements and needs.

These five strategies are summarised in Table 3.2.

Table 3.2 Keegan's five strategies for international marketing

STRATEGY FOR INTERNATIONAL MARKETING	PROMOTIONAL STRATEGY	PRODUCT ADAPTATION
Straight extension	Same	Same
Product adaptation	Same	Different
Communication adaptation	Different	Same
Dual adaptation	Different	Different
Product invention	(Re)invention	

Source: Adapted from Lancaster, G & Massingham, L. 2012. *Essentials of marketing management.* New York: Routledge, p 497.

The next section briefly discusses the different ways in which a marketer can enter the selected international market successfully.

3.7 Deciding how to enter the markets[41]

Once an organisation has made a decision to enter the international marketing environment and established which market(s) to enter, as well as the size of the market, the next step is to decide on how this will be accomplished. According to Kotler and Armstrong, international marketers can choose from among the following key strategies to enter international market(s) in the most efficient and cost-effective manner:

- *Exporting.* This is the simplest and least complicated way to enter a foreign market and entails selling locally produced goods in another country.
- *Joint venturing.* Local organisations and foreign companies decide to join forces, resources or skills to produce or market products and services internationally. This is becoming a popular option for many companies. Local expertise in the foreign market is secured and the cost and risk of entering the market are reduced.
- *Licensing.* A relatively simple way for a manufacturer to enter the international market is by entering into a licence agreement with a company in the foreign market. The licensee buys the right to use the company's manufacturing process, trademark, patent, trade secret, or other items of value at a price which can be either a set fee, a commission structure or royalty fees. The licence holder maintains control over its products and the quality and standards in order to protect the brand. For example, ABI in South Africa holds the bottling rights to Coca-Cola in South Africa; this is a licensing agreement between Coca-Cola in the USA and ABI. This method allows an organisation to gain entry into an international market with little risk or uncertainty.
- *Partnerships.* These can be formal or informal relationships and involve an agreement between companies in different countries to work together to market or manufacture a product. A formal partnership entails having a legal agreement with an international partner to market or manufacture a product. An informal partnership refers to an understanding between parties regarding specific issues where there is a tacit agreement in place without formalising the partnership. These are generally formed on a basis of trust or mutual agreement on specific issues.
- *Franchising.* This has become a popular and widely used method to enter an international market. International franchise agreements are the same as domestic agreements, with the exception that they must meet the commercial laws of the country to which the organisation is franchising. In South Africa there are numerous examples of franchises that have been operating successfully for many years. These include KFC, Wimpy and McDonald's to name but a few. These are all strong brands, which makes it easy for franchisees or entrepreneurs to implement and establish in South Africa.

Summary

With the emergence of a more open world economy and the advent of faster communication, transportation and financial flows, national economies across the globe are increasing their interdependency and interconnectedness. Understanding and appreciating the international marketing environment is essential for marketers to be successful in the international arena.

This chapter dealt with the significance of the international marketing environment and provided an understanding of it, which is necessary for marketers operating globally. The various concepts of international marketing were introduced,

providing an understanding of the complexity of the international marketplace and how international marketing activities differ from those used when operating solely in local markets. The six external factors affecting the international marketing environment were then discussed. The chapter concluded with the factors marketers need to consider when deciding to enter the international market, together with the most effective way of reaching the intended markets successfully.

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Chapter 4

Marketing research

Learning objectives

After you have studied this chapter, you should be able to:

- explain the role of marketing research in decision-making
- identify, understand and explain the components of a marketing information system
- explain and illustrate the steps in the marketing research process
- refer to the important role of the internet in marketing research
- give an overview of market potential and sales forecasting.

4.1 Introduction

The fact that the business world has become more globalised and that technology has changed the way we do business means that market research has become more important than ever before. An organisation needs to be aware of the changes taking place and the impact of these changes on its customers and operations, and should know how to react to changes in the environment. This requires research – organisations have to conduct market research to understand how these changes will affect their business. Advancements in technology have resulted in vast amounts of information being available and businesses need to be able to follow a process to secure this information. This will enable an organisation to identify its customers and design products and processes that maximise value for them all.[1] As a result, customers win and businesses win.[2]

In order to be successful and to adapt to the ever-changing market environment, a company needs reliable and relevant information to be able to aid decision-making. The worst thing that can happen to a company is to make decisions based on information that is incorrect or irrelevant. This may lead to money and other resources being wasted. The ability of a company to gather usable information ensures that it remains competitive, not only locally but also internationally. In fact, information is the engine that drives today's global marketplace. Companies succeed by knowing what consumers want, and when and where they want it – and by knowing what competing companies are doing about it. A sophisticated database of marketing

information is a vital component in the strategy of cutting-edge companies that pull ahead and stay ahead in the race for customers.

All successful companies, be they big or small, rely on information from their markets in order to survive. Such companies have paid attention to the consumers' wants and needs, and conceived a product (or service), price, promotion and distribution methods that have satisfied them.

All computer and mobile phone companies will monitor trends and technology developments in order to stay ahead of competitors and be competitive. The company relies on consumer research and marketing information from various sources to stay on top of what product benefits, features and services customers all over the world desire and will accept.

It may not be difficult to obtain information, but it is crucial for a company that the correct information is obtained. Some information regarding a company's consumers and conditions in the marketplace is easy to obtain, while other information requires the company to conduct in-depth research to make informed marketing decisions. By monitoring daily customer activity, for example, marketing managers can respond very quickly to changes in consumers' needs and buying patterns that could mean the difference between the success and failure of marketing plans.

Marketing researchers are increasingly making use of the internet for a variety of marketing research purposes. The range of information that is available either for free or at a relatively low cost is staggering and is growing at an alarming rate. Finding the right piece of information on the internet can be extremely complicated and time-consuming, as much information is hidden between layers of other information, which may or may not be relevant.

In many instances, customers themselves are not aware of their reasons for behaving in a certain way or why they purchase certain products and, therefore, may not be able to provide any insight. Similarly, an employee may not realise that he or she possesses vital customer information, which could be of value to the organisation.[3]

In this chapter, we look at the kinds of information marketers need and how they gather and use that information to develop marketing strategies that make a difference. In this discussion, we focus on the marketing information system, marketing research, market potential and sales forecasting.

4.2 The importance of marketing research in decision-making

4.2.1 The value of marketing information

DEFINITION: Marketing research

Marketing research can be defined as the systematic and objective search for, and analysis of, information pertaining to the identification and solving of any problem or opportunity in the field of marketing.

The key words in this definition are: systematic, objective and analysis. Marketing research seeks to set about its task in a systematic and objective fashion. This means that a detailed and carefully designed research plan is developed in which each stage of the research is specified. Such a research plan is only considered adequate if it specifies: the research problem in concise and precise terms, the information necessary to address the problem, the methods to be employed in gathering the information and the analytical techniques to be used to interpret it.[4]

We know that marketing is the performance of all activities necessary for the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives. In order for an exchange to take place there should be at least two parties who have or offer something of value to each other. Marketers need to ensure that they offer the appropriate goods or services to the correct people who purchase them at the correct place and price. In order to achieve this, marketers must use the right promotional tools and it is essential that management has the correct information at the appropriate time; this is the task of marketing research.

In terms of the consumer-orientation principle of the marketing concept, companies strive to identify the group of people most likely to buy their product (the target market) and produce goods or services that will meet the needs of the target customers most effectively. But how does a company know what consumers' needs and wants are? Obviously, marketers must have information about consumers' needs and wants if they truly are to endorse the marketing concept. Identifying target market needs and opportunities is the task of marketing research.

Quality, and customer service and satisfaction have become the key competitive weapons of the early twenty-first century.[5] The adverse economic conditions prevailing since 2008, and still prevailing in 2016, have resulted in a renewed focus on customer service as a means for companies to differentiate themselves from competitors and to survive the economic turmoil that the new millennium has brought. The key to quality, customer service and satisfaction is marketing research; it is the mechanism that enables companies to determine the type and forms of quality that are important to the target market. By meeting customers' expectations in terms of quality, service and satisfaction, a company will be able to retain its customers. The ability to retain customers is based upon an intimate understanding of their needs – an understanding that comes from research in the marketplace.

Marketing research also needs to provide information to the organisation with regard to applying the marketing mix elements, evaluating any changes in the environment and their impact on the organisation, and seeking out threats and opportunities in the environment that require a response.

The value of marketing information cannot be underestimated, but at the same time it is not an exact science. Marketers should look at the value of market research from a cost–benefit approach. The cost of market research is fairly easy to estimate as agencies or research houses who perform these tasks can give an accurate costing on

a project-by-project basis. A company's own department will also be able to perform this task. However, estimating the benefits that are likely to arise from a marketing research project in monetary terms is virtually impossible. At best, the benefits will be largely a judgement call; the value of the research will lie largely in the reduction of uncertainty when a certain decision has to be made.

> In any cost-benefit analysis these dimensions of the value of marketing research should not be forgotten. Resource availability may also impinge upon the potential usefulness of a marketing research project. This is likely to be true particularly in research projects that are designed to uncover market opportunities. While marketing research is a good way to uncover such market opportunities and is often successful in doing so, the usefulness to the firm of the research will be greatly limited if the resources (eg budget, personnel, management, time) are not available to make use of the information. It is possible for marketing research projects to be successful in terms of fulfilling their brief but for this information to be useless to the firm if it is not, or cannot be, used and acted upon in the way intended.[6]

In brief, market research adds value to businesses by:[7]

- identifying consumers' needs
- helping companies to plan ahead, for example, in terms of future offerings, or new markets to enter
- ensuring that the business will focus on the identified needs of the consumers
- making it possible to improve its competitive advantage.

4.2.2 Marketing research and the marketing mix

Marketers must also implement plans, called marketing strategies, that satisfy consumers' wants and needs. Within the marketing department, a marketing mix must be created based on the marketing concept. This mix is the unique blend of the four Ps (product, price, promotion and place) designed to reach a specific group of consumers (target market).[8] What combination of the four Ps will best take advantage of an existing marketing opportunity? This may sound simple, but consider some of the questions that confront marketing managers as they design marketing strategies.

Designing marketing strategies

Market research is a crucial tool used to identify new information about customer preferences, trends, competitor strategies or changes in the external environment. Accurate and useful information can give organisations a real advantage in building and maintaining customer loyalty. Researchers should consider all the factors that could affect buying behaviour, not just product related issues. ➡

For instance, psychological factors such as consumer reference groups have an influence on the products customers will buy to gain the approval of friends or family members. Branding, a product's image, also determines a product's position in the mind of the consumer.

Social and economic changes in the external environment are two of the biggest influencers in determining and identifying customer behaviour trends and patterns. Customer behaviour and buying patterns along with social/economic trends should be monitored in order to help marketers understand how they should design and develop the marketing mix for their target market.

The marketing mix is key when communicating with an organisation's target market. It is, therefore, important that the market researchers, of ABC motors for instance, are able to answer the following questions relating to the four Ps by collecting the correct information from the company's customers:

- Which car dealerships were visited most often?
- Which motor car had the highest sales for the period?
- Which social-media channels, television programmes, radio stations or websites were used most frequently?
- What was the average price customers were willing to pay for a new motor car?

4.2.3 Marketing research and the macro-environment

Marketers operate in a turbulent, ever-evolving environment and need the right information to implement an effective marketing strategy, as any change may alter the appeal of a marketing strategy. As such, marketers' needs for information are never-ending. Information about the social, cultural, economic, political and technological environments are of particular importance to marketing management in its decision-making.

In the deteriorating world economic climate still prevailing in 2016, information pertaining to these environments and its impact on the company and its customers has become extremely important. Changes taking place in the social and cultural environment, for instance, must be monitored on a continuous basis. For example, as the population ages, some companies are developing or redesigning products and services to cater for the older market. Computer keyboards have been developed with large-print key-top labels, making it easier for older people with deteriorating eyesight to use them more easily. Information on the effect of economic factors will also affect marketing decisions. Owing to the world economic slowdown, many companies have abandoned their more expensive ranges of products for more economical ones that are affordable to their customers. Marketers use marketing research to keep abreast of these changes.

Marketers must develop and implement strategies based on sound information, and those strategies must be revised constantly as required by changing environments. This means marketers constantly need information provided by marketing research. Without this, it is difficult, if not impossible, for management to make sound decisions or to implement the marketing concept properly.

4.2.4 Marketing research identifies and defines marketing opportunities and problems

To identify and define marketing opportunities means to define those wants and needs in the market that are not being met by the competition. Opportunities and problems are everywhere, but decision-makers need information to help identify and define them adequately. This information is acquired by way of conducting continuous research.

Marketing research: Identification of market opportunities

Many individuals in today's society tend to have irregular eating times and are seldom able to get to a store within the designated retail times in the week. Woolworths has thus identified this consumer need for longer shopping hours by introducing Woolworths products at Engen petrol stations, thereby allowing the busy individual to get healthy Woolworths produce at a time that is most convenient to them. This strategy has allowed Woolworths to tap into a new market segment because previously non-purchasing consumers now purchase merchandise from Woolworths because it is convenient and the fact that no other stores are open so late or so early.

Before developing a strategy, a company needs to be sure of the direction in which it wants to go and the best way to get there. This requires market research so that the company can strategise and identify any opportunities or problems.[9] Once the company has recognised a problem or identified a potential opportunity, market research can help clarify the situation. Management needs to gain insight into the underlying factors causing the situation. If there is a problem, it needs to establish what happened and why. If an opportunity exists, management may need to explore, refine and quantify the opportunity. If multiple opportunities exist, research may be conducted to help with setting priorities.[10]

4.2.5 Marketing research monitors marketing performance

Monitoring marketing strategies once they are implemented is a way of maintaining control over the success of a new product or service. Any control system requires feedback of information to management, which is what marketing research does, allowing a comparison between actual performance and desired performance standards.

4.2.6 Marketing research improves understanding of the marketing process

Marketing research conducted to expand basic knowledge of marketing is known as *basic research.* Typical of such research would be attempts to define and classify certain marketing phenomena and to determine optimum methods for carrying out marketing activities, for example, studies to determine optimum returns on promotional expenditures or the operating characteristics of the most profitable firms within an industry.

Basic research attempts to expand knowledge and is not aimed at a specific problem. Basic research hopes to provide further confirmation for an existing theory or to learn more about a concept. For example, basic research might test a hypothesis on high-involvement decision-making or consumer-information processing. In the long run, basic research helps to broaden understanding about the world.

Most marketing research is conducted to improve understanding of the marketplace, for example, to find out why a strategy failed or to reduce uncertainty in management decision-making. All research conducted for such purposes is called *applied research.*

Marketing research is not the only source of information available to decision-makers. Information is also supplied by other components of the marketing information system (MIS) of which marketing research is one.

4.3 The marketing information system (MIS)

4.3.1 Characteristics of valuable information[11]

Not all data is valuable to decision-makers. Useful data becomes information and helps a business manager to make decisions. Useful data can also become intelligence. Four characteristics determine how useful data may be, namely its relevance, quality, timeliness and completeness:

1. *Relevance* refers to how pertinent the data is to the situation at hand.
2. *Data quality* is the degree to which data represents the true situation. High-quality data is accurate, valid and reliable and represents reality faithfully. Sometimes researchers will try to obtain the same data from multiple data sources in order to verify its quality.
3. *Information must be timely* in order for an organisation to make the right decision at the right time. Computerised information systems can record events and dispense relevant information soon afterwards. A great deal of business information becomes available almost at the moment a transaction occurs. Timeliness means that the data is current enough to still be relevant.
4. *Information completeness* refers to having enough correct information in order to be able to make decisions.

4.3.2 Information management

Data and information are not the same. Information is data that has been converted into a useful form for decision-making in order to solve a problem. It is relevant, timely, accurate and cost-effective, and it reduces risk in decision-making. Marketers face an immense volume of raw data generated internally and externally. If this data is to be useful, the data flow must be managed.

Marketers must consider the cost of collecting and converting data into information when specifying their informational needs. Seldom will they have all the information they want. The cost of additional information must be weighed against its value for planning, implementing and controlling marketing operations.

The MIS mainly serves the company's marketing and other managers, but may also provide valuable information to external partners, for example, suppliers or marketing service agencies. A good MIS balances the information marketers would like to have against what they really need and determines its feasibility.[12]

The company's sales force should also be trained in intelligence gathering. Its close contact with the market can make it a useful data source for manufacturers, retailers and wholesalers. Too often salespeople are trained in selling techniques only. Many companies develop an MIS to gather, sort, analyse, store and distribute relevant and timely marketing information to managers continuously. The MIS should monitor the marketing environment to be able to provide information in order for the company to have a better understanding of customers and make key marketing decisions.[13]

The MIS is part of a company's overall information network that integrates electronic records from all the company's functional areas. The purpose of an MIS is to help marketing managers make better decisions. It guides the planning process and leads to meaningful marketing goals and objectives. Having the right information available at the right time also enables managers to make on-the-spot decisions when unforeseen events threaten to derail the marketing plan.

An MIS can be defined as a *system for generating and managing a flow of information for marketing decision-making.*

4.3.3 Components of a marketing information system

Marketing information systems differ according to the type of company and industry. A small company usually has a simple MIS and a large company has an extensive one. A simple MIS, as illustrated in Figure 4.1, consists of two data components: routine data and special purpose data.

For a local independent retailer, the *routine data* component would include, for example, routine information from internal sources such as sales, stocks, debtors and creditors. From external sources, information such as local population growth, competitive activities and trade association statistics can be collected on a regular

basis. The *special-purpose* component includes marketing research, for example, where a retailer engages a marketing research organisation to determine the feasibility of a particular retail space in a new shopping centre (external marketing research). The retailer conducting certain research projects independently, for example, a survey among existing customers to determine their degree of satisfaction with its services, constitutes internal marketing research (launched from internal sources).

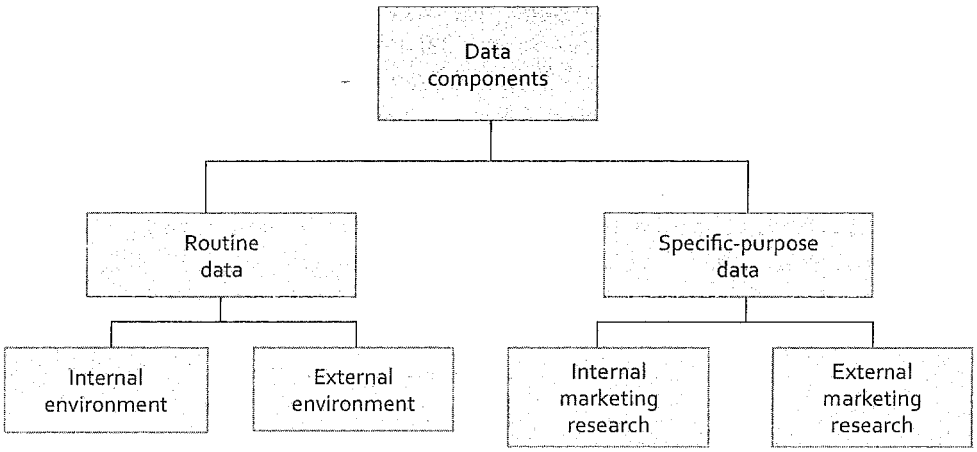


Figure 4.1 A simple marketing information system

Source: Adapted from Martins, JH, Loubser, M & Van Wyk, H de J. 1996. *Marketing research: A South African approach.* Pretoria: Unisa Press, p 14.

Large companies that have the necessary resources usually operate an extensive MIS. The major components of an extensive MIS and the interaction among its components are indicated in Figure 4.2.

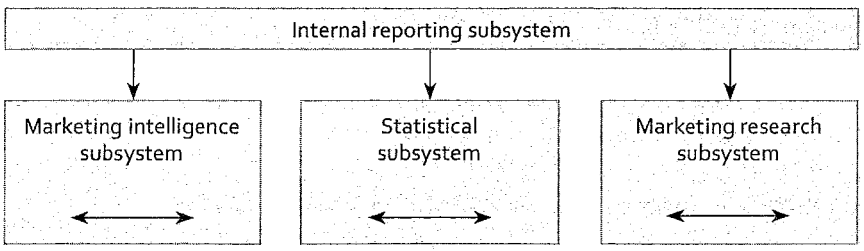


Figure 4.2 An extensive marketing information system

The four major components of an extensive MIS as indicated in Figure 4.2 are:

1. an internal reporting subsystem
2. a marketing intelligence subsystem
3. a statistical subsystem
4. a marketing research subsystem.

These four components will now be discussed in more detail.

4.3.3.1 *The internal reporting subsystem*

Various reports are prepared internally by companies and contain information about the historical performance results of the company. They assist in identifying important opportunities and threats timeously. Key reports emanate from, among others, the accounting department, the production department, the sales department and the quality-control department. These include reports on accounting, production, sales, engineering and goods returned. Internal data can provide a strong competitive advantage and deeper insights into customers, their needs, wants and behaviours.

Many companies focus on building an extensive database from various sources within the company's network in order to meet its information needs. Information in the database comes from a variety of sources: the marketing department provides information on customer demographics, psychographics, sales transactions and website visits; the accounting department keeps records of sales, costs and cash flows that are used to prepare financial statements; and the sales department reports on resellers' reactions and competitor activities.[14]

Internal databases are usually cheaper and quicker to access than other information sources, however they do present some challenges. Firstly, data ages quickly; therefore, keeping the database relevant and up-to-date takes a lot of effort. Secondly, databases may be incomplete or in the incorrect form if data was originally collected for another reason. Lastly, highly sophisticated equipment and techniques are required in order to manage the large amount of data being gathered and produced by the company.[15]

Let us look at how a large company can use internal records to make marketing decisions.

Salespeople record orders

Salespeople record orders on their laptops or tablets and this information is sent via modem to the company headquarters, which notifies the warehouse to expedite delivery. The information recorded during this process – customer's name, location, goods ordered, prices, delivery location, method of delivery, date, and so on – becomes the information ingredients in the internal reporting system. The internal reporting subsystem ensures that information generated is recorded, stored and made available for retrieval by managers.

4.3.3.2 *The marketing intelligence subsystem*

This subsystem consists of procedures and sources whereby management obtains information concerning current and relevant occurrences in the marketing environment.

Whereas an internal reporting system focuses on *results*, the intelligence system focuses on *happenings* in the marketing environment. The marketing intelligence

subsystem includes both informal and formal information-gathering procedures. *Informal information-gathering procedures* involve such activities as scanning newspapers, magazines and trade publications. *Formal information-gathering activities* may be conducted by staff members who are assigned the specific task of looking for anything that seems pertinent to the company or industry. They then edit and disseminate this information to the appropriate members of the company.

Competitive marketing intelligence collects and analyses information about consumers, competitors and developments in the marketplace that are publicly available. The goal of competitive marketing intelligence is to improve strategic decision-making by gaining insight into the consumer environment, assessing and tracking competitors, and providing early signals for opportunities and threats that may arise.[16]

Good marketing intelligence helps marketers gain insight into their consumers and how they talk and interact with their brands. Social media has made it easier for people to share opinions, ideas and complaints and ensure two-way communication.[17]

Companies need to monitor competitors actively in order to track their moves. Competitors usually reveal information through their annual reports, business publications, press releases, advertisements and web pages. Marketers can gain insight into their strategies, new product launches, new or changing markets and their strengths and weaknesses.[18]

Marketing intelligence works both ways, however, as competitors can just as easily gather information about their rivals. Many companies are now finding ways to protect their own information. Although it is legal to gather competitive marketing intelligence, whether this is always ethical is debatable.[19]

Purchasing information

Some companies find it advantageous to purchase information from specialist organisations on a regular basis. In South Africa, International Business Information Systems (IBIS), which has an association with the internationally reputable ACNielsen, is well known for the retail audits it regularly conducts. This information includes aspects such as market share, retail prices, inventory levels and marketing communications.

4.3.3.3 The statistical subsystem

The statistical subsystem is a composition of a statistical database and the application of advanced statistical procedures and techniques. The purpose of this system is to create projections, scenarios and models, which provide a better grasp of the alternatives for decision-making. Decision-making always takes place in conditions of risk and uncertainty. With this subsystem, an attempt is made to quantify the probable results of various possible actions of marketing management.

A variety of statistical data series are stored and regularly updated in the statistical subsystem. This serves as a basis for the application of statistical techniques (with multiple variables), forecasting techniques and the creation of models. These models allow companies to ask 'what if' questions.

Answers to these questions are then immediately available for decision-making. A model can, for example, illustrate the probable effect of a change in consumer price on consumer behaviour.

4.3.3.4 *The marketing research subsystem*

The marketing research subsystem gathers information not collected by the other MIS component subsystems. Marketing research studies are conducted for a *specific* situation facing the company. It is unlikely that other components of MIS have generated the *particular* information needed for the *specific* situation. This is why people in the industry sometimes refer to marketing research studies as *ad hoc* studies. '*Ad hoc*' is a Latin term meaning 'with respect to a specific purpose'. Marketing research projects, unlike the other components of the MIS, are not continuous – they have a beginning and an end. This is why marketing research studies are sometimes referred to as 'projects'.

Marketing research studies/problems

- A company that suspects a change in consumer preferences would investigate this problem by means of a marketing research project.
- A bank may wish to measure its competitiveness. Marketing research is then conducted.
- A company may want to develop customer profiles for its target market. Marketing research is then employed.
- An advertising agency may need to know more about the scheduling of advertisements and can use marketing research to solve this problem.
- A manufacturer of cosmetics may need to know which packaging would be the most acceptable and conducts marketing research among customers to accomplish this.

We will now focus on one component of the MIS, namely marketing research.

4.4 Marketing research

Some of marketing management's most important decisions rely on information gathered by research that specifically addresses the decision-maker's concerns. Some marketers conduct limited, low-cost research projects by searching the MIS database and gathering the required information. More typically, the marketer has a problem that requires very specific information and must rely on marketing research to gather data systematically.

Large companies such as Unilever have extensive marketing research capabilities to conduct their own research. Depending on the information required and the complexity of the research problem, companies such as ACNielsen, Markinor and BMR (Unisa) may be hired to conduct all or part of the research.

Finding marketing research companies on the internet

The internet is a powerful tool for identifying research companies that provide particular types of services and for conducting a preliminary review of these companies. Most research companies' sites are e-mail enabled. Therefore, once buyers have identified likely candidates through preliminary research and evaluation, they can send an e-mail to these organisations, requesting additional information. A few companies even have RFP (requests for proposal) forms on their sites, which permit the research buyer to submit an RFP via e-mail. In this way, one can review the services offered by marketing research companies.

4.4.1 Steps in the marketing research process

The marketing research process is a series of carefully thought-out steps designed to attain a specific objective. This section looks at the different steps in the marketing research process.

There are various reasons why marketing research is undertaken. Consider the following.

Reasons why marketing research needs to be conducted

- Top management delegates the marketing management to investigate the possibility of an attractive marketing opportunity.
- Marketing management must develop a marketing strategy for a new product.
- There is a decline in demand for the company's products, and marketing management is instructed to determine the cause and recommend remedial action.

As we can see, each of these reasons is in some way unique, and the procedures followed in the research process of each will vary to some extent. For example, the research process in the case of an investigation into a decline in sales will differ from an investigation into the development of a marketing strategy for a new product. Although the research processes or procedures may differ for different types of problems or opportunities, a marketing research investigation consists of two parts: a preliminary marketing investigation and a formal marketing investigation. Both investigations may need to be conducted, but if the problem is solved during the preliminary investigation, a formal investigation will not be required. However, for

the formal investigation to be conducted satisfactorily there needs to be a preliminary investigation.

The marketing research process may be viewed as a number of consecutive steps undertaken to obtain the required marketing information. Although authors differ on the number of stages involved in the research process, they all agree that some basic stages should be included. Figure 4.3 reflects a logical 11-step approach to the marketing research process, which is discussed thereafter in detail.

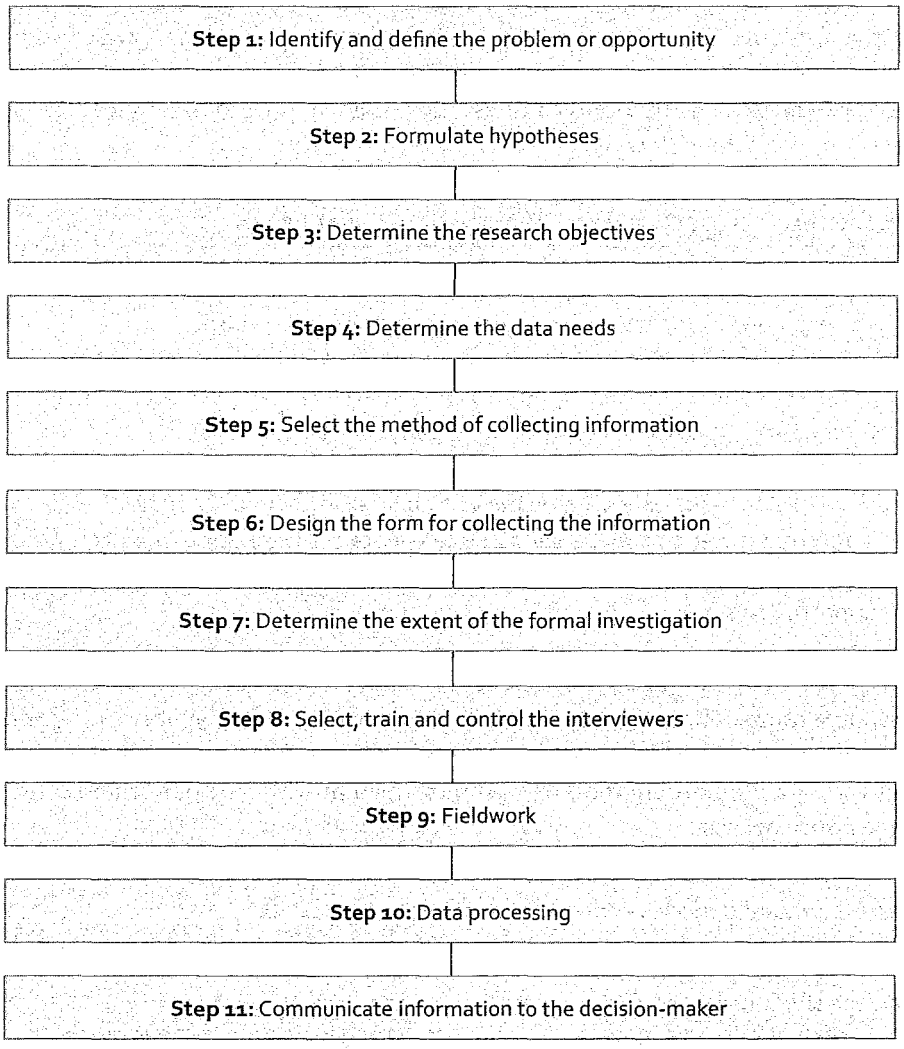


Figure 4.3 Steps in the marketing research process

Source: Cooper, DR & Schindler, PS. 2011. *Business research methods.* 11th ed. New York: McGraw-Hill, p 11.

Step 1: Identify and define the problem or opportunity

This first step in the preliminary marketing investigation entails a clear definition of the nature and extent of the problem or opportunity. Often there is only a vague feeling that 'something is wrong' and management has at its disposal contradictory pieces of information, reports, opinions and symptoms, such as a decline in sales figures. In order to take appropriate action, it is essential to know more about the problem or opportunity. Thus, the real nature and extent of the problem should be determined. For example, if a decline in sales has been discovered, further investigation (by means of small-scale research) may reveal that the decline is restricted to a particular area, for example, Pretoria.

Typical problems (or opportunities) that may require a marketing research investigation are the following:

Problems (or opportunities) that must be investigated

- Which of two package designs best conveys the desired image for the product?
- More general information for a planning decision is required.
- A brand manager who is planning to change packaging may want to know the features of packaging that appeal to consumers.
- Owing to changes that occur in the company's external environment that are not controlled by the company, a marketing manager is faced with the questions: 'Should we change the existing marketing strategy, and if so, how?'
- Marketing research may be needed to evaluate the marketing mix alternatives.
- Marketing research may be needed to establish and evaluate new market opportunities.

Once a problem has been identified, the marketing researcher is approached. The first responsibility of the researcher, whether from internal staff or an outside consulting company, is to work with the marketing manager to define the problem precisely. The proper definition of a problem also provides guidance and direction for the entire process.

Factors that influence the complexity of the process can be:

Easier when:	Harder when:
■ the situation is recurring or routine	■ the situation appears new
■ a dramatic change occurs	■ change(s) in the situation are subtle
■ symptoms are isolated	■ symptoms are scattered
■ symptoms are consistent.	■ symptoms are ambiguous.

In an attempt to define the exact nature of the problem or opportunity and to gain a better understanding of the environment within which the problem has occurred, it may be necessary to conduct small-scale research.

Identifying customer needs

Blue Bank is a financial institution that provides customers from around the world with retail banking services and financial assistance. Some of their banking services include providing current accounts, savings accounts, financial cover, investment portfolios and credit. They also have a strong focus on students as they constitute a large and very important segment of the market.

Students choosing a bank for the first time are a new market segment for the banking industry. The student's experiences with a bank can influence their future decisions of staying with that bank or changing banks. Blue Bank hopes to target more student customers and retain them, by focusing on their needs. In order to provide the correct offer, they have used market research to identify students' specific needs.

Two key aspects were identified and analysed before starting the primary research process: who their key customers should be and what the needs of these key customers are.

Blue Bank then conducted qualitative research. This type of research provides information on consumer perception. It attempts to identify how customers feel about the organisation's products and services, what customers like and what they do not like, and what new product or service they would like on offer.

Using this information, Blue Bank developed a new, enhanced student account offer. This was then tested with a sample of 250 of their current student account holders. Students were asked to fill out questionnaires when they opened up a new account and were also sent questionnaires online. This sample group provided the bank with qualitative feedback regarding what motivated students to choose a specific bank and whether or not to stay with that particular bank in the long run.

Secondary research was also used to analyse consumers' past behaviour. This type of research uses data that has been previously researched and published and includes market research reports, sales figures, competitor marketing literature and government publications.

The results of the research conducted showed the following:

- Most students needed or depended on financial assistance to further their studies.
- They preferred to have separate accounts to manage their student loans and their spending money. ➟

- Students needed laptops and other electronic goods and relied on different forms of credit to acquire these goods.
- Incentives that were offered were seen as part of the deal and were not a motivating factor for students when choosing a bank.

Source: Adapted from http://businesscasestudies.co.uk (Accessed 16 August 2016).

Step 2: Formulate hypotheses

In this step, specific factors that can be identified as influencing factors or the causes of the problem or opportunity are identified. From this group of factors, some are selected which are considered important enough to be further investigated. These are called *hypotheses*. Hypotheses can thus be seen as tentative solutions or actions for the problem or opportunity. A hypothesis is a theory that has to be tested or proved to confirm the assumptions. A formal hypothesis has considerable practical value in planning and designing research. It forces researchers to be clear about what they expect to find through the study, and it raises crucial questions about data required. When evaluating a hypothesis, researchers should ensure that the information collected will be useful in decision-making.

For example, let us assume that a company experiences a decline in sales. There are many factors or variables that may be the cause of this.

If all these possible causes need to be investigated, several research projects would have to be undertaken. Further investigation, however, may reveal that only one of the possible causes should be investigated, for example, a change in consumer preferences. This will then be translated into a hypothesis for further investigation.

Possible causes of a decline in sales

- Certain actions by competitors, for example, price discounting.
- A change in consumer preferences.
- The employment of an inefficient marketing mix strategy.
- A combination of all these variables.

One or more of these may be identified as the possible cause(s) of the decline in sales; in other words, one of these statements may be termed the *hypothesis*.

Confirming or rejecting the hypotheses is a crucial phase of the research project. During this process, new information may come to light and it may be necessary to redefine certain problems (or hypotheses). The following example illustrates how a problem can be redefined.

Redefinition of a problem

The sales manager of a local potato-chip manufacturer notices that sales are declining, and interprets the problem as ineffective advertising (hypothesis).

The researcher is therefore asked to investigate the effectiveness of the company's advertising. In talking to salespeople, wholesalers and retailers of the company's products, the researcher discovers that support for the product began to decline when a rival company introduced a new product that gave them a larger margin on sales. Retailers are, therefore, making more profit by selling the rival's product.

This gives the researcher a new perspective on the problem. An investigation of advertising effectiveness will not help solve the problem. This hypothesis must then be rejected and redefined as *competitive pricing and profit margin tactics*.

Step 3: Determine the research objectives

Once the problem has been identified and clearly defined, and hypotheses formulated, the researcher can determine the objectives of the research project. These objectives are stated in terms of the precise information necessary to solve the marketing problem. The objectives must relate directly to the hypotheses formulated during Step 2. In fact, the hypotheses become the research objectives. For example:

- Hypothesis 1: The competitive pricing and profit margin tactics have a negative effect on company profit.
- Objective: To determine whether the competitive pricing and profit margin tactics have a negative effect on company profit.

Research objectives

A decline in sales in one of the company's products has been established (in other words, the symptom). The problem has been identified and defined, and one hypothesis has been formulated, namely that *consumer preferences have changed*. The research objective in this case could be to investigate *competitive pricing and profit margin tactics*.

Well-formulated objectives serve as a road map for developing the research project. They also serve as a standard, which enables managers to evaluate the quality and value of the work.

Were the objectives met and do the recommendations flow logically from the objectives and the research findings? Objectives must be as specific and unambiguous as possible. Putting the objectives in writing avoids the problem of wondering whether the information that has been received is, in fact, what is required.

In general, a research investigation will have one of four basic objectives as indicated in Figure 4.4.

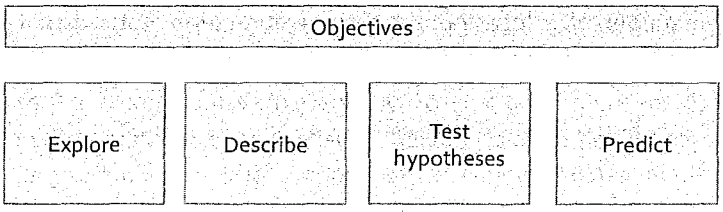


Figure 4.4 The four basic objectives of a research investigation

These four objectives will now be described in more detail.

- *To explore.* The primary objective of exploratory research is to provide insight into and an understanding of the problem confronting the researcher (as explained earlier).[20] Once the problem has been clearly defined, exploratory research can be useful in identifying alternative courses of action. Researchers conduct exploratory research when they need more information about the problem, when tentative hypotheses need to be formulated more specifically, or when new hypotheses are required.[21] Because exploratory research is aimed at gaining additional information about a topic and generating possible hypotheses to test, it is described as informal research.



EXAMPLE: Exploratory research

This consists of

- visiting a library to read published secondary data
- asking customers and salespeople their opinions about a company and its products, services and prices
- simply observing everyday company practices.

The researcher investigates whatever sources he or she desires, to the extent that he or she feels is necessary, in order to gain a good understanding of the problem.

- *To describe.* Descriptive research is necessary when knowledge about a particular market or marketing aspect is vague. It includes research designed to provide answers to questions regarding the who, what, when, where and how of a topic. For example, an enterprise that is considering entering the hospitality industry may have identified the conference market as one of its target markets. This market, however, needs further clarification and must be described more clearly. Descriptive research may also be necessary where the nature of the competition in a particular industry is vague. Soft-drink marketers also use this type of research to describe the characteristics and wants of different market segments.

- *To test hypotheses (causal research).* If the objective is to test hypotheses about the relationship between an independent and a dependent variable, the researcher engages in causal research. Causal research would be used in the following example.



EXAMPLE: Independent and dependent variables in causal research

What would happen to sales if prices were reduced? Price is the independent variable – that is, the factor being manipulated. The sales level is the dependent variable that will be affected when the independent variable (price) is changed (price is reduced).

What would happen to customer awareness of the product if advertising were to be increased? Advertising is the independent variable, while customer awareness is the dependent variable that will be affected when the independent variable (advertising) is changed (advertising increased).

Therefore, causal research is used to obtain evidence of cause-and-effect relationships. It attempts to determine the extent to which changes in one variable cause changes in another.



EXAMPLE: Causal research versus descriptive research

Descriptive research may suggest that a price reduction is associated with increased sales of a product, but it does not definitely suggest that a decrease in price was the actual cause of the sales increase. Sales may have increased because of other factors, such as an increase in customer buying power or a decline in competitors' marketing efforts.

Causal research, on the other hand, tries to show either that the price cut (independent variable) is the cause of increased sales (dependent variable) or that the price cut is not the cause of increased sales. This requires the researcher to keep all factors other than price and sales constant – at best, a difficult task.

- *To predict.* Predictive research is conducted to forecast future values, for example, sales income, market share and retail orders. Political pollsters use predictive research to forecast how many people will vote for a particular candidate in an upcoming election. Businesses engage in sales forecasting to predict sales during a specific time period, for example a financial year.

Step 4: Determine the data needs

In this step, the research objectives must be translated into specific data needs. This means determining what information is required and from which sources it can

be obtained in order to test the hypotheses so that the problem can be solved. An example follows.

EXAMPLE: Specific data needs: The South African Police Service (SAPS)

Suppose the SAPS wants to establish what steps it can take to improve the quality of recruits. The information necessary to satisfy this research objective might include:

- a detailed description of recruiting incentives currently being offered by the SAPS
- young people's attitudes toward existing recruiting incentives offered by the SAPS
- the demographic and lifestyle characteristics of current police enlistees who are high achievers
- a detailed description of recruiting activities currently in use at recruiting centres
- a forecast of unemployment rates for the next decade.

In determining the type of data needed, the problem (Step 1), the hypotheses (Step 2) and the objectives (Step 3) must be considered. Specific data will be needed in order to confirm or reject each hypothesis that has been formulated.

Researchers distinguish between primary and secondary data – see Table 4.1.

Table 4.1 Differences between primary and secondary data

PRIMARY DATA	SECONDARY DATA
Primary data are data that are observed or collected directly from first-hand experience.	*Secondary data* are data that already exist, gathered by someone else for some other purpose but which may be relevant to the problem at hand.
Primary data relate specifically to the research problem at hand.	When using secondary data, researchers must always consider their relevance, accuracy, credibility and timeliness.
Primary data are expensive and require a lot of time.	Secondary data are usually cheaper and require less time.
Primary data can come from internal or external sources. The major internal source is company personnel. Retailers, wholesalers, customers and competitors are important external sources.	Secondary data can come from internal or external sources. The major internal source is company records. Public libraries, trade associations and government publications are important external sources.

Source: Adapted from Armstrong, G & Kotler, P. 2012. *Marketing: An introduction*. Boston, MA: Pearson, p 124.

As emphasised above, secondary data should be sought and researched during the preliminary investigation, and all efforts should be made to solve the problem at this stage. Secondary data collected must clearly relate to the hypotheses formulated earlier.



EXAMPLE: Internal and external sources of information[22]

Examples of internal sources of information are a firm's own records (for example, sales figures and accountancy records) research reports, in-house experts and experienced sales staff. External sources include trade associations such as the SA Chamber of Business, government departments such as the Department of Trade and Industry and Statistics SA, advertising agencies, consultants and syndicate reports.



EXAMPLE: Secondary data on the internet[23]

In the last few years, the rapid development of the internet has promised the elimination of much of the drudgery associated with the collection of secondary data.

The internet allows computers (and the people who use them) to access data, pictures, sound and files throughout the world without regard to their physical location or the type of computer on which the data can be found. The World Wide Web (also called the Web or www) is one component of the internet, which was designed to make transmission of text and images as easy as possible.

If you know the address of a particular website that contains the secondary data that you are searching for, you can easily access that address by following the correct procedure. Sometimes, however, it can require some hard work and trial and error to find data on the Web. However, as long as you have an internet connection, you have access to a multitude of sources of information.

If the secondary information obtained can provide enough clarification about the hypothesis, it can be accepted or rejected during the preliminary investigation. The problem may, therefore, be solved at this stage and it may be resolved not to proceed to a formal marketing investigation. However, if it is felt that the problem has not been solved, or if further information is clearly required, a formal investigation must be conducted. In the following example, the data required and possible sources of data are indicated to test certain hypotheses

A useful website that provides a basic introduction to the internet and search engines is www.learnthenet.co.za.

Advantages and limitations of using the internet for marketing research[24]

Advantages

- A large range of information is provided.
- Information can be accessed rapidly.
- Information can be obtained easily.
- Research costs can be reduced.

Limitations

- The accuracy of the information can be questionable.
- The author of a particular article may be anonymous.
- Useful information can possibly be missed if wrong key words are used.
- Information overload may occur.
- It can be time-consuming.
- Organisations may be sensitive about providing information over the internet.

Step 5: Select the method of collecting the information

The researcher can gather primary data through observation, experimentation, focus groups and surveys. These methods will be discussed in more detail.

The *observation* method involves systematically recording the behavioural patterns of people, objects and events to obtain information about the phenomenon of interest. The observer does not question or communicate with the people being observed. Information may be recorded as the events occur or from records of past events. The disadvantages of this method are the cost of waiting for the phenomenon to occur and the difficulty of measuring the phenomenon in a natural setting. For example, a manufacturer of breakfast cereals who wants to study the attention-producing value of new packaging might station observers with cameras and recorders in supermarket aisles where the cereal is displayed. The observers would monitor shopper's the reactions directly.

Other examples of observational research are as follows:

EXAMPLE: Observational research[25]

A museum director wanted to know which of the many exhibits was most popular. A survey did not help. Visitors seemed to want to please the interviewer, and usually said that all the exhibits were interesting. Putting observers near exhibits to record how long visitors spent at each one did not help either, since the curious visitors stood around to see what was being recorded, therefore distorting the value of the exercise. ➠

Finally, the museum floors were waxed to a glossy shine. Several weeks later, the floors around the exhibits were inspected. It was easy to tell which exhibits were most popular based on how much shine had worn off the floor.

A shopping centre developer wondered if one of his shopping centres was attracting customers from all surrounding areas. He hired a company to record the registration numbers of cars in the parking lot. By using this information, the addresses of all shoppers were then obtained and plotted on a map. Very few customers from one particular area were visiting the centre. The developer then aimed direct mail advertising at that area and generated a great deal of new business.

Observation may be more objective than a survey because no questions are asked. The observation method focuses on what people do (direct observation) or on what they did (indirect observation), not on what they say they do or did. Observers, however, can interpret only the behaviour they witness directly, and this interpretation may be inaccurate or biased. A shopper may pick up a package of cereal, examine it and walk away without buying it. The shopper may have wanted to purchase the cereal but may not have had enough money to buy it. An observer, however, might interpret this behaviour as lack of interest in the product.

In other words, we do not know why the shopper left the package. Some things, such as motives, simply cannot be observed.

Artificial observation is often used and is done by way of mechanical or electronic equipment such as the use of the AMPS Peoplemeter II to monitor viewing patterns of selected households in South Africa.[26]

Experimentation research involves testing something in controlled conditions. Conclusions are then drawn about the wider environment. This involves the gathering of primary data by manipulating an independent variable (such as advertising or price) to observe the effect of the change on a dependent variable (such as sales).[27] By attempting to hold all other factors constant while manipulating price, it might be possible to estimate how many units of a product would be demanded at various prices. Researchers often conduct experimentation in a field setting, which is realistic but difficult to control, and it is almost impossible to ensure that test conditions will be the same as those in the real market. Most basic scientific studies in business ultimately seek to identify cause-and-effect relationships.

EXAMPLE: Experimentation in a field setting

An advertising manager wants to test the effectiveness of a proposed newspaper advertisement and selects two cities similar in population characteristics, income distribution and so on. One is the control city and the other the test city. ➡

The advertisement appears in the test city's newspaper but not in that of the control city. After the advertisement appears, sales of the product are recorded, with any difference in sales being attributed to the advertisement.

Three assumptions are made in the above situation. Firstly, it is possible to find two or more similar cities. Secondly, the control city's environment can be controlled. Thirdly, test conditions are the same as those that will exist when the advertisement is run in the real market. However, locating two almost identical cities for testing is not always easy. Also, if a rival withdraws its product in the control city, sales of the researcher's product might increase. If test city sales are lower than those in the control city, the researcher might incorrectly conclude that the advertisement is ineffective. Thus, it is almost impossible to ensure that test conditions will be the same as conditions in the real market.

Let us look at how experimentation research helped to solve the following problem:[28]



EXAMPLE: Mars chocolate bars: A sweet success

Mars chocolate bar company was losing customers to other sweets and snacks companies, and wanted to identify the reason. Surveys showed that many customers thought that the Mars bar, which was not being sold in a larger size, was too small. They also did not want to pay more for a larger bar. Mars's marketing manager wanted to know if making its chocolate bar bigger would increase sales to offset the higher cost. To decide, the company needed more information.

Mars carefully varied the size of Mars bars sold in different markets. Otherwise, the marketing mix stayed the same. Researchers then tracked sales in each market to determine the effect of the different sizes. They saw a significant difference immediately. It was clear that the added sales would more than offset the cost of a bigger Mars bar. Marketing managers at Mars, therefore, made a decision that took them in the opposite direction to other sweets companies, and to a focus on bigger chocolates.

A *focus group* is the simultaneous involvement of a small number of research participants (usually eight to ten) who interact at the direction of a moderator in order to generate data on a particular issue or topic. This is widely used in exploratory studies. The goal of a focus group is to draw out ideas, feelings and experiences about a certain issue that would be obscured or stifled by more structured methods of data collection. The use of a small group allows the operation of group dynamics, and aids in making the participants feel comfortable in a strange environment.

Focus groups have been useful in understanding basic shifts in consumer lifestyles, values and purchase patterns. Usually, focus group members share

homogeneous characteristics such as similarities in age (they may all be in their early 30s), job situations (they may all be sales managers), family composition (they may all have pre-school children) or even leisure pursuits (they may all play tennis).

By conducting a group that is as homogeneous as possible with respect to demographic and other characteristics, the researcher is assured that differences in these variables will be less likely to confuse the issue being discussed. The focus group can furnish qualitative data on such things as consumer language; emotional and behavioural reaction to advertising; lifestyle; relationships; the product category and specific brand; and unconscious consumer motivations relative to product design, packaging, promotion or any other facet of the marketing programme being studied. It must, however, be remembered that focus group results are qualitative and not perfectly representative of the general population, which limits the reliability of this type of data collection.

EXAMPLE: Questions in focus group discussions[29]

The following are examples of questions that may be asked during a focus group discussion. Assume the discussion is about department stores.

- What kinds of department stores are there?
- What department stores are you familiar with?
- Which department store is best, worst and why?
- When shopping for a gift in a department store, what is important?
- What is a high-quality product in your terms?
- How much time do you spend in a department store on average per month?

EXAMPLE: Cyber focus groups

A relatively new development in group interviews is the online or cyber focus group. A number of organisations offer this as a means of conducting focus groups on the internet.

Research firms build a database of respondents via a screening questionnaire on their website. When a client approaches them with a need for a particular focus group, they access their database and identify individuals who appear to qualify. E-mails are sent to these individuals, asking them to log on to a particular site at a particular time scheduled for the group. A moderator runs the group by typing questions online for all to see. The group operates in a chat-room type of environment so that all participants see all questions and responses. The complete text of the focus group is captured and is available for review after the group session.

Survey research is the gathering of primary data from respondents by mail, by telephone or in person. Survey research can be highly structured or unstructured. In a structured survey, all respondents are asked the same list of questions in the same way. In an unstructured survey, interviewers are free to ask their own questions to encourage respondents to reply as they wish. Three types of data are usually sought in survey research: facts, opinions and motives. These types of data are explained in the box below.



EXAMPLE: Types of data in survey research

- In a *factual* survey, respondents are asked questions such as: 'What type of car do you drive?'
- In an *opinion* survey, respondents are asked to give opinions, although they believe they are reporting facts. An example of an opinion survey question is: 'What type of toothpaste tastes better?'
- In a *motivational* survey, respondents are asked to interpret and report their motives. These surveys ask 'why' questions such as: 'Why do you holiday in Cape Town every year?'

Step 6: Design the form for collecting the information

The next step is to design a form or instrument whereby the information is collected. *Mechanical and electronic devices* and *questionnaires* are two types of research instruments used for the collection of primary data.

Mechanical and electronic equipment includes instruments such as galvanometers, tachistoscopes, cameras, and electronic and mechanical meters. These instruments range from simple counting meters (for example, to count the number of people passing through a turnstile) to sophisticated reaction-measurement instruments (for example, to record emotional reaction to a specific advertisement). Some researchers use personal computers to conduct interviews. Many researchers believe that respondents will reveal more private information via a computer than they will in a face-to-face interview.

Questionnaires are the most common method for gathering primary data. In designing a questionnaire, researchers must exercise great care in deciding which questions to ask, their content and phrasing, the wording, sequencing and formatting.

The first important aspect of the questionnaire is *question content and phrasing*. It is important to keep the wording of questions simple, clear and concise to fit in with the vocabulary level of the respondents.

In surveys conducted among the South African population, for example, questions should be worded in such a way that all respondents are able to understand them, whether English is their first, second, third or even fourth language. Therefore, it is important to have a clear idea of the target population.

In designing the *wording* of a question, leading questions, which may suggest or imply certain answers, should be avoided as this could be construed as a cue in the question as to what the answer should be. Often the question can reflect the researcher's viewpoint. A biasing question includes words or phrases that are emotionally coloured and that suggest approval or disapproval, for example: 'Do you agree or disagree with the South African Dental Association's (SADA's) position that advertising pre-sweetened cereal to children is harmful?' The mere suggestion that an attitude is associated with a prestigious organisation such as the SADA can seriously bias the respondent's reply.

Another important aspect is the *sequence of questions*.[30] This can influence the nature of the respondents' answers and cause serious errors in the survey findings. It is advisable to use the funnel approach by moving from the general to the particular, since a change of subject may disturb the logical flow of the interview, unless there are links between subjects.

The first questions should, therefore, be simple and should attempt to generate interest, their main intention being to put the respondents at ease and motivate them to react to the succeeding questions without suspicion. Sensitive questions (for example, income, qualifications and age of the respondent) should be positioned as near to the end of the questionnaire as possible.

The *question format* – that is, the form in which the questions are presented – is also very important. *Open-ended questions* such as 'How do you feel about women in politics?' do not provide respondents with a choice of answers; instead, respondents formulate their own answers in their own words. *Dichotomous or closed questions*, such as 'Do you think women should be allowed to be in combat positions?' give respondents all the possible answers to each question (usually 'yes' or 'no') and they simply choose one. Ambiguous and leading questions should be avoided, while personal questions, for example, the respondent's age, should be placed at the end of the questionnaire.

Consider the points discussed in these examples.

EXAMPLE: Question types

Avoid vague or leading questions:	'What type of drink do you like?' (The word 'type' is vague. Do you mean the brand? The flavour?)
Avoid sensitive questions:	'How old are you?'; 'How much do you earn?'
Provide ranges for sensitive questions:	'How old are you?' 18 or under, 19—25, 26—30 (tick one) ➡

	'What is your income bracket?' R1000—R5000 per month, R5000—R10000 per month (tick one)
Avoid leading questions:	'Do you prefer low sugar, healthy drinks as opposed to high sugar, unhealthy drinks?'
Provide an open-ended question and/or ask for a word association:	When I buy a drink, the most important thing is ...
	An energy drink is ...
	A low-fat drink is ...
Provide a rating scale:	The taste of Coca-Cola is:
	1 = Great, 2 = Fairly good, 3 = Not good, 4 = Terrible

Validity and reliability should always be considered in questionnaire development. *Validity* refers to the degree to which a study accurately reflects or assesses the specific concept that the researcher is attempting to measure. *Reliability* is concerned with the accuracy of the actual measuring instrument or procedure.

Pretesting of the questionnaire is essential if the researcher is to be satisfied that the questionnaire will perform its various functions. The questionnaire is tested on a small sample of respondents to identify and eliminate potential problems - this helps to reveal errors while they can easily be corrected. It should be tried out on a selected group similar in composition to the one that will ultimately be sampled.

There are various *contact methods*. When the questionnaire has been designed, a decision must be made on how to contact the survey participants. Survey research data can be obtained from mail, via e-mail, telephone or personal interview. Table 4.2 shows the relative advantages and disadvantages of various surveys, some of which are discussed below.

- *Mail survey*. This is a relatively low-cost self-administered study both delivered and returned via mail. For mail surveys, a questionnaire is mailed to possible respondents, and the completed questionnaire is returned by mail to the researcher. Mail surveys are flexible in their application and relatively low in cost, but the major disadvantage is the problem of non-response error. When the geographical area to be covered is large, time is not a major factor, and the questionnaire is relatively short, a mail survey is favoured. Respondents can answer at their convenience, and there are no personal interviews to bias the results. Mail and fax questionnaires are particularly versatile in reaching all types of people in remote geographical areas. E-mail is another form of mail survey that is gaining ground; however, its use is, of course, limited to those respondents who have e-mail.

- *Telephone survey.* In a telephone survey, an interviewer asks the respondents questions over the telephone. This type of interview is efficient and economical, and, compared to the personal interview, reduces the potential for bias. The basic limitation of the telephone interview relates to the limited amount of data that can be obtained. Technological advances are making telephone surveys less costly and time consuming; many research firms are working with data entry terminals. The interviewers read questions on a video screen and enter the respondents' answers on a computer.
- *Personal survey.* In a personal survey the interviewer asks questions of the respondents in a face-to-face situation. The interviewer's task is to contact the respondent, ask the questions and record the responses. Face-to-face interviews may cause respondents to bias their responses because of a desire to please or impress the interviewer. It is also an expensive method involving extensive planning and control. However, the personal interview method renders the best response in most cases.
- *Internet survey.* In an internet survey, respondents are recruited over the internet from potential respondent databases developed by the research firm or via conventional means. Specific target individuals may be contacted by telephone or mail and asked to access a particular web location to complete the survey. This survey has certain similarities to a mail survey in terms of its basic advantages and disadvantages. However, in the cyber survey there is the potential for interactivity and the ability to expose respondents to various stimuli (for example, print advertisements, audio for radio advertisements, product and packaging designs and so on). Cyber surveys have the following advantages: speed, cost effectiveness, broad geographic scope, accessibility and tracking. However, there may be sample control problems with internet surveys.

Table 4.2 Characteristics of various types of survey research

	DOOR-TO-DOOR PERSONAL INTERVIEW	MALL INTERCEPT AND PERSONAL INTERVIEW	TELEPHONE INTERVIEW	POSTAL SURVEY	WEB-BASED SURVEY
Speed of data collection	Moderate to fast	Fast	Very fast	Slow – the researcher has no control over the return of questionnaires	Instantaneous
Geographic flexibility	Limited to moderate	Confined; urban bias	High	High	Worldwide
Respondent cooperation	Excellent	Moderate to low	Good	Moderate – a poorly designed questionnaire will have low response rate	Varies depending on the website
Versatility of questioning	Quite versatile	Extremely versatile	Moderate	Highly standardised format	Extremely versatile
Questionnaire length	Long	Moderate to long	Moderate	Varies depending on incentive	Modest
Item non-response	Low	Medium	Medium	High	Software can ensure none
Possibility for respondent misunderstanding	Lowest	Lowest	Average	Highest – no interviewer is present for clarification	None

	Door-to-door personal interview	Mall intercept and personal interview	Telephone interview	Postal survey	Web-based survey
Degree of interviewer's influence on answers	High	High	Moderate	None – interviewer is absent	None
Supervision of interviewers	Moderate	Moderate to high	High, especially with central location interviewing	Not applicable	Not applicable
Anonymity of respondent	Low	Low	Moderate	High	Respondent can be anonymous or known
Ease of call back or follow-up	Difficult	Difficult	Easy	Easy, but takes time	Moderate
Cost	Highest	Moderate to high	Low to moderate	Lowest	Low
Special features	Visual materials may be shown or demonstrated; extended probing is possible	Taste tests, viewing of TV commercials possible	Fieldwork and supervision of data collection are simplified; quite adaptable to computer technology	Respondents can answer questions at their convenience; they have time to reflect on answers	Streaming media may provide graphics and animation

Sources: Adapted from Zikmund, WG, Babin, BJ, Carr, JC & Griffin, M. *Business research methods*. 10th ed. Mason, OH: South-Western Cengage Learning; Lamb, CJ, Hair, JF, McDaniel, C, Boshoff, C & Terblanche, N. 2008. *Marketing*. 3rd ed. Cape Town: Oxford University Press Southern Africa, p 32.

Step 7: Determine the extent of the formal investigation

In this step, the extent of the *formal investigation* must be determined. This focuses on the design of the *sampling plan*. Sampling involves selecting representative units from a total population. Marketers can predict the reactions of a total market or market segment by systematically focusing on a limited number of units. This is called *sampling*. However, we must first clarify some of the terms that are relevant to sampling.

The group that the marketer is interested in knowing something about is referred to as the *population* or *universe*. Sometimes a population is small enough that marketers or researchers may study all of the members of the population in order to learn whatever it is they are interested in establishing. In such cases, the whole population or universe can be investigated.

When the population or universe is extremely large, it may be more convenient to study a subset of the population, called a *sample*. A sample is therefore a set of items, called units, selected from the population.



EXAMPLE: A census

A study on the opinions of marketing lecturers at residential universities regarding the introduction of a new marketing module as part of the curriculum can be conducted among all lecturers as the population is relatively small, and a complete list will be available.



EXAMPLE: A sample

If the expenditure of households in Soweto is being researched, the researcher may include all the households in Soweto, in which case a census is taken (the sum total of all households in Soweto). However, the researcher may decide to interview only some of these households, for example 10% of the households, which is termed a sample.

A shoe manufacturer, who wanted to study the brand preferences of all teenagers between 13 and 16 years of age, found it almost impossible to research all of them and decided to draw a sample of 2 500 teenagers.

When researchers establish a sample, it is crucial to select respondents who will represent the population of interest. This is known as a *sample frame*.

The *sample size* refers to how many respondents should be incorporated in the study, and is an important consideration for researchers. No fixed rules exist concerning the number of units to be included. However, there are general norms and guidelines in this regard. Samples that are applied in consumer research can

often be less than 1% of the population, on condition that a probability sample and statistical formulae are used. In the case of industrial research, however, larger samples are used because the number of industrial clients is considerably smaller than in the case of final consumers.

In this step of the research process, a decision is needed about the type of sample. A good sampling plan will produce a sample that is representative of the characteristics of the population from which it is drawn. Two basic types of samples are probability (random) samples and non-probability (non-random) samples.

A *probability* (or random) sample is a selection in which each element in a population has a known chance of being included through strict statistical procedures. It is the best way to ensure a representative sample. The following random sampling methods can be employed: simple random sampling, stratified random sampling and cluster sampling. *Simple random sampling* involves a probability sample in which each element has a known and equal chance of selection.

A simple random sample

To draw a simple random sample of 10 flats from a block of flats, the researcher should incorporate the flat numbers into a list of the total population (all flats). Flat numbers will then be drawn at random until the prescribed sample size has been reached.

In the case of *stratified* random sampling, the population is divided into mutually exclusive subgroups (strata) on the basis of common characteristics. The basis used for stratification (for example, age, income, occupation and gender) must be a characteristic relevant to the research project.

EXAMPLE: Random sampling error[31]

Assume that a research population consists of 100 elements or people of which 50% are male and 50% are female. If a sample of 10 elements was drawn using the simple random sampling method, it is possible that it would consist of three males and seven females. Even though all the sampling procedures were followed exactly, the sample does not represent the population. As the sample size increases, the sample will become more representative of the population.

In *cluster sampling*, the procedure is different. Simple random sampling treats each population element individually, while stratified sampling treats elements in groups of the population individually. In the case of cluster sampling, the population will be grouped into clusters, and only some of the groups will be randomly selected for study.

The grouping of clusters is done according to ease or availability, and should be heterogeneous (different) within subgroups and externally homogeneous (similar).

Stratified random sampling

Suppose you were studying leisure activities of people in the population and you believed that age was relevant. You would stratify the population by age. People in a particular stratum would be of similar ages, and each stratum would differ from the others with respect to age. You could then use simple random sampling to select sampling units from each stratum. Clearly you would need more information on the population to select a stratified sample than to select a simple sample.

A *non-probability* (or *non-random*) sample is a selection in which not every item in a population has a known chance of being included because researcher judgement enters into the selection. The sample's representativeness depends on how good the researcher's judgement is. Non-probability sampling can take two forms: *convenience sampling* and *judgement sampling*. In the case of convenience sampling, the sampling units are chosen simply on the basis of convenience.



EXAMPLE: Convenience sampling

Convenience sampling is used in the case of on-the-street interviews, for example, asking people in a supermarket their opinions about a new brand of detergent, or conducting taste tests on cheese. People who are not at the same place as the interviewer, and people who are not in that particular supermarket at the time when opinions or taste reactions are being sought, do not have a chance of being included in the sample.

In the case of *judgement sampling*, units are chosen on the basis of the researcher's opinion as to their representativeness.



EXAMPLE: Judgement sampling

Examples of judgement sampling include selecting a sample of salespeople for their opinions as input to preparing a sales forecast, and selecting cities in which to test-market new products. The representativeness of these samples depends on the researcher's judgement in selecting the sampling units.

Step 8: Select, train and control the interviewers

In this step of the marketing research process, the research design is implemented; that is, the data is collected. Data collection is often the most expensive aspect of the

research process, and the possibility of error is high. Interviewers should be selected carefully and trained thoroughly. An important control task also has to be performed.

Before *selecting* interviewers, it is advisable to establish specific selection criteria. These will depend on the nature of the questionnaire, the type of respondent to be interviewed and factors relating specifically to the investigation. For example, experienced interviewers are required for questionnaires that include open-ended questions, which require probing.

Interviewers need *training* to ensure that they all administer the questionnaire in the same manner so that the data can be collected uniformly. The training should cover making the initial contact, asking the questions, probing, recording the answers and terminating the interview.

Control of the interviewers should be exercised continuously. The potential for error in data collection is very high. To help ensure that the research design is being implemented correctly, the researcher must monitor and control every phase of its implementation. In a personal interview survey, for example, it is important to monitor the fieldwork. The researcher might take a sample of completed questionnaires and call the respondents to verify that they were, in fact, interviewed.

Training interviewers

In a research investigation into the marketing knowledge of supermarket retailers, the interviewers were given the following instructions:

- Speak to the store owner/manager/person in charge of the store upon entering the store.
- Identify yourself.
- Explain what you are doing.
- Hand the respondent the letter of introduction, or read it aloud if necessary.
- Complete the front page (name of store, owner, and so on).
- Ask all the questions.
- Record responses by following the instruction below each question – for example, tick more than one item if necessary.
- Do not influence the respondent when asking the questions.

Step 9: Fieldwork

During this step, the information is collected from the respondents. Various problems may occur during the interviewing process, such as non-response error, respondent bias and interviewer bias, which are discussed in more detail below.

- *Non-response error.* A great percentage of respondents may not respond to the research. Non-response errors occur when the results obtained from the respondents who participated in the research are in contrast to what the results

would have been if all the respondents who were initially selected in the sample participated in the research.

- *Respondent bias.* Interviewers should do their best to obtain answers that are honest and as accurate as possible. Some respondents may be inclined to pre-empt the interviewer by providing answers which they think the interviewer is looking for. Overcoming this bias should be addressed when the interviewer is trained.
- *Interviewer bias.* Interviewer bias can take many forms, for example, their tone of voice, age, gender or way of interviewing may unconsciously result in bias. Conscious interviewer bias can also occur. For example, the interviewers may complete the questionnaires themselves. This type of interviewer bias can be limited by thorough training, selecting highly motivated interviewers and exercising strict control during the fieldwork.

Step 10: Data processing

When the fieldwork has been completed, the data must be processed. Data processing entails editing and coding the collected data to facilitate analysis. Editors go through completed questionnaires to eliminate those answered by the wrong respondents and to check for readability of the responses. Editing also involves setting up categories for the data in accordance with the research design. Coding assigns the data to proper categories as explained in the box below.

Categories for data

For example, in a survey of cigarette smokers to determine brand usage, the categories might consist of brands, types of cigarettes (filtered, unfiltered, menthol), city size, household income and gender of respondent.

Proper categories for the brands may include the following:

- Stuyvesant 20s might be coded brand number 1.
- Satin Leaf Lights 30s might be coded brand number 2.

Proper categories for the cities may include the following:

- Cities consisting of 20 000 people or less might be coded city size number 1.
- Cities with one million or more people, number 2, and so on.

Sometimes questionnaires are pre-coded by printing the codes on the questionnaires, which assists data-entry personnel to enter responses directly from the questionnaire. Data-processing activities are usually done by means of computers, so the data is often put into a computer-readable form and then read into a computer file and stored.

Data analysis is done next. This is the process of editing and reducing accumulated data to a manageable size, developing summaries, looking for patterns and applying

statistical techniques. Data-analysis techniques should be planned in advance of data collection as part of the research design. For example, more data might be collected if computers are used than if the analysis is done manually.

More sophisticated data-analysis techniques may also be used as the researcher moves beyond the description of the data to complex statistical analysis of them. Cross-tabulations are often used to show how one variable relates to another. For example, two-way tabulations provide answers to such questions as: 'What is the relationship between gender and brand loyalty in the motor vehicle market?'

Statistics on the internet

There is a tremendous amount of statistical information and advice available on the internet. The Web is a very useful source of information for the selection of appropriate statistical techniques for a particular problem, the proper use of different statistical techniques and emerging statistical techniques. In addition, news and special-interest groups can be an excellent source of information and advice regarding the proper use of statistical procedures.

Step 11: Communicate information to the decision-maker

The final step in the research process involves interpreting the findings and communicating this information to the marketing manager. Communication problems between researchers and marketing managers often arise because of their different backgrounds and work environments. Inevitably, the written research report is the document that management will use as its information source in making a decision.

Publishing research reports on the internet

Some companies and research companies publish marketing research reports on the internet. This is extremely simple to do because the latest versions of the major word-processing, presentation graphics and spreadsheet packages, such as Microsoft Office and Lotus SmartSuite, are easy to use. The fact that reports are available on the internet means that qualified users worldwide have instant access to these documents. Users can view the marketing research reports on screen and also have full access to supporting audio, video and animation features. They can save the reports for future reference or for more careful analysis at a later stage. Complete reports or portions of reports can be printed out in hard copy if desired.

4.5 Market potential and sales forecasting

In this last section of the chapter, we deal with a specific element of marketing information, namely market potential and sales forecasting. This is a specialised field, and therefore we will look at only some basic concepts and procedures.[32]

When an enterprise observes a new market trend based on the information obtained from marketing research or the MIS, it is essential that the current size and future potential of the new market demand be determined. Knowledge of market sizes and probable growth patterns provides the basis for selecting attractive markets and helps in the formulation of appropriate marketing strategies for those markets.

The extent to which plans can be successfully implemented depends not only on managers' abilities to set and implement strategies, but more fundamentally on their ability to predict the market accurately. This means two things: first, assessing the market potential (that is, working out how big the total market is) and, secondly, forecasting sales (that is, calculating how big a slice of that market the organisation can obtain).

Market potential focuses on the current size and characteristics of the market, whereas *sales forecasting* looks at the future market situation.

4.5.1 Levels of market measurement

The size of a market (in other words, the potential or demand) can be measured on different levels, and it is important to state clearly beforehand what type of market is involved. Market measurement can be determined by consumer level, product level, geographic level and time level. Marketing managers must clearly define the required level of measurement as this would impact directly on the formulation of resulting marketing decision-making. Consider the following example of the possible levels of market measurement for Coca-Cola.

Possible levels of market measurement for Coca-Cola

- *Consumer level.* This is the most popular level of demand measurement used as it provides information on the number of final consumers defined in different market segments. Coca-Cola would, for example, be interested in the demand for Coca-Cola in schools, at sports meetings and among fitness fanatics.
- *Product level.* On the product level, an enterprise can measure consumer demand for one brand or for all of its brands in a given product category. As most markets are targeted by various formats of the same product, the demand measurement can be expressed in terms of the total number of current buyers for each product type. Coca-Cola, for example, would be interested in the sales of all soft drinks in the RSA – sales of Coca-Cola, sales of Coke Light, sales of Tab and so on.
- *Geographic level.* On the geographic level, the total market can be divided into geographical segments and it is thus possible to express the demand measurement in geographic terms. Coca-Cola may be interested in certain areas, such as the Cape metropolitan area, KwaZulu-Natal, the RSA and southern Africa. ➡

- *Time level.* A demand measurement should also be specific in terms of the time of purchase, and should provide information on the sales over different time periods. Coca-Cola may be interested in monthly sales, seasonal sales and annual sales.

4.5.2 Relevant markets for measurement

The different types of markets which can be measured are not all relevant to a specific enterprise. It depends on whether the enterprise is actively involved or interested in the particular market. It is thus necessary to distinguish the relevant markets that can be used to estimate market potential:

- *Total market* (also referred to as the market potential) pertains to all actual and potential buyers of a product type if it is generally available and offered for purchase, whether or not consumers have the ability to buy the product. For example, the total market for Coca-Cola is the whole of the RSA.
- *Available market* refers only to those actual and potential buyers of a product who have the interest, income and ability to buy the product at a particular point in time (for example, metropolitan areas where consumers are able to buy the product because of its availability and their level of income).
- *Target market* is that part of the available market at which the company has chosen to direct its marketing activities (for example, the 16- to 35-year-old age group). The target market for Coca-Cola may include only those parts of the metropolitan population that fall into particular age groups and lifestyle categories.
- *Penetrated market* refers to the number of consumers who have already bought the product. Coca-Cola's penetrated market refers to that portion of the target market that has already bought the product.

4.5.3 Market and sales potential

The concepts 'market potential' and 'sales potential', which are ways of estimating or measuring market and sales potential, are discussed below.

4.5.3.1 Market potential

Market potential is concerned with what is possible; in other words, it focuses on the current size of the market. Market potential is *the maximum possible sales of a specific product in a specific market over a specific period for all sellers in the industry.*

It assumes that all sellers are presenting their maximum marketing effort under a given set of environmental conditions. Market potential thus sets an upper limit for industry sales. This definition of market potential raises problems when calculating a figure for market potential, as it involves many assumptions about competitors and the environment, and because it needs a precise definition of 'the market'. In addition, methods of quantifying the variables concerned are required.

Market potential data help in evaluating which opportunities the marketer should pursue, for example, in determining which market segments to target. Such data also help in deciding the level of marketing effort that should be allocated to the various segments and in providing benchmarks for evaluating performance in selected segments.

The toy industry reviewing its definition of the market[33]

In the early 1990s, the traditional toy industry reviewed its definition of the market, following a report that children were leaving the traditional toy market at an increasingly younger age, and that their needs, wants and consumption choices were broadening. This means that toy manufacturers are competing directly with clothing, trainers, videos, electronic games, and so on, for children's disposable income. Toy manufacturers now have to consider themselves in the youth gift market, not just the toy market.

4.5.3.2 *Sales potential*

Even after the potential has been estimated for the market as a whole (market potential), a company will need to determine its own sales potential – that is, the share of the market that it could reasonably capture. Sales potential is *the upper limit of sales that a firm could possibly reach for a specific product in a specific market over a specific time period.* It is based on a maximum level of marketing effort and an assumed set of environmental conditions. A company's sales potential, therefore, is the share of market potential that it might capture if it maximised its marketing effort. Sales potential is, therefore, partly a result of the company's marketing effort and its success in attracting and holding customers.

Having a clear idea of market and sales potential provides a useful input to the marketing planning process. It is especially important for planning selling efforts and allocating resources. The allocation of sales-force effort and the establishment of distribution point and service support centres, for example, can reflect sales potential rather than actual sales, thus allowing scope for expansion. Similarly, sales potential can also be used to plan sales territories, quotas, sales force compensation and targets for prospecting.

4.5.4 Estimating market and sales potential

The methods used for estimating market and sales potential depend on how new or innovative the product or service is, and how mature the market is. We distinguish between the breakdown methods and build-up methods.

- *Breakdown methods.* The most common breakdown method used to estimate market and sales potential is total market measurement. This begins with any total industry or market data that may be available from secondary research. This

information is then broken down to market segment level and, thereafter, to the company's own sales potential. This method relies heavily on the availability of a long series of data on industry sales volume and consumption by segments within that market, but rarely is such complete and detailed data available. Potential is thus often estimated from what data is available and then adjusted to take account of the current marketing environment. Once market and segment potentials have been established, sales potential can be derived by estimating competitors' relative market share and then calculating how this might change as a result of expected actions, for example, a new product launch.

- *Build-up methods.* There are three main methods for estimating reliable market and sales potential figures: census, survey and secondary data:
  - The *census method* is based on a detailed consideration of every buyer and potential buyer in a market. This may be difficult in mass consumer markets, but is more feasible in industrial situations. The market potential is effectively the sum of all the potentials estimated for individual purchasers.
  - The *survey method* is more widely used in consumer markets where a representative sample of consumers is asked about purchase intentions. This information can then be used as a basis for calculating total market or sales potential. The main problem, however, is that respondents might not be truthful about their intentions.
  - *Secondary data* can be used to establish sales and market potential. Internal sales records can be used to predict individual customers' purchasing on the basis of past behaviour. In this approach, the sales potentials are produced first and the market potential is then derived from those figures.

4.5.5 Market and sales forecasting

The terms *market forecast* and *sales forecast* must be defined before we consider the development of a sales forecast.

- *Market forecast.* This is an estimate of the expected sales of a specific product in a specific market over a specific time period for all sellers in the industry. It is based on an expected level of industry effort and an expected set of environmental conditions. In other words, the market forecast is the portion of market potential that is expected to be realised.
- *Sales forecast.* This is an estimate of the number of units a firm expects to reach for a specific product in a specific market over a specific time period. It is based on an intended level and type of marketing effort and an expected set of environmental conditions.

Marketing often plays a central role in preparing and disseminating forecasts. This is perhaps one of its most important functions, as the sales and market forecasts provided are the basis of all subsequent planning and decision-making within most areas of a company.

EXAMPLE: Forecasts

These include:

- a car manufacturer wanting to forecast the demand for each model in the product line
- a tour operator wanting to forecast the demand for specific destinations
- a university wanting to forecast numbers of full-time, part-time and overseas students by programme offered.

The forecast is the starting point for all subsequent decisions. If this is not done correctly, the whole company can encounter major capacity or cash-flow problems.

Some problematic forecasting situations

- In fashion markets, it can be very difficult to forecast what styles are going to sell and in what quantities, hence the popularity of 'end of season' sales as retailers try to sell off surplus stock.
- Holiday companies and airlines also find forecasting difficult and often sell off surplus holidays or seats on aircraft at discounted rates. This continues until actual departure dates.

There is no such thing as a rigid or absolute forecast. Different forecasters using different forecasting methods are almost certain to reach different results. Forecasts should, however, share some common characteristics. They should:

- be based upon historical information from which a projection can be made
- look forward over a specific, clearly defined time period
- make clearly specified assumptions, since uncertainty characterises the future.

4.5.6 Forecasting methods

There are several forecasting methods. Rather than relying on only one, planners often use a number of methods. We shall briefly consider the sales-force survey, expert survey and time-series analysis.

- *Sales-force surveys* can provide a wealth of information. Sales representatives are asked to provide forecasts on customers, dealers, accounts and so on. The sales force is a valuable source of expert opinion, since representatives are in close contact with customers on a daily basis and will learn of likely changes in purchasing intentions early. The main disadvantages of these surveys are bias and naivety.
- *Expert surveys* can be used by bringing outside expertise into the sales-forecasting process. This is a sales-forecasting method that involves the participation of people outside the firm who have specialised knowledge and

experience in the market under consideration. This includes economists, consultants and retired executives.

- *Time-series analysis* is a means of using historical data to predict the future. Analysis of historical data can reveal patterns in the organisation's sales figures. These patterns include trends, cycles, seasonality and random factors. In the case of *trends*, for example, extrapolation of data on a straight- or curved-line basis can give a broad view of the general direction in which sales are moving. Cycles reflect periodic changes in patterns over a period of time. *Seasonality* – that is, shorter-term fluctuations around an overall trend – may be observed on a daily or weekly basis if that is what the organisation requires. Any forecast must make allowances for *random factors* such as strikes, riots and civil commotion (especially in the insurance industry).

4.6 Analysing and using marketing information[34]

Information gathered from internal databases and through competitive marketing intelligence and marketing research requires additional analysis in order to gain insight to improve decision-making. This section discusses customer relationship management and the distribution and use of marketing information.

4.6.1 Customer relationship marketing

Customer relationship management (CRM) is managing detailed information about individual customers and carefully managing touch points to maximise customer loyalty. Ideally, companies should capture information at every single customer touch point, including customer purchases, sales personnel interactions, service and support calls, website visits, satisfaction surveys, credit and payment interactions and market research studies. The aim of CRM is to understand customers better in order to enhance customer service and develop deeper customer relationships.

CRM uses sophisticated software and analytical tools that integrate information from all touch points, conducts in-depth analysis of the information and uses the results to build stronger customer relationships.

CRM analysts create data warehouses and then apply data mining techniques to retrieve customer-related data. A data warehouse is an electronic database that stores multitudes of customers' information in one central, accessible location. Data mining is the process of gathering and retrieving relevant information.

4.6.2 Distribution and use of marketing information

The marketing information system (MIS) must make information readily available when it is needed, otherwise the information will have no value if it cannot be used to gain customer insight and make better marketing decisions. In some cases, this means providing managers with regular performance reports, intelligence updates and results of research studies. But marketing managers may also need non-routine

information for special situations and last-minute decisions, such as inventory levels of a certain product that is selling faster than expected. Information distribution is about storing information in a database and making it available in a timely, user-friendly way.

Intranets and internal CRM systems are examples of internal information systems that provide access to research information, customer contact information, reports, shared work documents, employee and other stakeholder information.

Extranets are information systems that enable people outside the organisation, such as key customers and value-networking members, to access their account information, arrange purchases, and check inventories or product availability and other data on demand.

With technological advances, marketing managers can now gain direct access to information systems at any time and almost anywhere through wireless networks, which allow quicker and more direct access.

4.7 International marketing research[35]

When marketing across international frontiers, there are added complexities that need to be taken into consideration. The process of marketing research and the availability and quality of secondary data may vary, and there may be differences in social and marketing practices, political and commercial institutions and languages. Conditions vary in each country; one cannot assume that because a product or service was a success in one country, it will be successful in another, even if the countries have similar customers, lifestyles and languages.

Even within a country, regional variations may require different marketing strategies to be implemented. For example, in South Africa, different strategies are sometimes used in different provinces, such as Gauteng and KwaZulu-Natal.

When defining potential export markets, marketers should take the following factors into consideration:

- *geography*: the distance required to deliver the goods and the method of delivery
- *economic zones or trading blocs*: eg developed countries or BRICS countries
- *political conditions*: eg Zimbabwe and Sudan have unstable conditions.

This makes international marketing research a more complex process and increases uncertainty.

4.8 The impact of the internet on marketing research[36]

About one-fifth of the world's population is online and internet data collection is rated as having the greatest potential for further growth. There are various reasons for the success of internet marketing research:

- Business intelligence can be accessed easily, resulting in better and faster decision-making.

- It improves a company's ability to respond to changes in the market and to customer needs.
- It decreases the time and costs spent on research activities such as mailing, data entry and reporting.

Marketing researchers use the internet to administer surveys, conduct focus group and observation research, and perform various other types of marketing research.

4.8.1 Advantages of internet surveys

Some of the advantages of internet surveys are discussed below.

- *Rapid development, real time reporting.* Internet surveys can be sent out to thousands of respondents and completed simultaneously, and results can be posted as the returns arrive.
- *Reduced costs.* Data collection costs contribute the largest amount to any traditional market research budget. With internet surveys, even if the number of respondents increases, there will be little or no increase in expenditure.
- *Personalisation.* Internet survey questions can be highly personalised for greater relevance to each respondent; this not only speeds up the response process but also results in personalised data.
- *Respondent participation.* Internet surveys can be filled out whenever it suits the respondent and are quicker to complete, which leads to higher participation rates.
- *Wider reach.* Certain groups are difficult to reach using traditional research methods, such as top professionals, but these people are well presented on the internet; therefore using online surveys increases the likelihood of reaching them.

4.8.2 The role of consumer-generated media in marketing research

Consumer-generated media (CGM) are media that consumers generate themselves and share among themselves, such as blogs, message boards and forums, online opinion/review sites and services, shared videos and photos and podcasts. Facebook and Twitter are the most current and relevant forms currently used by society. CGM can be viewed by marketers but cannot be controlled by them, and it is for this reason that they are more trusted than traditional forms of advertising and promotion. Firms use sophisticated data mining and other technologies to track what is being said or shown and about whom. Companies can focus on specific issues and concerns highlighted by CGM, such as:

- What is the hype about a certain issue, trend, product or piece of news?
- Who is active online and what are they saying?
- Are the current trends becoming bigger or seen as a warning sign of changes that are likely to occur?
- What are the key motivators influencing and affecting consumers' behaviours?
- What are consumers' moods and emotions towards a topic or brand?

4.8.3 Behavioural targeting

Behavioural targeting started as a simple process, where websites placed cookies on users' browsers to track which websites they visited, the time they spent on each page and the number and types of searches they made. The objective was to track users in order to match them with adverts for products and services that they would most likely purchase. Today, behavioural targeting combines a consumer's online activity with psychographic and demographic profiles gathered from databases.

Summary

In this chapter, we focused firstly on the information needs of marketers and how they gather and use that information to develop marketing strategies. More specifically, we dealt with the MIS.

We also looked at the factors involved when a company decides to conduct marketing research, and the research techniques available to gather the specific information it needs. The steps in the marketing research process were dealt with comprehensively. We looked at the important role of the internet in marketing research. We also examined market potential and sales forecasting, a specific element of marketing information, and briefly looked at the importance of international market research. Finally, the impact that the internet has on market research was discussed.

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Chapter 5

Consumer behaviour

Learning objectives

After you have studied this chapter, you should be able to:

- define what consumer behaviour is
- demonstrate an understanding of what motivation is and how to apply it in marketing messages
- explain the perception process and the marketing implications of perceptual defence
- illustrate the use of the components of attitudes and how attitudes can be changed
- explain the characteristics of personality and its value to marketers
- explain the nature of lifestyle
- explain decision-making in the family in terms of family roles and family types
- explain the nature and implications of culture
- illustrate the implications of different social classes
- explain the different reference groups
- illustrate the types of decision-making and the decision-making process
- understand the stages of adopting a new product and the categories of adoption of new products.

5.1 Introduction

Any business revolves around the customer. If a business does not have a customer, there will be no business. Furthermore, in order to be sustainable and to be profitable it is imperative that the business meets and satisfies the needs of its customer base. However, in order to be able to do this, the business must understand what drives its customers. Marketers must understand which factors have an impact on customers' buying decisions, what sources they consult, how they perceive certain things, what motivates them, and so forth. Consumers have become more globalised and knowledgeable due to the advances in technology, and marketers must not only be aware of these changes, but also be aware of how these technologies can be used to influence consumer buying decisions.

Consumers are constantly bombarded by various marketing actions either via digital and social media, or advertisements in newspapers, on radio and TV, by family and friends and many other stimuli, which leads to certain actions and reactions or behaviour. This behaviour is known as *consumer behaviour*. When someone does his or her shopping, he or she is a consumer who is satisfying certain needs. Marketers, in order to meet their goals and targets, need to be aware of customers' needs. They need to know the needs and preferences of customers and why they have those needs and preferences. When this information is known, marketers can try to satisfy these needs with their particular products.

A customer's buying decision is not determined by only one factor, but by a number of factors. The study of consumer behaviour is concerned with all the activities and influences that occur before, during and after the purchase itself. Therefore, it includes not only the buyers and consumers of products, but also those who influence the buying decision.

In this chapter we first look at the determinants of consumer behaviour, namely the individual factors and the group factors that influence behaviour. Then we deal with the consumer decision-making process. Figure 5.1 provides an overview of what consumer behaviour is.

DEFINITION: Consumer behaviour

It is the study of the processes involved when individuals or groups select, purchase, use or dispose of products, services, ideas, or experiences to satisfy needs and desires.[1]

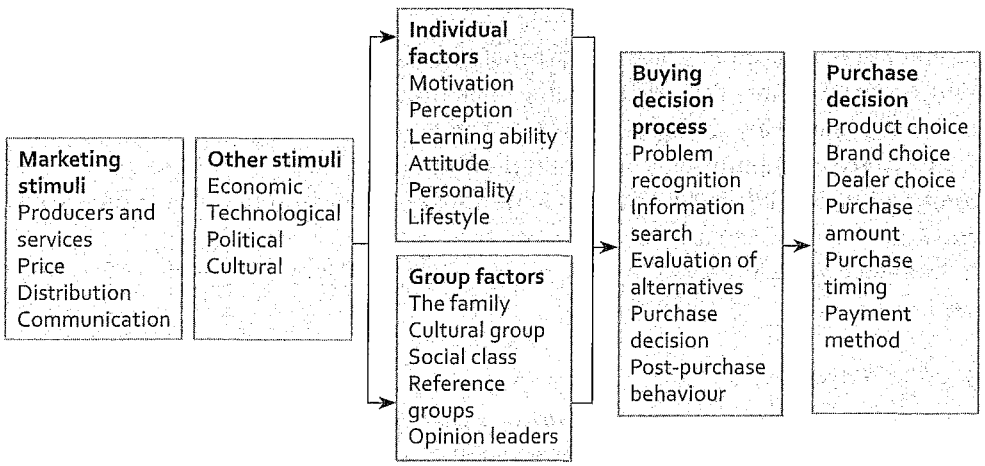


Figure 5.1 Model of consumer behaviour

Source: Adapted from Kotler, P & Keller, KL. 2009. *A framework for marketing management integrated with PharmaSim.* 4th ed. Upper Saddle River, NJ: Prentice Hall, p 92.

The *individual factors* in Figure 5.1 are also referred to as *internal determinants* or *basic determinants* of consumer behaviour. Consumers' needs, motives, attitudes, perception and learning abilities, and personality determine their consumption decisions and behaviour. However, consumers do not live in isolation and are influenced by other factors as well. These factors include cultural and social influences from the external environment, which also shape an individual's behaviour. These *external determinants* are also known as group factors and include the cultural group, reference groups, the family and the social-class system. If marketers wish to formulate a successful marketing strategy (consisting of product, price, promotion and distribution strategies), they need to be familiar with the influence of internal and external determinants on the behaviour of consumers in a specific target market.

Let us first investigate the individual factors that influence consumers' buying behaviour. Note that a customer's buying decision is not determined by only one factor but mostly by a number of factors.

5.2 Individual factors influencing consumer behaviour

Individual factors refer to those factors that are inherent in human behaviour. Why do consumers buy certain products? Why do they buy these products at certain stores? Why do they buy certain products at certain times? How do they buy? It is not easy to understand all these questions, as many factors can and will influence the decisions made by customers.

Although we have a fair understanding of which factors influence behaviour, our knowledge of how these factors interact to influence behaviour is limited. The human mind is often compared to a 'black box'; we know the inputs (stimuli) and the outputs (responses), but not the inner workings (processes) of the mind with respect to the transformation of inputs and outputs.

Human needs, more particularly consumer needs, are the basis of all modern marketing. Needs are the essence of the marketing concept. The key to a company's survival, profitability and growth in a highly competitive marketing environment is its ability to identify and satisfy unfulfilled consumer needs better than the competition. Marketers who base their offerings on recognition of consumer needs find a ready market for their products or services.

We will discuss the six individual factors shown in Figure 5.1, the first of which is motivation.

5.2.1 Motivation

If we know what motivates a person to buy a product, it is easier to sell to that person, as the marketing message will be directed at the motivating factor. To understand motivation is to understand why consumers do what they do. People do things for a reason or purpose. They may be motivated by a need to feel loved by others, to protect their feet from damage when rock climbing, to relax in a movie theatre or

to merely quench a thirst. Marketing students are taught from day one that the goal of marketing is to satisfy consumers' needs. However, this insight is useless unless we can discover what these needs are and why they exist. Motivation is what moves people to action.

Marketers need to 'look behind the behaviour' in order to understand the consumer's motives. When retailers examine buying choices, they find unsatisfied needs. Needs are the basic sources of buyer behaviour, but they have to be stimulated before the consumer is driven to action.

EXAMPLE: Needs identified in the market

- FNB realised that it is a hassle for people to always have to go into the bank to change things, or even if people wanted to change from one bank to another. They have now made it possible to make these changes online with little hassle – and even offer people the opportunity to contact one of their consultants to come to their home to assist with a switch over.
- The fact that petrol stations stay open 24 hours a day, seven days a week, is a result of demands by customers who want continuous access to petrol. (Previously, in the late 1970s and 1980s petrol stations closed at 5 pm on weekdays and 1 pm on a Saturday. Hard to believe!)

To have a need is one thing, but to want to do something about it is another matter. When a person wishes to satisfy a need, we call this motivation. There is, thus, a close relationship between needs and motives. Needs lead to motives; a motive is a need sufficiently stimulated to move an individual to seek satisfaction. For example, if people are hungry, they will be motivated to buy some food.

The driving force mentioned in the above definition is produced by a state of tension, which exists as the result of an unfulfilled need. Individuals strive to reduce this tension through behaviour that they expect will fulfil their needs and relieve them of the stress they feel. The specific goals they select and the patterns of action they undertake to achieve their goals are the result of individual thinking and learning.

Motives can be classified in various ways, and these classifications offer the marketer useful insight into human behaviour. Two classifications that are particularly relevant to the marketer are Maslow's hierarchy of needs, and the economic and emotional classification.

DEFINITION: Need

'A need is an imbalance between the consumer's actual and desired states. A person who recognizes or feels a significant or urgent need then seeks to correct the imbalance.'[2]

DEFINITION: Motivation

'Motives are inner states that direct a person toward the goal of satisfying a need. The individual takes action to reduce the state of tension and return to a condition of equilibrium.'[3]

5.2.1.1 Maslow's hierarchical classification of needs

Abraham Maslow identified specific human needs and classified them in a hierarchy of importance. At the bottom level are the most basic needs. Higher-order needs do not emerge before the lower-order needs have been reasonably satisfied. The lowest order needs are physiological, which help to ensure the survival of the individual. The highest level is reflected in the desire for self-actualisation. According to this theory, the individual is motivated to fulfil whichever need is most strongly felt at any given moment.

Maslow's hierarchy of needs is shown in Figure 5.2.

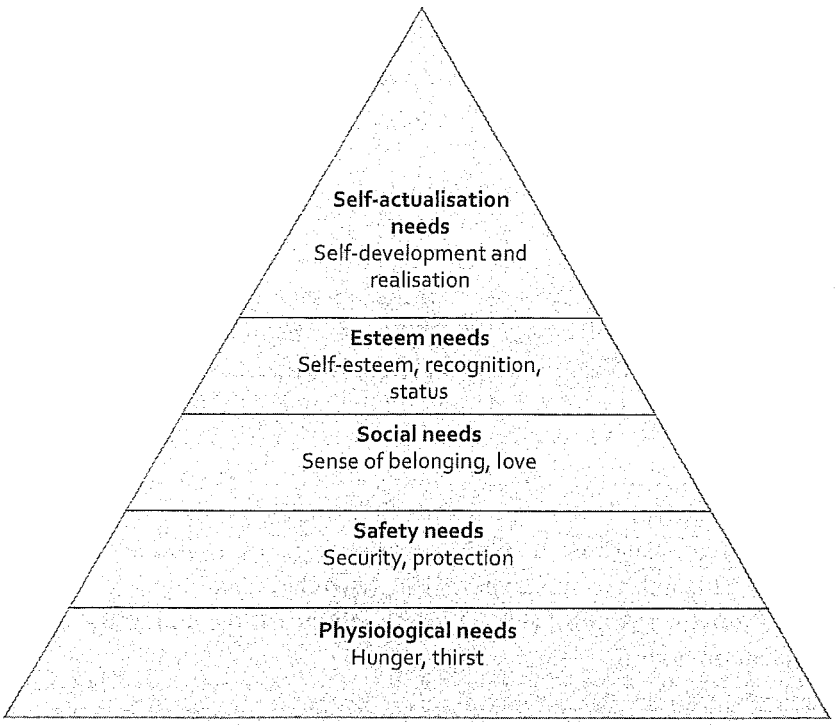


Figure 5.2 Maslow's hierarchy of needs

Let us look at each need in more detail:

- *Physiological needs.* The need for food, water, sleep and sex are physiological motives. Hunger impels the consumer to purchase food.

- *Safety needs.* These needs are aroused after physiological needs have been minimally satisfied and include the need for safety, health and security. The use of security fences and burglar bars at people's houses is an attempt to meet this need.
- *Sense of belonging or social needs.* These needs are reflected in a desire for love, friendship and group acceptance. Many products, such as cosmetics and deodorants, are purchased because of social motives.
- *Esteem needs.* These needs include the desire for status, superiority, self-respect and prestige. These needs impel consumers to purchase luxury products as symbols of status and success. A luxury car such as a Mercedes Benz can be seen as fulfilling this need.
- *Self-actualisation.* This involves the desire for self-fulfilment; to become all that one is capable of becoming. Few people are in a position to satisfy this need. An example is to become the best tennis player or artist, or to obtain a university degree.

These needs are often used in advertising to appeal to specific consumer motives. Consider the following marketing examples, and how they have been tailored to each level of Maslow's hierarchy:

- *Physiological needs.* Albany bread – 'Feel the freshness'
- *Safety needs.* ADT Alarms – 'We are here to protect you'
- *Social needs.* 'SPUR People'
- *Esteem needs.* 'Stand out from the crowd' in your BMW
- *Self-actualisation.* 'Be all you can be'; a whisky advertisement shows a man making his own fly-fishing lures and showing the patience and detail required.



EXAMPLE: Motives leading to behaviour

Heinrich, a chartered accountant, has just finished his articles, and wants to emigrate. He is now motivated to draw up his CV and forward it to recruitment specialists worldwide to assist in his quest to secure a job overseas.

The type of houses people live in, the cars they drive, the clothes they wear and the very food they eat are often selected because symbolically they reflect the individual's self-image while satisfying specific needs. A woman buying a Guess handbag and sunglasses perceives herself as sophisticated and trendy, while a student battling to make ends meet buys a bicycle to peddle to university and back.

5.2.1.2 *Economic and emotional classification of motives*

Consumers are not always motivated by physiological needs in decision-making. When a person purchases products, he or she is also concerned about such aspects

as price, quality, performance and reliability. A person can satisfy these economic motives by applying economic criteria in decision-making. See the examples below.

Economic motives are rational in nature and often expressed by the advertiser in quantifiable terms.

EXAMPLE: Motives

Economic motives

'Buy one and get the next one at half price!'

Emotional motives

The consumer who buys an expensive car might not easily concede that the underlying motive was the need for recognition (esteem motive) – he might rationalise by alleging that the reason for the purchase was the maintenance plan (economic motive) of the product.

Emotional motives represent those motives that involve emotions and correspond with Maslow's social and esteem needs. Remember, satisfaction of emotional needs is not a rational act – it is almost impossible to make any decision on a purely rational basis as emotional motives invariably influence the consumer's decision. People are usually reluctant to admit that their buying behaviour is influenced by economic motives.

5.2.2 Perception

Perception is influenced by what we have learned. The way in which we perceive things is influenced by what we know about them, in other words, what we have learned about them.

DEFINITION: Customer perception

Customer perception refers to the process by which a customer selects, organizes, and interprets information/stimuli inputs to create a meaningful picture of the brand or the product. This is done through a number of senses – sight, hearing, smell, touch and taste.[4]

Perception can be a very difficult thing to change once it is engraved in the mind of the consumer. If the consumer perceives a shop to be expensive or bad on service and quality, it will be extremely difficult to change this perception. For decades, marketers have been asking questions such as: What makes a consumer prefer one supermarket to another, or one brand of beer to another, or a specific type of car? Why does a consumer prefer to shop at Woolworths and not Pick n Pay, or vice versa?

The answers can usually be found in the way a consumer perceives the available brands or stores.

Consumers are exposed to marketing communication stimuli such as advertising, store displays and packaging, and the perceptions that come from these stimuli often act as triggers and influences in buying behaviour. Consumers make decisions and take actions based on what they perceive to be reality; hence it is important that marketers understand the whole notion of perception so that they can more readily determine what influences consumers to buy. Knowledge of the principles of perception enables the astute marketer to develop messages that have a good chance of being perceived and remembered by the target consumers.

EXAMPLE: Power of perception

A 16-year-old boy sees Beast Mtawarira, the Sharks rugby player, endorsing a specific deodorant. His interpretation is that the deodorant makes him smell good for longer and makes him more manly to the ladies, so he buys the deodorant.

5.2.2.1 *The perception process*

Now that we know what the nature of perception is, we can examine what occurs during the perception process. The *perception process* consists of four distinct steps, namely *exposure, attention, interpretation* and *recall.*

Exposure

Initially, perception begins with exposure to stimuli. Exposure occurs when the stimuli come within range of one of the five primary receptors, namely vision, hearing, taste, smell and touch. Most of the stimuli to which an individual is exposed are deliberately selected, that is, certain stimuli are sought out, others are avoided and the meaning of some is distorted. This is known as selective exposure.

To ensure that consumers in their target market are exposed to a marketing message, marketers often put advertisements in unconventional places where there will be less competition, for example, on the backs of shopping trolleys, on walls in sports stadiums, and even in restrooms, where the marketer has a 'captive audience'.

Retailers use shelf position and amount of shelf space to ensure consumers are exposed to certain brands. Point-of-purchase displays also attract attention to sale items. Stores are designed with highly visible shelves and overhead signs to make locating items as easy as possible.

EXAMPLE: Selective exposure

While listening to the radio, a listener quickly makes a phone call while the advertisements are playing.

Attention

Attention is activated when one or more of the sensory receptors are stimulated and the resulting sensations are processed in the brain. The individual is exposed to more stimuli than he or she can process. Therefore he or she has to be selective in attending to marketing and other messages. This is known as selective attention. Thus, the stimuli will be processed only when the individual makes a deliberate effort. Normally a person will attend to a stimulus if he or she is interested in it. For example, someone who rarely notices motor car advertisements will become very much aware of them when he or she is planning to buy a new car. The physical characteristics of the stimulus likewise determine whether a person's attention will be activated. The marketer attempts to overcome consumers' selective attention so that they will attend to the marketing message.



EXAMPLE: Selective attention – physical characteristics

Larger stimuli are more likely to receive attention than smaller ones. An advert on radio that has a sudden loud noise or irritating voice is more likely to be noticed than one that is read in an even tone and at the same pitch. The use of a loud noise, for example, is to gain the attention of the listener who might otherwise not have noticed it.

Sudden silences in TV advertisements, drastic changes in music, sudden changes from black and white to colour and the way in which prices are announced and displayed, all serve as methods of enhancing attention.

Interpretation

Interpretation is the meaning that people assign to sensory stimuli. Just as people differ in terms of the stimuli that they perceive, the eventual assignment of meaning to these stimuli varies as well. Two people can see or hear the same event, but their interpretations of it can differ like night and day. Consumers usually interpret information on the basis of their own attitudes, beliefs, motives and experiences, known as *selective interpretation.* They often interpret information in a manner that supports their own position. Marketers rely heavily on symbols in marketing messages to promote the correct interpretation. See the example below.



EXAMPLE: Symbols promoting correct interpretation

The placement of the 'eco' or 'green' sign on products, ranging from fuel to food products, shows that the company supports the protection of the environment and hopes to enhance the products appeal because of this act.

Recall (or memory)

Consumers do not remember all the information they see, hear or read even after attending to and interpreting it. Selective recall refers to the fact that consumers tend to forget the marketing message. To ensure full and correct recall of the message, as well as appropriate purchasing action, the marketer must use point-of-purchase promotion to remind the consumer of the message and product. See the following example.

EXAMPLE: Marketers attempting to promote recall

Marketers often use symbols, rhymes, jingles and associations that assist in the learning and memory process. Eveready puts pictures of its pink bunny on packaging to remind consumers at the point-of-purchase of its creative advertising.

5.2.3 Learning ability

Any facet of a person's behaviour is dependent on what he or she learns and remembers about objects and situations. How individuals learn is of immense importance to the marketer who wants consumers to learn about his or her particular products.

The definition of *learning* makes it clear that an individual learns as a result of acquired knowledge or experience.

DEFINITION: Learning

'Learning, in a marketing context, refers to immediate or expected changes in consumer behaviour as a result of experience.'[5]

5.2.3.1 Elements of learning

All individuals learn, but not all individuals learn the same things, nor do they learn at the same speed or in the same way. The basic *elements of learning are stimulus, response* and *reinforcement.* These elements are found in all learning.

Stimulus

The first requirement of learning is a stimulus. The consumer can be stimulated by physical things such as products, brands and size, or intangibles such as service and quality. Once the consumer has perceived the stimulus (object), he or she must be motivated to seek the object before learning occurs. The stronger the motivation, the quicker the consumer learns. See the following example.

EXAMPLE: Motivation in aid of learning

Because Lauren is keen to become a professional squash player, she is motivated to learn all she can about squash. She will probably google all she can on the correct equipment, the types of racquets and what makes a good player.

Response

A response is any action, reaction or state of mind that results from a particular stimulus or cue. The same response to a stimulus may occur several times before one can say that the response is learned. Cues stimulate response: the marketer who provides consistent cues, as in advertising messages, to a consumer may succeed in creating a favourable image of his or her product in the consumer's mind.

Reinforcement

Reinforcement increases the likelihood that a particular response will occur in the future as the result of particular cues or stimuli. A positive reinforcement is a pleasant experience, while a negative reinforcement involves the avoidance of an unpleasant experience. See example below.

EXAMPLE: Positive and negative reinforcement

- When someone buys a new car at a dealership and is treated well, when all details are explained clearly and properly, and the dealership makes a big show of handing over the car, it will leave a positive impression on the buyer. This will influence the buyer to tell others about the dealership as well as considering them again in future. This is positive reinforcement.
- A person who goes to a hairdresser for a colour tint, cut and blow wave and walks out with hair the wrong colour because of an overdose of peroxide is not likely to return. This is negative reinforcement.

Repetition

Repetition is the act of repeating past experiences. Learning is enhanced by performing the same action several times. This is why repetitive advertising is effective in communicating positive images. Coca-Cola, for example, is one of the best-known brands on the market worldwide, but still keeps on advertising. This is because they realise the value of repetitive advertising and reinforcing the product message. See the following example.

EXAMPLE: Repetition

Test yourself. Next time somebody suggests that you buy cool drinks for a braai or party, the first question most likely will be 'Coke and what else?' You may not even buy Coca-Cola, but it has become ingrained in our minds because of the repetitive advertising.

5.2.4 Attitudes

DEFINITION: Attitude

A consumer attitude can be defined as a learned predisposition to behave in a consistently favourable or unfavourable way towards market-related objects, events or situations.

Every time you are asked whether you like or dislike a product or an advertisement, you are being asked to express your opinion. For example, if you say that you prefer Super Sun Maize, this means that you have a positive attitude towards it. If you say you do not like smoking, you are, in fact, saying that you have a negative attitude towards it. The marketer therefore has to try to influence the attitudes of the consumer, for example, by means of advertisements. See the example below.

EXAMPLE: Having a negative attitude

A person who does not, for example, like a specific type of motor car has a negative attitude towards that brand. He or she will not even read advertisements for this type of car and would never consider buying it.

5.2.4.1 Components of attitudes

An individual's attitude is regarded as having three *components*: the *cognitive, affective* and *behavioural (conative).*

Cognitive component

The cognitive component of attitude refers to a person's knowledge and perceptions, which may be acquired through direct experience with the product and other sources of information. Most of our attitudes towards objects involve a number of beliefs. (See the example below.) It is important to note that beliefs need not be correct or true; they need only to exist.

EXAMPLE: Beliefs making up an attitude

We may believe that Coca-Cola is popular with younger people, contains a great deal of caffeine, is competitively priced and is made by a large company. The total configuration of beliefs about this brand of cold drink represents the cognitive component of an attitude toward Coca-Cola.

Affective component

This component of attitude has to do with the consumer's feelings or emotions with respect to the focus of the attitude. It captures the overall assessment of a product by a consumer. The evaluation may be a mere general feeling developed without cognitive information about the product.

EXAMPLE: Emotions influencing overall reaction

A statement that a certain bank overcharges its customers implies a negative affective response to that bank, which, in combination with feelings about other attributes, will determine the overall reaction to this bank.

Behavioural (conative) component

This component represents the outcome of the cognitive and affective components – to buy or not to buy. What a consumer does about knowledge of and feelings towards a product is most important to a company. The consumer may have positive information about a product and like it, but may not actually buy it for a variety of reasons, for example, habit in respect of another brand may be strong, or there may be other brands the customer likes better or it may be unaffordable.

The cognitive, affective and behavioural components of attitude tend to be consistent. This means that a change in one attitude component tends to produce related changes in the others.

Marketers are ultimately concerned with influencing behaviour. Consumers may be influenced by listening to sales personnel, paying attention to advertisements or examining packages. Marketers can, therefore, indirectly influence behaviour by providing information that influences a belief about the product if the three components are indeed consistent with one another.

5.2.4.2 Attitude change

By understanding the beliefs that underlie consumers' evaluation of a brand and the importance of various attributes or consequences, the marketer is better able to develop communication strategies to create, change or reinforce brand attitudes.

Ways in which the marketer can influence consumer attitudes are as follows:

- *Increasing or changing the strength or belief rating of a brand on an important attribute.* Marketers identify an attribute that is important and remind consumers how well their brand performs with regard to this attribute.
- *Changing consumers' perceptions of the importance or value of an attribute.* This involves getting consumers to attach more importance to the attribute when forming their attitude toward the brand. Marketers using this strategy want to increase the importance of an attribute their particular brand has.
- *Adding a new attribute to the attitude formation process.* Marketers often do this by improving their products or emphasising additional benefits associated with using the brand.
- *Changing perceptions of belief ratings for a competing brand.* Marketers compare their brands with those of their competitors on specific product attributes.

5.2.5 Personality

DEFINITION: Personality

The personality of a person is the result of individual traits. Personality distinguishes one person from another. It also determines how and why a consumer behaves in a particular way. A person's attitudes, values in life, and the influence exerted by the people around him or her shape his or her personality. While growing up, a person's personality is altered or modified by the surrounding people or events or due to education.[6]

You might say that one of your friends is 'fairly aggressive, very opinionated, competitive, outgoing and witty'. What you have described is your friend's *personality.*

Personality can be defined as those inner characteristics that both determine and reflect how a person responds to his or her environment. A person's personality thus refers to his or her inner characteristics – those specific qualities, attributes, traits and mannerisms that distinguish one individual from another. These deeply ingrained characteristics, which we call personality, are likely to influence an individual's product and store choices, as well as the way the consumer responds to the marketer's promotional messages.

5.2.5.1 Characteristics of personality

Let us now look at some of the characteristics of personality.

Personality reflects individual differences

The characteristics that make up a person's personality are a unique combination of factors; hence no two individuals are exactly alike. Many people can be described

as very sociable, while others can be described as 'low' unsociable. Personality is a useful concept as it enables us to categorise people into different groups on the basis of a single trait or a few traits.

Personality is consistent and enduring

An individual's personality usually remains constant. Thus, it is unreasonable for marketers to attempt to change someone's personality to conform to certain products. At best, they learn which personality characteristics influence particular consumer responses, and attempt to appeal to the relevant personality traits inherent in their target group of consumers. However, an individual's personality may change because of a major event, such as the birth of a child, the death of a loved one or as a result of a major career promotion.

5.2.5.2 The value of personality to marketers

Knowledge of personality and product image is indispensable for the marketer because consumers tend to buy products that will reflect, enhance or even defend their personalities. In this way a certain symbolic meaning is attached to some products, resulting in what is referred to as the *product image*. Knowledge of personality is also valuable in designing appropriate advertisements that will appeal to groups of similar personalities.

In creating advertising appeal, marketers should note that highly dogmatic consumers (ie those who approach the unfamiliar defensively and with considerable discomfort and uncertainty) may be more willing to accept new products if they are presented by an admired celebrity or a recognised expert. In contrast, less dogmatic consumers (who will readily consider unfamiliar or opposing beliefs) seem to be more receptive to messages that stress factual differences and product benefits; hence it would be wise to emphasise in the advertisement the reasons why a new product is technically as good as competing products.

5.2.6 Lifestyle

DEFINITION: Lifestyle

Lifestyle refers to the way in which individuals or families live.

Marketers use lifestyle to discover how people spend their time, what they find interesting and important and how they view themselves and the world around them. Lifestyle is related to one's values. Those who especially value fun such as skiing, dancing and camping are often big alcohol consumers. A person's set of values plays a very important role in consumption activities - many products are purchased because people believe these products will help them to attain a value-related goal.

EXAMPLE: How lifestyle is used

Red Bull

For starters, the carbonated energy drink is only one tiny little planet in the mass universe of Red Bull. The brand goes way beyond the beverage and is overseen by a greater entity, known as the Red Bull Media House (RBMH). Yes, they've established their very own media hub that encompasses a video production company, a record label, and an extreme sports magazine, *The Red Bulletin*. By tapping into the interests of adrenaline-seekers and extreme-sport enthusiasts, RBMH gives the people exactly what they're looking for – and more. Whether you love watching a man jump from space or want to follow two surfers on their quest to ride the world's most insane waves, Red Bull truly seeks to 'give wings to people and ideas' and be the fuel that gets people to do the things they love, or be content watching others do it.[7]

Our desired lifestyle influences our needs and desires and thus our purchasing and using behaviour. The marketer can use lifestyle groups to depict particular lifestyles, which the brand is attempting to target.

In the next section we will look at the group factors that influence consumer behaviour.

5.3 Group factors influencing consumer behaviour

Most individuals tend to be involved with other people on a daily basis, whether they are in the family, social class, cultural or reference groups or opinion leaders. For example, a substantial amount of learning involves interaction with, or imitation of, other individuals such as family and peers. These groups exert a great influence on the individual and are reflected in Figure 5.1 on page 111. We will now look at each of these groups.

5.3.1 Family

The family has a major influence on the consumer behaviour of its members. There are two levels of family. The first is the *nuclear family*, comprising a husband, wife and children. The second is the *extended family*, which includes grandparents or other relatives who may or may not live under the same roof as the nuclear family. A family whose members have lived in close contact with one another for years, gradually develop fixed behaviour and consumption patterns. Most children acquire their consumer behaviour norms through observation of their parents, who function as role models.

5.3.1.1 Family roles

We distinguish five distinct roles in the family decision-making process. A look at these roles provides further insight into how family members interact in their various consumption-related roles:

- *The initiator.* This is the first person to suggest that a specific product should be bought. This is also the one who collects information about the product or service. Teenagers often act as initiators.
- *The influencer.* This person influences the final decision either explicitly or implicitly in the sense that his or her suggestions and wishes are reflected in the family's decision.
- *The decision-maker.* This person takes the actual decision and makes the final choice between alternatives.
- *The purchaser.* This is the person who buys the products. Some purchasers are forced to carry out the instructions of the decision-maker, whereas others have the authority to choose for family members and thus assert their preferences.
- *The user.* This is the person who actually uses the product.

Marketers are inclined to direct their marketing messages exclusively at women as though they alone are responsible for the purchasing decision and dominate family decision-making. However, there are indications that men play an increasingly important role in family decision-making and that they even act as purchasers of items previously regarded as exclusively in the female domain. Modern children are very knowledgeable and it is generally accepted that they, too, have a role to play in family decision-making.

EXAMPLE: Children influencing some decisions

Children under 12 are most influential in purchases of breakfast cereals, snack foods, sweets, soft drinks, games and toys, clothing, music and toothpaste.

5.3.1.2 Family types

Families are usually classified in terms of the dominant member. The following family types are distinguished:

- In *husband-dominant families,* the husband decides what should be bought.
- In *wife-dominant families,* the wife is the dominant decision-maker.
- In *syncratic families,* decisions are usually made jointly by husband and wife. With the changing role of women, this family type has become more prominent.
- In *child-dominant families,* the children have a strong influence on family decisions, especially as initiators.

5.3.2 Cultural group

DEFINITION: Culture

Culture refers to the pattern of behaviour common to members of a society; such behaviour is learned and handed down from one generation to the next.

Cultural values, norms and symbols are created by people and are transmitted from one generation to another to ensure survival and facilitate adaptation to the circumstances of life. A consumer's culture further determines his or her overall priorities in respect of different activities and products. Thus, a product that provides benefits consistent with those desired by members of a culture has a much better chance of being accepted in that market.

The bounds that culture sets for behaviour are called norms. *Norms* are simply rules that specify or prohibit certain types of behaviour in certain situations and are based on cultural values. Violation of cultural norms results in sanctions or penalties, ranging from mild social disapproval to banishment from the group.

EXAMPLE: Norms

Culture provides standards and 'rules' about:

- when to eat, for example, 'not between meals'
- where to eat, for example, in a busy restaurant because the food is likely to be good
- what is appropriate to eat for breakfast, for example, juice and cereal
- what is appropriate to eat for lunch, for example, a sandwich
- what to serve guests at a dinner party, for example, a formal sit-down meal.

South African society is fragmented into many cultural groups and subgroups. Therefore, marketing management should be careful not to use symbols in advertisements that can be interpreted incorrectly or differently, and not to portray unacceptable behaviour patterns. Effective communication can take place only if the theme of the advertising message reflects the cultural norms, values and symbols of the cultural group at which it is directed.[8] See example below.

EXAMPLE: Cultural differences

Some black and white cultural groups interpret advertisements differently. For example, flowers have special significance to white people, but in many black cultures, gifts in the form of flowers are frowned upon. ➠

The well-known Five Roses advertisement, which said 'And the fifth rose is for you', was not successful when used in media aimed at black consumers.

Cross-cultural mistakes are also made in other countries. For example, in Germany, Pepsi's advertisement 'Come alive with Pepsi' was interpreted as 'Come alive out of the grave with Pepsi'.

5.3.3 Social class

DEFINITION: Social class

Social classes are groups who enjoy more or less the same prestige and status in society.

A *social class* is a group of people in a country who are considered basically equal in status or community esteem, who socialise on a regular basis formally and informally and who share the same behaviour patterns. The behaviour of a social class is a function of, for example, occupation, income and education. In South Africa, the gap in income between the richest and poorest people, as measured by the Gini coefficient (a recognised method of measuring inequality), is one of the largest in the world.

A social class structure usually consists of the upper class, middle class and lower class. During the past 10 years, more previously disadvantaged South Africans have moved into the middle and upper social classes.

Social class strongly influences consumer lifestyles and is, in general, a good indicator of the type of product that the consumer will be interested in. Furthermore, consumers buy products to demonstrate their membership of a particular social class and to advance their social standing in society. Marketers know that most consumers aspire to membership of a higher social class. Their marketing messages therefore imply that, by buying their product, the consumer may attain membership of a higher class.

Some of the marketing implications of social class are the following behaviours:

- *Media usage.* Educated individuals spend more time reading magazines and books, listening to the radio and going to the cinema, and they spend less time watching television than the less educated.
- *Collection of information.* The lower social groups appear to collect less information than other groups. Those on the bottom of the rung have limited access to information sources and limited training in processing purchase-related information. They are also more likely to look for specials and use coupons.
- *Store choice.* Lower-class people tend to do their shopping downtown, especially at discount stores.

- *Leisure pursuits.* High-status occupational groups prefer more active leisure pursuits. Product usage is also often a symbol of one's social class, such as belonging to a prestige country club or driving a certain make of car.

5.3.4 Reference groups

DEFINITION: Reference group

A reference group involves one or more people that a consumer uses as a basis for comparison or 'point of reference' in forming responses and performing behaviours.

In all *reference groups* there are distinctive norms of behaviour and members are expected to conform to these norms in order to avoid sanctions being applied against them. We distinguish between the following types of reference groups that influence consumer behaviour patterns:

- *Membership groups* are groups to which the person has obtained membership, for example, friends or a social club.
- *Automatic groups* are groups to which a person belongs as a result of age, gender or occupation.
- *Negative groups* are groups with which a person does not wish to be associated. A person intentionally avoids the norms of the negative group, for example, drinkers.
- *Associative groups* are those groups to which a person aspires to belong, for example, a group with higher status or level of acceptance among peers or a celebrity. Typical members of associative reference groups are often used as models in advertisements in order to show potential consumers the type of person who buys the product and the way in which the product can be used. In this way, consumers are persuaded to follow the example set by these models.

5.3.5 Opinion leaders

A reference group need not necessarily be a group of persons but can also be a reference person: an individual to whom others will look when forming opinions and taking consumer decisions. The reference person can therefore be regarded as an *opinion leader.* The opinion leader need not be well known or enjoy high status, but can be an ordinary person or even an imaginary person. Think of the well-known advertisement in which the homemaker sings the praises of Ariel washing powder in the store.

The group factors discussed above, as well as the individual factors influence the consumer's decisions about what products to buy or which stores to patronise. We shall now look at the decision-making process.

5.4 Consumer decision-making process

Consumers display distinctive behaviour patterns in the decision-making process. Let us consider the different types of decisions.

5.4.1 Types of decision-making

There are three types of decision-making:

1. *Real decision-making.* This is a complex process and involves extensive problem-solving, such as the decision to buy a new house or car.
2. *Impulse decision-making.* This refers to unplanned action on the spur of the moment as opposed to conscious planning during real decision-making. For example, a person waits in a queue at the check-out and decides to buy a chocolate bar displayed at the till.
3. *Habitual decision-making.* This occurs when a consumer is brand loyal. For example, Mary usually buys a large tin of Ricoffy coffee automatically and does not even consider the coffee of competitors.

Let us now look at the phases involved in real decision-making.

5.4.2 Phases in consumer decision-making[9]

There are five phases in consumer decision-making:

1. *Need recognition.* In this phase, the consumer becomes aware of a need. For example, Johan realises his car is getting too small for his growing family, so he recognises a need for a bigger car.
2. *Search for information.* In this phase, the consumer searches for information about the product. For example, Johan may first use internal sources such as memory and experience, then external sources such as the advice of family members and friends or marketing sources such as *Car Magazine*.
3. *Evaluation.* Evaluation entails the appraisal by the consumer of the attributes and benefits of the various alternatives. Johan may consider buying a Toyota Corolla, Volkswagen Jetta or a Volvo. He now evaluates these three alternatives in terms of certain criteria such as cost, performance, colour and quality.
4. *Purchase decision.* Once the best alternative has been identified, the consumer makes a decision. Johan also has to decide at which dealership he will buy the car and whether he needs finance to pay for the car.
5. *Post-purchase evaluation.* In this phase, the consumer re-evaluates his decision. If the product fulfils his expectations, this may lead to brand loyalty. If he is dissatisfied, he may lodge a complaint or begin to wonder whether he has made the right decision, even if there is nothing wrong with the product. This condition is known as *cognitive dissonance.* The post-purchase phase can be regarded as the beginning of a new decision-making process. Will Johan, for example, consider repurchasing the same brand of car when the need arises?

In the next section, the adoption of new products by consumers is discussed.

5.4.3 Adoption of new products

The adoption process focuses on the stages through which an individual consumer passes in arriving at a decision to try or not to try, to continue using or to discontinue using a new product.[10]

When a product is new and unknown and there is a certain degree of risk attached to its use, it is adopted only gradually as part of a learning process. The microwave, as a new product, was adopted relatively slowly. The perceived risks attending the adoption of a new product include financial risk (ie the money spent on the product will be wasted if the product is unsatisfactory); functional risk (ie there is a danger that the product may not perform as desired); social risk (ie consumers may feel that others may look down on them if they purchase the product) and physical risk (ie the potential for personal harm or health hazard).

Consumers usually move through the following five stages in arriving at a decision to purchase or reject a new product:

1. *Awareness.* During this first stage, consumers are exposed to the product innovation. They know about the new product but lack sufficient awareness about it.
2. *Interest.* The consumer becomes interested in the product and seeks more information about it.
3. *Evaluation.* Based on the information they obtain, consumers draw conclusions about the innovation or determine whether further information is necessary. This stage represents a kind of 'mental trial' of the new product. If the evaluation is satisfactory, the consumer will actually try the product; if the mental trial is unsatisfactory, the product will be rejected.
4. *Trial.* At this stage, consumers use the product on a limited basis. Their experience with the product provides them with the critical information that they need to either adopt or reject the product.
5. *Adoption or rejection.* The adoption of some products may have minimal consequences, while the adoption of other innovations may lead to major behavioural and lifestyle changes, such as the major impact on society of products such as the car and television.

The marketer of a new product must, therefore, do everything in his or her power to allay the fears of the consumer. Sufficient information must be provided in marketing messages to convince consumers that the product will satisfy their needs. Let us look at the characteristics of people who adopt an innovation at different points in time:

- *Innovators* are venturesome, very eager to try new ideas, tend to be younger and better educated and make extensive use of the media.
- *Early adopters* tend to be successful, well-educated and willing to take a calculated risk on an innovation, but are concerned with failure.
- *Early majority* are consumers who are cautious and will adopt after the innovation has proven successful with others.

- *Late majority* are sceptical about innovations, tend to be older and have less social status, and often adopt more in response to social pressure.
- *Laggards* are more traditional and are the last people to adopt an innovation, have limited social interaction and are oriented towards the past, being suspicious of anything new.

Marketers often attempt to identify the innovators who are more likely to adopt a new product, hoping that the product will spread more easily in the market.

Packaging influences consumer behaviour

Some time ago, Werda products introduced a variety of salads to the market, including a three-bean salad, curried beans, curried carrots and sweet-and-sour beetroot. The difference with these salads was that they were packaged in boxes. The salads do not require refrigeration until they are opened, and have a shelf life of three months.

When Werda products were first introduced, the expectation was that customer acceptance of this revolutionary new product would be immediate and high. The main draw-card was thought to be the fact that the box could be kept for three months, and would be especially useful in case of emergencies.

However, the actual product sales were extremely low. Somehow, customers could not accept a fresh salad in a dry-goods box.

Questions:

1. Explain and illustrate how the principles of perception influenced the acceptance of the salads.
2. How can Werda products attempt to change consumer attitudes to be more positive towards their salads?
3. How should Werda products take into account the adoption of new products and the different categories of adoption?

Summary

This chapter examined the individual and group factors influencing buying behaviour. We also looked at different types of decisions, and the consumer decision-making process. We further briefly discussed the adoption of new products.

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Chapter 6

Market segmentation, targeting and positioning

Learning objectives

After you have studied this chapter, you should be able to:

- understand and explain the role of market segmentation
- discuss the advantages and disadvantages of segmentation
- practically apply the concept of segmentation in any industry
- explain the bases of segmentation of consumer markets
- explain the bases of segmentation of business markets
- understand why some companies fail at segmentation
- identify and discuss the strategies for target marketing
- understand the concept of positioning
- identify positioning bases
- identify common positioning errors.

6.1 Introduction

The term 'market' means different things to different people. Every day, we are confronted with different types of markets, such as supermarkets, labour markets and even stock markets, and all these markets share similar characteristics. They consist of people or organisations (consumer or business markets), who have needs and wants, who have the means to purchase the products that they seek to fulfil their needs and who are willing to exchange their resources to acquire these products.[1]

However, these markets are not all the same - they do not have the same needs. Therefore, the process of market segmentation involves categorising customers into groups and identifying the characteristics of each of these groups. Because companies know that consumers have different needs and wants, they can design product features and benefits that are attractive to particular market segments or groups of customers and develop marketing material that is likely to resonate with them.[2]

6.2 Segmentation, targeting and positioning defined

In order to survive in the long term, it is imperative that a company meets the needs of the target market it has selected to serve. It is not good enough to keep repeating

the same things all the time, because needs change and companies must adapt to this. It is, therefore, essential that marketers constantly monitor the segments they are serving for any changes or new demands that may arise. If they do not, their competitors will. Although the satisfaction of customer needs is not a goal in itself, it enables the enterprise to achieve its own goals. Therefore, the greater the need – the greater the satisfaction customers can derive from an enterprise's products, the easier it becomes for the enterprise to achieve its own goals.

To achieve maximum customer satisfaction, marketers divide the heterogeneous market into fairly homogeneous subsets of customers. This process is referred to as *market segmentation*. Each segment of the market, it is assumed, will have similar needs, and will respond in a similar way to the market offering and strategy. The market for clothing, for example, can be subdivided into the following sub-segments: babies, girls, boys, teenagers, maternity, petite, women's, men's and outdoor clothes. Each of these segments exhibits different characteristics and needs with regard to occasion, usage, fashion and so forth. It follows that no single garment can cater for all the unique needs of all these market segments.

The organisation must decide which market segments or market segments' needs it can best satisfy. The business express train service (Gautrain) that runs between Pretoria and Johannesburg has, for example, decided to cater primarily for the needs of the business commuter, and has therefore developed its product offering around this segment. The process of deciding which segment(s) to pursue is referred to as *market targeting*. Once the target market segment has been selected, the company must decide how to compete effectively in it.

A decision has to be made concerning the competitive advantage to be achieved; this is known as *positioning*. A company can decide to compete on the basis of a lower price (when compared to competitors), or on the basis of ambience and value, which would be reflected in the quality of merchandise, store layout, store design, prices charged and the availability of services required by customers. Alternatively, it may decide to compete on the basis of a superior range of clothing items and location. This chapter focuses on these three concepts.

6.3 The advantages of market segmentation

Segmenting markets requires a lot of thought and analysis and it is not a once-off project, as companies need to continuously monitor any changes that take place within the market segments on which they are focusing. By not monitoring changes or not adjusting to them, the company can provide openings for new entrants into the market, who can gain a competitive advantage as they may adapt better to the changing needs of these segments.[3]

The advantages that market segmentation offers to marketers include the following:

- *Focusing the company*. Segmentation is an effective method to ensure that an organisation focuses on its market segments; having more focus means better

returns on its efforts.[4] In a segmented market, the organisation can better understand and appreciate the differences in consumer needs and respond accordingly.

- *Designing responsive products* to meet the needs of the marketplace. By understanding the needs of the market, a company can design better products that can fulfil the needs of the customers more effectively.
- *Maintaining effective relationship with customers.*[5] Companies need to constantly monitor the marketplace for changes that may be seen as presenting opportunities or threats. It is through this that companies maintain relationships with customers as they show them that their needs are acknowledged and perceived as important.
- *Retaining existing customers and attracting new ones.*[6] Through market segmentation, companies can ensure that existing customers' needs are met and new customers are attracted by means of constant monitoring and adaptation of the offering to meet the needs of the broader market. It also makes it possible for companies to identify formerly unexploited market segments.
- *Reducing cost/expenses on various marketing activities and increasing market share, resulting in higher profits.*[7] The use of segmentation helps guide the effective allocation of resources in an organisation. This can reduce the duplication of costs, which can result in higher profits. The aim is to concentrate expenditure on markets that will provide the highest return and therefore be the most profitable. It also ensures that the marketing effort is not wasted on products and services that cannot be offered effectively or competitively by the organisation.[8]
- *Better allocation of funds.* By segmenting the market, the company may be able to allocate more funds to a large or growing market segment, while a declining or shrinking market may be scaled down or even abandoned.

6.4 The disadvantages of market segmentation

Market segmentation has the following disadvantages that must be considered by the marketer:

- *The development and marketing of separate models and market offerings is very expensive.* It is much cheaper to develop one product for one segment than to develop multiple products for multiple segments and multiple strategies.
- *Only limited market coverage is achieved.* This is because marketing strategies are directed at specific market segments only.
- *Excessive differentiation of the basic product may eventually lead to a proliferation of models and variations and finally cannibalisation.* Cannibalisation occurs when one product takes away market share from another developed by the same enterprise.

6.5 Market segmentation and mass marketing

Mass marketing is when a company regards all buyers or consumers as the same and offers the same products to all consumers. This method offers the advantage of

economies of scale and reducing cost, but it can also alienate customers who want to be treated as individuals.[9] For this reason, it is difficult for marketers in today's environment to try to mass customise their offerings.

Market segmentation allows companies to move away from mass marketing and focus on the needs of the market. To take it even further, some companies are experimenting with total customisation, where the customer is seen as a market on his or her own.



EXAMPLE: Nike's customisation experience[10]

Nike has really done something truly unique to the customisation process. It has not just allowed consumers to design their shoe; it has given Nike fans a place to express themselves and in doing so, created a distinctive customisation experience. By allowing customers to interact with the product and make it their own, Nike is creating a relationship between not only the product and the consumer, but the brand and the consumer.

6.6 Using RFM segmentation to segment a market

One of the earliest segmentation techniques, called RFM (Recency, Frequency and Monetary value) analysis, has been in existence for many years and is based on three simple customer attributes: recency of purchase, frequency of purchase and monetary value of purchase.[11] This concept is based on the fact that a customer who has recently purchased something from a certain company, who shops on a regular basis and spends a lot of money, is more likely to respond to marketing communication campaigns than someone who has not shopped with the company for a long time, who shops infrequently and spends a limited amount of money.[12] Table 6.1 provides the parameters within which RFM analysis can be performed.

Table 6.1 Parameters within which RFM analysis can be performed

RFM CATEGORY	APPLICABLE E-MAIL, CRM OR WEB-ANALYTICS METRIC
Recency	■ When the last purchase was made ■ When the last e-mail was clicked on ■ When the last lead was converted into a customer
Frequency	■ How many times every receiver purchased within a specific time frame ■ How many times every receiver clicked within a specific time frame ■ How many times leads converted into actual customers within a specific time frame

RFM CATEGORY	APPLICABLE E-MAIL, CRM OR WEB-ANALYTICS METRIC
Monetary	■ How much was spent within a specific time frame ■ The approximate value based on issues such as the cost of each lead and the profits from each lead generated within a specific time frame ■ The collective engagement score formulated from various metrics within a specific time frame

Source: Lyris, HQ. 2012. Target your best customers with RFM segmentation. Available from: http://www.eightleaves.com/2011/01/using-rfm-to-identify-your-best-customers (Accessed 21 June 2012).

Information regarding the past purchasing behaviour of consumers is particularly useful in segmenting current customers and predicting which ones are most likely to respond to a new offer.[13] From tracking the responses to each offer and the behaviour of each customer, direct-response marketers have learned that a customer who has bought most recently, who buys frequently and who spent an above-average amount over a designated period of time is most likely to respond to a new offer.[14]

Recency of purchase is a measure of how much time has passed since the customer has purchased from the company. It is assumed, for example, that customers who have purchased from the company in the last 45 days are more likely to buy again than those who have purchased months or years before.[15]

Frequency is a measure of how often within a given period a customer has purchased a brand or purchased from a particular organisation.[16] Frequency is somewhat less valuable as an indicator than recency because new customers will obviously not have had time to make repeated purchases.[17]

Monetary value is a measure of the amount of money a customer has spent with the company over a given period of time.[18] Direct marketers use these measures in combination, called RFM, to analyse lists of past and potential customers.[19]

6.7 Prerequisites for market segmentation

The main aims of segmentation are to enhance customer satisfaction and the profitability of shareholders. To subdivide the market for small delivery vehicles into Western Cape and KwaZulu-Natal farmers would make little marketing or business sense. In this case, geographic location makes no difference, since the requirements of the farmers remains the same regardless of location. On the other hand, geographic location would be very effective as a means of segmenting the market for insecticides, since farmers in the Western Cape have to deal with different insects than farmers in KwaZulu-Natal. For market segmentation to be effective, it must meet the following criteria:

- *It must be measurable.* If it is not possible to measure the size, purchasing power, potential profit and profile of the segment, it will be extremely difficult to compare such a segment with others, or to assess its attractiveness properly.

- *It must be large enough.* Pursuing a market segment that is too small is not profitable. A segment must be the largest homogeneous group of people worth exploiting with a tailored market offering and marketing strategy. Although South Africa boasts a large variety of cultures, some may be so small that they do not warrant special attention by marketers. The market must therefore be sustainable.
- *It must be accessible.* Marketers must be able to reach the market segment with their market offering and strategy. For example, it is difficult to reach rural people who do not have access to newspapers or television. This segment is largely inaccessible to the marketer.
- *It must be actionable.* It must be possible to develop separate market offerings for different market segments. Small enterprises are often unable to develop different market offerings or marketing strategies, even if they realise that there are distinct differences between various segments.
- *It must be differentiable.* Different market segments must exhibit heterogeneous needs. In other words, people in different segments must have different needs, demands and desires. People in the same segment, on the other hand, must exhibit similar characteristics and needs. The marketer should also be able to distinguish the segments from one another without too much difficulty.

Once marketing management is satisfied that a specific segment conforms to these conditions, it can be considered as a possible target market.

6.8 Bases for segmenting consumer markets

The marketing manager can utilise different variables to segment a market. These variables can generally be classified according to *geographic, demographic, psychographic* and *behaviouristic* bases. Table 6.2 provides a detailed analysis of these classification bases. The first column shows the bases for segmenting consumer markets, while the different variables that can be used for each are shown in the second column. In the following sections we offer a brief explanation of each approach.

Table 6.2 Bases for segmenting consumer markets

BASES	POSSIBLE VARIABLES
Demographic	
Age	15–18 years, 19–24 years, 25–34 years, etc.
Race	White, coloured, black, Indian
Sexual category	Male, female
Religious conviction	Catholic, Muslim, Protestant, Hindu, Jewish, Christian
Family unit size	Unmarried, unmarried and living together, mother and father with 1 or more children, etc.

BASES	POSSIBLE VARIABLES
Yearly income	Under R20 000 R20 001–R50 000 R50 001–R80 000 R80 001–R110 000 R110 001–R140 000 R140 001–R170 000 Over R170 000
Education	Grade 10, Matric, diploma, certificate, degree, postgraduate
Family life cycle	Married with children, single, in a relationship, etc.
Profession	Type of work – lecturer, electrician, engineer, teacher, IT specialist, etc.
Geographic	
Weather	Summer rainfall, winter rainfall, very hot and humid, very hot and dry
Region	Limpopo, George, Bloemfontein, Kimberly, etc.
Volume	Under 10 000, 10 000–20 000, 20 000–25 000, over 25 000 inhabitants
Mass	Urban, suburban, rural
Behavioural	
Allegiance status	None, medium, strong, complete
Purchase occurrence	Regular use, special occasion
Readiness stage	Ignorant, aware, informed, fascinated, eager
User status	Non-user, ex-user, potential user, regular user
Usage rate	Serious user, medium user, regular user
Attitude towards product	Keen, encouraging, uninterested, pessimistic, aggressive
Psychographic	
Social class	Upper class, middle class, lower class
Standard of living	Old-fashioned, moderate
Individuality	Outgoing, demanding, spontaneous, determined

Sources: Adapted from Kotler, P. 1997. *Marketing management: Analysis, planning, implementation and control.* Englewood Cliffs, NJ: Prentice Hall; Marx, S & Dekker, HJ. 1982. *Marketing management: Principles and decisions.* Pretoria: Haum.

The following three factors are important:

1. A mutual relationship may exist between some of these bases. It is possible, for example, that there is a strong relationship between income, occupation and education, on the one hand, and between family size and geographic region on the other. In the tourism industry, for example, there is a strong relationship between income, occupation and education, and the likelihood of travel.[20]
2. Needs seldom relate to one segment base only. A specific marketing strategy is unlikely to be directed only at people with an income of R15 000 to R20 000 per year. A better description of a particular market segment often utilises more than one segment base, for example, unmarried women between 21 and 30 years of age with an income of more than R60 000 per year and living in the Gauteng area.
3. The market segmentation bases described in Table 6.2 are not complete. In the tourism industry, for example, marketers also use distance travelled, trip purpose, buyer needs and benefits sought as segmentation bases. The number of possible segmentation bases is, to a great extent, determined by the creativity of the marketing manager.

6.8.1 Geographic segmentation

In segmenting a market geographically, the marketer divides the total market into different geographical areas, such as countries or regions. Variations such as the size of the city or town, or population density, may also be appropriate bases. The enterprise can then decide to target only one or a limited number of geographical areas. If customers in different areas exhibit diverse needs, these differences can be addressed at local level. In a fairly small geographic area such as Johannesburg, marketers realise there are diverse markets, such as the central, southern, northern, western and eastern areas of Johannesburg, which can be treated as separate market segments with diverse needs. Many smaller entrepreneurs have decided to confine their marketing and operations to only one or two of these segments.

There are two reasons why people who live in the same area may share similar characteristics. First, some areas have more expensive properties than others and so people with similar socio-economic characteristics may cluster together. Second, they have similar transport and shopping options. It is easy to reach markets in particular areas by using local newspapers, cinema, outdoor, and selective direct mail, but mass media is less effective. Table 6.3 provides a few important definitions of geographic variables.

Table 6.3 Definitions of geographic variables

GEOGRAPHIC VARIABLE	DEFINITION	EXAMPLE
Market density	Market density refers to the number of possible consumers inside a unit of land area.	Because Durban is located close to the coastline, the demand for surf boards and surf-related products will be higher in Durban than it is in Johannesburg.
Geodemographic segmentation	Geodemographic segmentation is a means of market segmentation that groups individuals in smaller neighbourhood units based on their way of living and their different demographics.	If there was a spate of burglaries in a particular area, such as a certain suburb of Pretoria, security companies would identify a market segment that has a need for its services (security).
Micromarketing	Geodemographic segmentation, as explained above, permits marketers to connect by means of micromarketing. This involves focusing specific marketing efforts on very undersized geographic markets.	With the rising costs of living and the fact that anything can go wrong at any moment, healthcare companies use this method to communicate to the market that it is imperative to have a hospital plan.

Source: Adapted from Hult, T, Pride, WM & Ferrell, OC. 2012. *Marketing*. Mason, OH: South-Western Cengage Learning.

6.8.2 Demographic segmentation

Demographic segmentation is probably the most common base for segmenting consumer markets. This may be because of the relative ease with which the approach can be applied, or because consumer needs are often strongly associated with these variables.[21]

Traditionally, companies in South Africa, with its diverse population groups and cultures, used race heavily as a basis for market segmentation. The majority of research reports or business plans published during the 1970s and 1980s distinguished between the needs of black, white, coloured and Asian consumers. Increasingly, however, companies are moving away from this approach, making more use of other segmentation variables such as income, education, lifestyle, living standards, and so on.

In 1993, the South African Advertising Research Foundation (SAARF) published its first Living Standards Measure (LSM) report, explaining how it arrived at eight LSM categories, using 13 variables such as degree of urbanisation and ownership of cars and major appliances instead of the outmoded category of race.[22] Since

then, the SAARF LSM has become the most widely used marketing research tool in South Africa. The most recent LSM classification divides the population into 10 LSM groups: 10 (highest) to 1 (lowest). In Table 6.4, we provide a brief description of the LSM groups. (The internet contains more information on the LSM.)

It should be noted that, even in the 1990s, culture and religion remained powerful segmentation bases, primarily because the different cultures and religions have vastly different traditions, beliefs, taboos and preferences, which must be accommodated. Differences include the languages that people speak, the food they eat, the clothes they wear, and the sport they watch or participate in, to mention only a few.

Table 6.4 Description of LSM groups

BRIEF DESCRIPTION OF LSM 1–10	
LSM 1: 2,1% OF ADULT POPULATION	LSM 2: 5,7% OF ADULT POPULATION
Demographics	**Demographics**
Males and females between the ages of 15–24 and 50+. Completed primary school and living in small urban or rural traditional hut. Their average household income is R1 363 per month	Females between the ages of 15–24 and 50+. Some have completed high school and live in rural areas, mostly in a house or matchbox house, squatter hut/shack or traditional hut. Their average household income is R1 929 per month
Media	**Media**
Radio is a major channel of media communication; mainly African Language Services (ALS) – Umhlobo Wenene FM, Ukhozi FM and community radio	Radio: commercial, mainly ALS – Ukhozi FM, Umhlobo Wenene FM
General	**General**
Minimal access to services Minimal ownership of durables, except radio sets Mzansi bank account Activities: minimal participation in activities, singing	Communal access to water Minimal ownership of durables, except radio sets and stoves Mzansi bank account Activities: minimal participation in activities, singing
LSM 3: 6,5% OF ADULT POPULATION	LSM 4: 13,1% OF ADULT POPULATION
Demographics	**Demographics**
Females aged 15–24 and 50+. Schooling up to some high school level and live in rural areas, mostly in a house or matchbox house, squatter hut/shack or traditional hut. Their average household income is R2 258 per month	Males and females aged 15–34 and 50+. Schooling up to some high school level. They mostly live in a house or matchbox house, squatter hut/shack or traditional hut. Their average household income is R3 138 per month ➠

BRIEF DESCRIPTION OF LSM 1–10	
Media	**Media**
Radio: mainly ALS stations, Ukhozi FM, Umhlobo Wenene FM TV: SABC 1	Radio: commercial mainly ALS, Gagasi, Motsweding, Ukhozi, Umhlobo Wenene FM, community radio TV: SABC 1
General	**General**
Electricity, water on plot or communal Minimal ownership of durables, except radio sets and stoves Mzansi bank account Activities: singing	Electricity, water on plot or communal, non-flush toilet TV sets, electric hotplates Mzansi bank account Activities: attend gatherings, go to night clubs
LSM 5: 16,9 % OF ADULT POPULATION	LSM 6: 21 % OF ADULT POPULATION
Demographics	**Demographics**
Males between the ages of 15–49. Some have completed high school and live in small urban or rural areas. Their average household income is R4 165 per month	Males between the ages of 25–49. Completed up to matric and higher. They live in large urban areas. Their average household income is R6 322 per month
Media	**Media**
Radio: commercial mainly ALS stations, Lesedi FM, Motsweding FM, Ukhozi FM, community radio TV: SABC 1, 2, 3, e.tv Daily newspapers	Wide range of commercial and community radio TV: SABC 1, 2, 3, e.tv, Top TV, Community TV All print Outdoor
General	**General**
Electricity, water, flush toilet outside Communal TV sets, hi-fi/radio set, stove, fridge Mzansi account Activities: take-away in past 4 weeks, bake for pleasure, go to night clubs, attend gatherings, buy lottery tickets	Electricity, water in home, flush toilet in home Ownership of a number of durables plus cell phone Savings and Mzansi accounts Activities: hire DVDs, go to night clubs, take-away in past 4 weeks, attend gatherings, buy lottery tickets ➠

BRIEF DESCRIPTION OF LSM 1–10	
LSM 7 LOW: 4,9 % OF ADULT POPULATION	LSM 7 HIGH: 5,3 % OF ADULT POPULATION
Demographics	**Demographics**
Females between the ages of 25–49. Completed up to matric and higher. They live in urban areas. Their average household income is R9 320 per month	Males between the ages of 25–49 years that have completed up to matric and higher. They live in urban areas. Their average household income is R11 263 per month
Media	**Media**
Wide range of commercial and community radio TV: SABC 1, 2, 3, e.tv, DStv, Top TV, Community TV All print Accessed Internet past 7 days Cinema and outdoor	Wide range of commercial and community radio TV: SABC 1, 2,3 , e.tv, M-Net, DStv, Top TV, Community TV All print Accessed Internet past 7 days Cinema and outdoor
General	**General**
Full access to services Savings accounts Increased ownership of durables plus DVD and motor vehicle Participation in all activities	Full access to services, including cheque and savings accounts Increased ownership of durables plus DVD and motor vehicle Participation in all activities
LSM 8 LOW: 4,3 % OF ADULT POPULATION	LSM 8 HIGH: 3,9 % OF ADULT POPULATION
Demographics	**Demographics**
Females 35+ years that have completed up to matric and higher. They live in urban areas. Their average household income is R13 210 per month	Males 35+ years that have completed up to matric and higher. They live in urban areas. Their average household income is R14 882 per month
Media	**Media**
Wide range of commercial and community radio TV: SABC 1, 2, 3, e.tv, M-Net, DStv, Top TV, Community TV	Wide range of commercial and community radio TV: SABC 2, 3, e.tv, M-Net, DStv, Top TV, Community TV ➡

BRIEF DESCRIPTION OF LSM 1–10	
All print Accessed Internet past 7 days Cinema and outdoor	All print Accessed Internet past 7 days Cinema and outdoor
General	**General**
Full access to services and bank accounts Full ownership of durables, incl. PC Increased participation in activities	Full access to services and bank accounts Full ownership of durables, incl. PC Increased participation in activities
LSM 9 LOW: 4,6 % OF ADULT POPULATION	LSM 9 HIGH: 4,6 % OF ADULT POPULATION
Demographics	**Demographics**
Females 35+. Completed matric and higher. They live in urban areas and their average household income is R17 988 per month	Males aged 35+. Completed matric and higher; living in urban areas. Their average household income is R21 328 per month
Media	**Media**
Wide range of commercial and community radio TV: SABC 2, 3, e.tv, M-Net, DStv, Top TV, Community TV Accessed Internet past 7 days All print Cinema and outdoor	Wide range of commercial radio TV: SABC 2, 3, e.tv, M-Net, DStv, Top TV, Community TV Accessed Internet past 7 days All print Cinema and outdoor
General	**General**
Full access to services and bank accounts Full ownership of durables Increased participation in activities, excluding stokvel meetings	Full access to services and bank accounts Full ownership of durables Increased participation in activities, excluding stokvel meetings
LSM 10 LOW: 3,3 % OF ADULT POPULATION	LSM 10 HIGH: 3,1 % OF ADULT POPULATION
Demographics	**Demographics**
Males aged 35+. Completed matric and higher; living in urban areas. Their average household income is R26 706 per month	Males aged 35+. Completed matric and higher; living in urban areas. Their average household income is R32 521 per month ➟

BRIEF DESCRIPTION OF LSM 1–10	
Media	**Media**
Wide range of commercial radio TV: SABC 3, M-Net, DStv, Top TV, Community TV All print Accessed Internet past 7 days Cinema and outdoor	Wide range of commercial radio TV: M-Net, DStv, Community TV All print Accessed Internet past 7 days Cinema and outdoor
General	**General**
Full access to services and bank accounts Full ownership of durables Increased participation in activities, excluding stokvel meetings	Full access to services and bank accounts Full ownership of durables Increased participation in activities, excluding stokvel meetings

Source: SAARF. 2012. *Living standards measure*. Available from: http://www.saarf.co.za/LSM/lsms.asp (Accessed 27 June 2012).

The following will illustrate how certain demographic variables have been applied creatively to market segmentation:[23]

- *Generation.* Each generation is profoundly influenced by the times in which it grows up: the music, movies, politics and defining events of that period. Demographics call these groups *cohorts*. Members of a cohort share the same major cultural, political and economic experiences. They also have similar outlooks and values.
- *Gender.* Gender segmentation appears in many non-profit sectors, such as universities, service and social clubs, prisons and military services. Men and women tend to have different attitudinal and behavioural orientations based partly on genetic make-up and partly on socialisation. For example, women tend to be more community-minded and men tend to be more self-expressive and goal-directed; women tend to take in more of the data in their immediate environment; men tend to focus on the part of the environment that helps them achieve a goal.
- *Income.* Income segmentation is another longstanding practice. The amount of income and how it is earned – wage earner, self-employed, new money, old money, etc. – suggests unique interests and needs for each group on which the organisation may want to focus their offerings. By doing this, the organisation can assist persons within each segment.

6.8.3 Psychographic segmentation

Psychographic segmentation involves the segmentation of the market by means of categories such as social class, lifestyle or personality. To establish the different

lifestyle categories, information concerning the respondents' attitudes, interests and opinions (AIO), or values and lifestyles (VALS) is collected and then subjected to factor analysis to identify separate subgroups.

Locally, the Nielsen Sociomonitor value groups survey is the most authoritative psychographic profile of its kind in South Africa. In order to create the value groups, respondents answer an extensive battery of psychographic statements. Their answers are then grouped and scored, giving every respondent a different score and position on the 'social map', depending on his or her answers. These scores are then statistically analysed and the value groups – broad groups of consumers with similar values, attitudes, and motivations (psychographics) – are established. The five value groups embrace the full spectrum of values among South African adults. They help marketers to understand what motivates their customers, and hence how best to appeal to them. The data can also aid marketers in more effective media placement.

Five value groups have been identified from the 1997 all-adult database. These are as follows:

1. *Conformists* (19,6 % of all adults, or 5 042 million people).
2. *Transitionals* (20,5 % of all adults, or 5 278 million people).
3. *Progressives* (18,8 % of all adults, or 4 833 million people).
4. *Non-conformists* (17,0 % of all adults, or 4 375 million people).
5. *Today-ers* (24,1 % of all adults, or 6 193 million people).

Table 6.5 contains a condensed profile of the five value groups, according to the 1999/2000 Sociomonitor report available from Nielsen.

Table 6.5 Sociomonitor value groups

CONFORMISTS
These individuals conform to value systems such as cultural tradition, religion and the family hierarchy. Because of this, they want to live harmoniously with other cultural groups and genders in South Africa. They are tolerant and sympathetic of the emotions of others because of their religious belief systems. They are uncomfortable with social liberation matters and are more sheltered within group belief systems. Resulting from their devotion to traditions and the well-known, they are characteristically not at ease with new product offerings and technology, and most likely require persuading to change from one brand to another. They are practical in their buying behaviour; therefore, price and usefulness of products are considered key factors.
TRANSITIONALS
Transitionals embody customary principles and standards with some emphasis on individual accomplishments. The traditional values that encompass their principles are group based, for example: past orientation, ubuntu, familism, religion and cultural traditions. These individuals are proud of their own accomplishments to a certain extent and they consider it important that others see what they have accomplished. ➟

Regardless of their standing and worldly orientation, price awareness and realism are most influential in their decision-making process. They are very focused on their health and their outward appearance. Although transitionals are group orientated, they are not easily accepting of people from other cultural groups or accepting of individual choices.
PROGRESSIVES
Progressives are modern individuals who need self-growth accompanied by synchronisation in getting meaning from their group and also giving back to the group. They are boldly determined to improve themselves in all facets of their life; therefore, they thrive on taking care of, improving and portraying sophistication; their health is important as well as their family environment. They are constantly seeking to attain new skills to inspire their minds. Excellence is essential and therefore portrayed in their buying behaviour. They have tendencies to be money-orientated and boastful about their accomplishments. They are at ease with the latest technology; however, uniqueness or sensations are not sought after for exhilaration. Perhaps because of their search for meaning, they accept being part of a holistic picture and therefore embrace traditional and religious norms. Nonetheless, not all customs are automatically followed if they are not applicable to their current situation. These individuals are empathetic to the feelings of others.
NON-CONFORMISTS
Non-conformists reject group-orientated, social and conventional principles and standards in support of independence. They put up with other individuals despite their gender or race and maintain their civil right to individual choice. Non-conformists are easily accepting of new technological offerings. However, they are not money-orientated and avoid possessing luxurious goods to impress people. The goods they buy are chosen based on their relevance to their lives and technological improvement. They do not share the common definition of success. They are confident individuals who do not go out of their way to improve their outward appearance or alter their surroundings. They are spontaneous in the manner in which they conduct their lives with a tendency to be thrill-seeking rather than enjoying 'softer' self-development activities.
TODAY-ERS
Today-ers portray a stern exterior to the world. They purposefully refuse to be part of anything similar to group standards. They are extrinsic and will purchase based on brand and price. They are inclined to live their lives seeking action/thrill and thrive on adrenaline. They use alcohol, drugs and sex for thrills and as a distraction. There is a slight recognition or leniency towards the rights to individual sexual choice or gender equality. As a result of their tough exterior, these individuals have little to look forward to and have very little self-confidence as individuals, hence the need for reinforcement from their peers. They take little interest in improving themselves or any area of their lives. This is possibly due to the few opportunities that have come their way resulting in feelings of failure. This means that they are commonly out of touch with the most recent technological advancements and are inclined to focus on the past rather than the future.

Source: Adapted from Nielsen Sociomonitor 1997, 1999.

6.8.4 Behaviouristic segmentation

Companies can divide a market according to some feature of consumer behaviour toward a product, commonly involving some aspects of product use.[24] Current trends suggest that customer preferences tend to change rapidly, and that most businesses are becoming more and more customer-oriented. Hence, applying the behaviouristic segmentation approach is very much applicable to this industry change.[25] This form of segmentation may take the form of the following.

6.8.4.1 Purchase occasions

Some buyers may use a product very regularly, while others may use it only on special occasions. Orange juice and champagne are two examples of products that fall into this category. Orange juice is usually drunk mainly with breakfast, while champagne is drunk mostly on special occasions such as graduation, engagements and weddings. Consumption of these products can be increased by promoting the use of them at other occasions, such as lunches and dinners in the case of orange juice, or Valentine's Day in the case of champagne.

6.8.4.2 Benefits sought

Some market segments may be very specific in what benefits they seek when buying a specific product. Some may seek economy in a motor vehicle, while others may prefer speed or a good maintenance plan. When consumers are very specific with regard to the benefits they seek, marketers can respond with products that address these needs. In so doing, they satisfy their customers' needs.

6.8.4.3 User status

Consumers can be segmented into groups consisting of non-users, ex-users, potential users or regular users. A balanced approach would require that an enterprise focus on regular as well as potential users. While the regular users guarantee survival in the short to medium term, potential users who can be enticed to become users represent future growth.

6.8.4.4 Usage rate

Marketers can make provision for different market segments based on how frequently buyers buy their products. Heavy users should receive special attention by marketers, since they may represent the bulk of sales revenue. It is therefore common to see hotels, casinos and airlines develop special clubs or frequent-flier programmes to appeal to this important segment of the market.

6.8.4.5 Loyalty status

Consumers vary in the degree of loyalty they have towards the organisation or its brand names. On the one extreme, one finds the switchers, or those consumers who show no loyalty toward any brand. They can be attracted through frequent sales, but

it may sometimes not be worthwhile attracting them. On the other hand, there are very loyal buyers. Hard-core loyals would insist on a particular brand and would go to great lengths to acquire it. Ideally, they should be retained, and where possible they should be encouraged to become spokespeople for the organisation's products and services, as suggested by the relationship marketing philosophy.

Typically, buyers are divided into the following four categories:[26]

1. *Platinum*: consumers who always buy the brand
2. *Gold*: consumers who will buy the brand most of the time but occasionally choose another
3. *Iron*: consumers who are indifferent to all brands in the category
4. *Lead*: consumers who have never demonstrated loyalty to the brand.

Marketers should concentrate their marketing efforts on promoting customers from iron to gold and gold to platinum, and ensuring their platinum customers never flee. Those who are in the lead category should be ignored because they will never demonstrate loyalty to the brand, irrespective of the marketing mix.

6.8.4.6 Buyer readiness stage

Different marketing approaches have to be followed, depending on the consumer's readiness to buy. Potential consumers who are unaware of the product must first be made aware of it, while those who intend buying the product must be persuaded to do so. When cell phones were introduced to the South African market, most people were either unaware of the product, or aware but not informed. Initially, awareness had to be established, and as it increased, more aggressive strategies were followed in the marketing of cell phones.

6.8.4.7 Attitude towards the product

By segmenting consumers according to their attitude towards the product, an enterprise can increase its marketing productivity. Market segments that are negative or hostile towards a product can be avoided, saving valuable time and money. Attempts can be made to persuade those who are indifferent, while those who are enthusiastic or positive can merely be encouraged to support the product in future. Kotler and Keller (2006) quote the political campaigner as an example in this regard. Hostile and negative voters are avoided, while the enthusiastic and positive ones are merely reminded to vote on election day. More time is spent with indifferent voters in order to persuade them to support a specific party.[27]

6.9 Bases for segmenting business markets[28]

As is the case with consumer markets, business markets consist of businesses that have similar needs and wants. Consequently, these markets are frequently segmented using a number of variables. Marketers segment business markets according to geographic location, type of organisation, customer size and product use.

6.9.1 Geographic location

Demand for business products can and will vary depending on geographic location. It is common practice that industries are concentrated in specific geographic areas, which makes it possible for companies to make use of geographic segmentation in their market approach.

6.9.2 Type of organisation

Business markets can be segmented according to the type of organisation that is found within that market. Different types of organisations often require different product features, distribution systems, price structures and selling strategies to be followed, which may result in a company concentrating either on a single segment with one marketing mix (a concentration targeting strategy) or focusing on several groups with multiple mixes (a differentiated targeting strategy).

6.9.3 Customer size

The size of an organisation will have a direct influence on the process it follows in its purchases, as well as the volumes that are purchased. This implies that size can be used as a variable to segment this market. Because the needs of large and small buyers tend to be quite distinct, marketers frequently use different marketing practices to reach various groups.

6.9.4 Product usage

Certain products, especially basic raw materials such as steel, petroleum, plastic and lumber are used in numerous ways. How a company uses products affects the types and amounts of products purchased, as well as the purchasing method.

6.10 Why segmentation fails[29]

There are many reasons why segmentation fails. Some of these are discussed below.

6.10.1 Business reasons

There is a lack of understanding of how segmentation can help the company meets its specific goals, as often no tangible, measureable goals are set in the first place. These items need to be thoroughly vetted before deciding to move forward with segmentation.

There may be a lack of institutional alignment, support and discipline. Companies need to ask themselves some questions, such as: How will it be done? How will the company implement it? Is there adequate communication, support and training to integrate segmentation within the company? Will the company show the necessary discipline to adhere to the approach in the long term?

6.10.2 Implementation issues

Segmentation is often not implemented correctly and marketers need to make sure that the segmentation process is not too complex for people to implement, nor so simple that no one sees value in it.

6.10.3 Performance issues

- *The infamous 'cure all' perception problem.* 'For various reasons, companies come to see segmentation as the universal remedy for all ills (business problems). Failure is almost certain when this happens. Segmentation will not tell you what new products to develop; nor will it tell you why certain customers lapse; nor will it tell you why some customers won't buy additional products.'[30]
- *Segmentation gets you only halfway there.* Within each segment, customers can still be quite different. This often results in imprecise targeting for specific tactics such as product offers, messaging and media channels. For example, three neighbours are in the same demographic segment: high affluent and middle age. One has a matric and owns four garages in town. One is an educated university graduate and is quite prudent, saving money at every chance. The third is a third-generation millionaire who inherited millions from his deceased parents and who spends money liberally. They may seem the same in a demographic scheme, but are quite different in every aspect. Therefore, marketing to these three customers based on the segment profile will be less effective.

6.11 Targeting

After developing a comprehensive profile of the market segments based on the criteria indicated above, the next step is to decide which segment/s to target, or a few, or even the whole market. This is referred to as *market targeting*. In this section, the focus is firstly on the criteria to be used to evaluate market segments and secondly on the approaches available to the enterprise.

6.11.1 Criteria for selecting potential target markets

Before a specific market segment is selected as a target market, it must first be evaluated according to five important evaluation criteria.

6.11.1.1 Segment size and growth possibilities

A target market does not necessarily have to be big. A small segment can often be more profitable than one in which a large sales volume can be realised. Marketing management must be convinced that there are further growth possibilities, thus making the segment sustainable. The market for Rolex watches or Ferraris may be small but the profit potential is huge. This makes it a very attractive segment.

6.11.1.2 Attractiveness and potential profitability

The attractiveness of a target market lies not only in its size and growth possibilities, but also in the promise of long-term profitability. Attractive segments attract competitors, and intense competition can have a detrimental effect on future profits. Serious threats to attractive segments are aggressive competitors that can launch price wars or intensive advertising campaigns, or competitors who are able to develop new substitute products. The growing power of buyers and suppliers also threatens attractive target markets. If the threat is very serious, an enterprise that has the necessary resources and skills may decide not to select a particular segment.

A target market is generally attractive if it has some degree of interrelationship with other segments. Instead of serving a number of small segments, it would be much better to combine interrelated segments. Interrelationships exist among segments that use the same raw materials, similar production methods or joint distribution channels.

6.11.1.3 The resources and skills of the enterprise

Promising segment opportunities that do not fit in with the long-term objectives set by management cannot be utilised. The same applies when resources and skills to exploit the opportunity are lacking. A segment can be chosen as a target market only if marketing management is fully committed to serving this target market better than any other competitor. This implies that the market offering must have an undoubted differential advantage to target market members. If not, it would be advisable to commit the cost and energy to an alternative option.

6.11.1.4 Compatibility with the enterprise's objectives

Apart from the resources and skills of the enterprise, the choice of a target market must also take into consideration the compatibility with the objectives of the enterprise. If it is found that the objectives of the enterprise cannot be enhanced by the choice of a particular market segment, it should be disregarded.

6.11.1.5 Cost of reaching the target market

When a potential target market is inaccessible to an enterprise's marketing strategies, or the cost to reach it is too high, it should not be considered.[31] In order to assess the potential of each of the market segments identified during the segmentation process, Walker et al[32] propose five steps, as shown in Figure 6.1. These steps are highlighted briefly in the following sections. The evaluation of potential market segments starts with the selection of a set of criteria, which can be used to assess, firstly, the attractiveness of the particular target market and secondly, the competitive position of the enterprise with regard to a specific market segment. Because not all evaluation criteria are of equal importance, these factors are then weighed to reflect the relative importance of each.

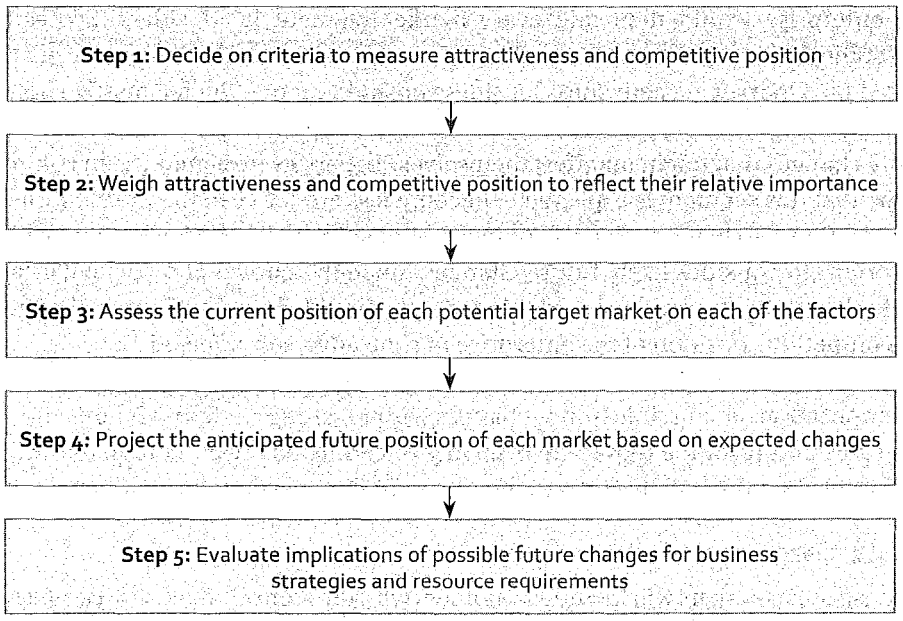


Figure 6.1 Steps in the evaluation of a potential market

Source: Adapted from Walker, OC, Boyd, HW & Larreché, JC. 1996. *Marketing strategy: Planning and implementation*. Chicago: Irwin, p 162.

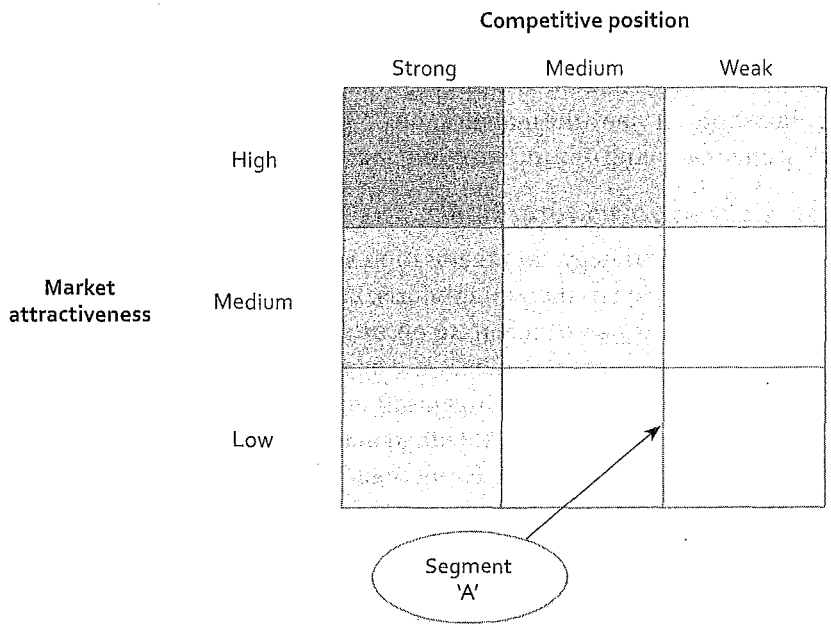


Figure 6.2 Market attractiveness/business position matrix

Source: Adapted from Walker, OC, Boyd, HW & Larréché, JC in Cant, M (ed). 2010. *Marketing: An introduction*. Cape Town: Juta, p 106.

The enterprise would then rate every market segment it considers. Scores that reflect the market attractiveness and competitive position of the enterprise are then posted on a market attractiveness/business position matrix. Such a matrix is shown in Figure 6.2. Once this has been done, the marketing manager will consider likely future changes that might manifest themselves. The arrow in Segment A in Figure 6.2 shows that this segment is expected to become less attractive in the future, while the organisation also believes that its competitive position will deteriorate. It is critically important to consider likely future changes, since the choice of a particular target market commits the enterprise to this market. Should changes occur in the future, the competitive position of the enterprise may be adversely affected.

Given these possible changes, the marketing manager should, lastly, evaluate the implications of possible future changes with regard to their impact on company strategies and resource requirements. Only once this has been completed will the marketing manager finally choose a market segment or segments to target.

6.11.2 Targeting market segments[33]

Because most markets will include customers with different characteristics, lifestyles, backgrounds and income levels, it is unlikely that a single marketing mix will attract all backgrounds and income levels. Thus, if a marketer wishes to appeal to more than one segment of the market, he or she must develop different marketing mixes. Strategies for selecting target markets are therefore discussed next.

6.11.2.1 Undifferentiated targeting

When using the undifferentiated strategy, the company essentially adopts a mass-market philosophy. It views the market as one big market with no individual segment, thus using one marketing mix for the entire market.

6.11.2.2 Concentrated targeting

With a concentrated strategy, an organisation selects a market niche (one segment of a market) for targeting its marketing efforts. Because the organisation is appealing to a single segment, it can concentrate on understanding the needs, motives and satisfactions of that segment's members and on developing and maintaining a highly specialised marketing mix. Some organisations find that concentrating resources and meeting the needs of a narrowly defined market segment is more profitable than spreading resources over several different segments.

6.11.2.3 Multi-segment targeting

An organisation that chooses to serve two or more well-defined market segments and develops a distinct marketing mix for each has a multi-segment targeting strategy. The advantages of each strategy are summarised in the following lists:

The *advantages* of the various types of strategies are listed below:

- Undifferentiated targeting
  - Savings on manufacturing and marketing costs
  - The organisation may be vulnerable to competitors
- Concentrated targeting
  - Resources are spent on a single, defined market segment
  - The needs of that single market can be better met
  - Smaller organisations within the market can compete with those more established in the market
  - Organisations can establish a strong position within the market
- Multi-segment targeting
  - Multi-segment targeting may result in increased profits
  - Production and marketing outputs may increase.

The *disadvantages* of the various types of strategies are as follows:

- Undifferentiated targeting
  - Product offering may be unoriginal and derivative
- Concentrated targeting
  - Market segments are narrow or may be constantly shifting
  - Larger and more established organisations may be able to communicate to the narrow market more successfully
- Multi-segment targeting
  - Highly expensive strategy and resources are stretched across various market segments
  - Sales may cut into sales of existing products.

6.12 Product positioning

The ultimate aim of marketing actions is to position products or services in the minds of customers in the way that marketers want their customers to perceive them, for example, as a reliable supplier, a value-for-money product or a quality product. Product positioning, therefore, refers to the way customers perceive a product in terms of its characteristics, advantages and competitive positioning. Therefore, it involves the creation, in the minds of the targeted buyers, of a distinctive position with regard to the organisation's product relative to those of competing organisations. For positioning to be effective, it is important that the marketer understands customer buying criteria and recognises the performance of each competitor on each of the evaluative criteria.

The concept 'product positioning' is relatively simple and applicable in both industrial and consumer markets. The key aspects are as follows:[34]

- Products and brands have both objective and subjective attributes.

- Purchasers use such attributes when choosing between products or brands in a particular segment.
- The customer has an individual idea about how competitive products or brands rate on each attribute; ie 'positioning' takes place in the mind of the consumer.

6.12.1 Product positioning maps aid decision-making

Marketers often use positioning or perceptual maps to portray market positions visually. A perceptual map is a multi-dimensional graphic image depicting consumer perceptions. These maps assist marketers to develop focused marketing mixes or strategies. They also help the manager to assess the advantage of an organisation's marketing programme.[35]

Figure 6.3 provides an illustration of a positioning map using hotels' quality and price points from budget to luxury. Note the relationship between quality and price, where luxurious hotels charge higher prices and budget hotels charge lower prices. Normally, a unit must stay within its price/quality product class, which is indicated by the dotted lines on the map.

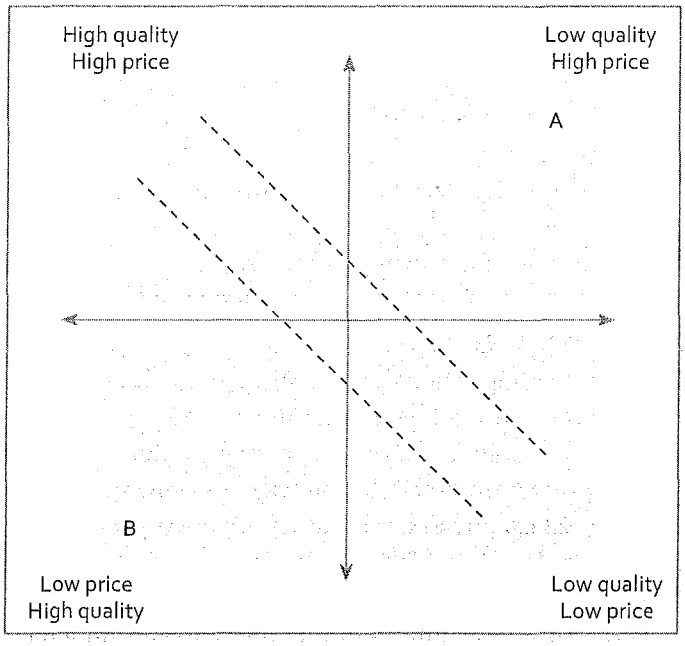


Figure 6.3 Hotel positioning or perceptual map

Source: Adapted from Bowie, D & Buttle, F. 2011. *Hospitality marketing: Principles and practice.* 2nd ed. Oxford: Butterworth-Heinemann.

If a hotel is charging more than the price/quality norm, it could be accused of 'ripping-off' customers as indicated by 'A' in Figure 6.3, unless there is another factor, for example, a convenient location that compensates for the higher price. If a hotel is offering genuinely higher quality at a lower price (five-star quality at three-star prices), this strategy will not be sustainable in the long run (as indicated by 'B' in Figure 6.3).[36]

Many other variables or determinants can be used to compile similar positioning maps; some are listed later in this chapter. However, marketing information and sophisticated statistical testing are necessary for the development of positioning maps.

6.12.2 The positioning process

A seven-step approach, as detailed in the points that follow, can be adopted when positioning brands. (The term 'brands' is preferred here since it is the brands, not products, of individual producers that compete against one another in a market. Positioning maps can, however, also be developed for product categories.)

6.12.2.1 Identify a relevant set of competitive brands

The positioning process starts with the identification of a relevant set of competitive brands to which a particular producer's brand will be compared. It is essential that all relevant competing brands be identified in order to make the positioning effort worthwhile. This enables marketers to identify the strengths and weaknesses of their own brand against a competing one. It also helps them to decide whether to reposition the brand in order to strengthen its position in the market. Repositioning refers to changing a brand's (mostly undesirable) position in the market in the hope that the new positioning will improve the brand's appeal among consumers.

6.12.2.2 Identify relevant determinant or differentiation variables

In essence, product positioning has to do with competitive differentiation and the effective communication of this to customers. Kotler and Keller[37] suggest that an enterprise or market offering can be differentiated along four different dimensions: personnel, product, image or services. Table 6.6 summarises the main differentiation variables suggested. These are not the only variables that can be used, but the most obvious ones have been discussed.

The marketer must decide which of the above (or other) differentiation variables should be used in developing a positioning map. In this case, Walker et al[38] refer to *determinant variables*. They suggest that marketers must select those variables that play a major role in helping customers to differentiate among alternative brands in the market.

Table 6.6 Differentiation variables

PERSONNEL	PRODUCT	IMAGE	SERVICES
Receptiveness	Trustworthiness	Occasions	Consulting service
Capability	Repairability	Icon	Delivery
Consideration	Product characteristics	Marketing communication	Equipment
Communication	Presentation quality	Environment	Customer guidance
Reliability	Conformance to the target benchmark		Restoration
Dependability	Strength		Various
	Fashion		
	Design		

Source: Adapted from Kotler, P. 1997. *Marketing management: Analysis, planning, implementation and control.* Englewood Cliffs, NJ: Prentice Hall, p 283.

The following example serves to illustrate the importance of using determinant variables. Although safety is a major concern for all airline passengers, it is not regarded as a determinant variable as most customers use other features such as price, convenient flying times, service or frequent-flier programmes to differentiate between competing airlines. Appropriate marketing research can aid the marketer to identify determinant variables.

6.12.2.3 Determine consumers' perceptions

The marketer must establish how consumers perceive the various brands in terms of the determinant variables selected in the previous step. This step involves the collection of primary data from a sample of consumers. Using a structured questionnaire, consumers (named respondents) are questioned about their perceptions of the various brands. The collected data is then analysed, using several statistical techniques, including factor analysis, discriminant analysis and multi-dimensional scaling.

6.12.2.4 Analyse the intensity of a brand's current position

When a consumer is unaware of a brand, the brand clearly does not occupy a position in the mind of the consumer. In such instances, brand awareness must first be established. However, when a consumer is aware of a brand, the intensity of awareness may vary. In many markets, the awareness set for a particular product class may be as little as three or fewer brands when there are more than 20 brands in that product class. In such markets, the marketer of the lesser-known brand must attempt to increase the intensity of awareness by developing a strong relationship between

the brand and a limited number of variables. Competing directly with dominant brands is not advised. Instead, the marketer must identify a position within a market segment that is not dominated by a leading brand. Alternatively, the marketer must concentrate on a variable that is highly prized by a particular market segment.

6.12.2.5 Analyse the brand's current position

From the data collected from consumers about their perceptions of the various brands in the market, the marketer can establish how strongly a particular brand is associated with a variety of determinant variables. To do this, a positioning map, similar to the one shown in Figure 6.3, is developed. Brands that are close to each other on the map can be expected to be close rivals, while those that are far apart are considered very different from each other. Competitive rivalry between the latter is expected to be limited.

6.12.2.6 Determine consumers' most preferred combination of attributes

The discussion so far has focused on consumers' perceptions of existing brands and has not given any insight into the positions that would appeal most to consumers. This can be established by asking survey respondents to think of the ideal product or brand within a particular product category. Respondents would be asked to rate their ideal product and existing products on a number of determinant variables.

6.12.2.7 Select positioning strategies

Deciding where to position a new brand or where to reposition an existing one depends on the target market analysis discussed earlier, as well as the market positioning analysis. The position chosen must reflect customer preferences and the positions of competitive brands. The decision must also reflect the expected future attractiveness of the target market and the relative strengths and weaknesses of competitors, as well as the organisation's own capabilities. Specific positioning methods are discussed in the next section.

6.12.3 Positioning methods[39]

Organisations can use a variety of bases for positioning, including:

- *Attribute.* A product is associated with an attribute, product feature or customer benefit. For example, Benson & Hedges has chosen to position its cigarettes in terms of lightness and taste.
- *Price and quality.* This positioning base may stress high prices as a signal of quality or emphasise that lower-priced goods are an indication of lower value. While Truworths is known for high-quality garments, similar garments are sold at generic clothing stores that are known for unbeatable prices.

- *Use or application.* Stressing uses or application can be an effective means of positioning a product with buyers.
- *Product user.* This positioning base focuses on a personality or type of user.
- *Product class.* The objective is to position the product as being associated with a particular category of products, for example, positioning a margarine brand with butter. Alternatively, products can be dissociated with a product category.
- *Competitor.* Positioning against competitors is part of any positioning strategy.
- *Emotions.* Positioning using emotions focuses on how the product makes customers feel. For example, Lux body lotions are targeted at females and appeal to their emotions, inspiring women to revel in the pleasure of expressing their beauty.[40]

6.12.4 Common positioning errors[41]

Consumers are heavily influenced by their perceptions of other brands in the market. The following are positioning errors that marketers should avoid at all costs:

- *Under positioning.* When customers have only a vague idea of a particular brand, the brand suffers from under positioning. The brand is perceived as a 'me too' brand and customers do not sense anything special about it.
- *Over positioning.* Buyers may have a very narrow image of a brand; in this case the brand suffers from over positioning. The fact that the Blue Train is perceived as being exorbitantly expensive and for overseas tourists only, means that it suffers from over positioning. The result is that many consumers who do possess the disposable income to take a trip on the train do not even consider it.
- *Confused positioning.* This occurs when the marketer changes the positioning of the brand too frequently, or when too many claims are made about the brand. Consumers are, therefore, not sure what to expect from the brand.
- *Doubtful positioning.* When the claims made about a brand are hard to believe or too good to be true, the brand suffers from doubtful positioning. In such cases, consumers will be very reluctant to buy the brand.

6.13 Repositioning[42]

Having developed a position for a brand, there is frequently the need to reposition as the market develops, competitors enter or exit and customers' expectations and needs change. However, when considering this option, marketers should consider the following strategic options:

- *Gradual repositioning.* This involves a planned and continuous adaptation to the changing market environment.
- *Radical repositioning.* This occurs when an increasing gap between what the brand offers and what the market wants leads the management team to think about a major strategic change.

- *Innovative repositioning.* In this case, the planner finds a new strategic position, which offers market opportunities that have not yet been identified by competitors.
- *Zero positioning.* The organisation maintains an unchanged face to the market over a long period of time and/or it communicates very poorly with the target market, with the result that potential customers have little idea of what the organisation stands for.

Summary

For many years, marketers attempted to sell the same products to the same markets in the same way. Not much effort is required when targeting such markets. However, the concept of segmentation has since changed the way consumers are being approached. In this chapter, we defined the main theoretical concepts associated with segmentation and explained how to go about segmenting a market. Furthermore, we discussed the manner in which marketers can target their specific market and how they can place their products in the minds of consumers. The latter is referred to as positioning. Ultimately, the success of marketing management will depend on its ability to select profitable target markets, understand these markets and encourage them to continue to support the organisation.

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Chapter 7

Integrated marketing

Learning objectives

After you have studied this chapter, you should be able to:

- explain how the marketing concept relates to critical marketing decisions
- explain how marketing information can be obtained through a marketing information system (MIS)
- explain the effect of the environment on the design of the marketing mix
- discuss how the determinants of consumer behaviour influence marketing decision-making
- explain how choice of target market determines the design of the market offering
- explain how integrated marketing communication relates to integrated marketing.

7.1 Introduction

In the previous chapters, the core analysis and information sources that need to be identified, researched and discussed before making a marketing decision have been established. A marketing offering requires a thorough analysis to be performed and marketing decisions should be based on a strong information core in order to be effective. The mistake that many businesses make is that they do not ask the right questions, and therefore the true nature of the marketing problems being faced is unknown.

In this chapter, we will establish how each of the elements in the prior chapters affects the marketer's decisions when offering a product or a service. We will attempt to link the core information areas and the market decisions that are to be made on the basis of this information. We will also investigate the process of integrating the marketing effort to be able to compete effectively. For example, imagine trying to launch another cellular service brand in South Africa, with two giant entrenched competitors (Vodacom and MTN) to face. This was the situation facing Cell C when it launched its brand – and it managed to gain about 14% of the market and turn a profit after seven years. The company achieved this by marketing innovative products

and promotions to the mass market, weaving the elements of simplicity, choice and value into the make-up of the Cell C brand. It has integrated its communication and promotion efforts to establish a sustainable position in a very tough business environment.

7.2 The marketing process

There are certain decisions that the marketing department needs to make and which are considered to be major fundamental areas of marketing strategy. This combination is called the marketing mix, and is made up of four significant areas of decision-making. Before these key decisions can be made, the target market on which the organisation wishes to focus must be chosen. The first decision is made when the marketer decides on the combination of goods and services the organisation wishes to offer to the chosen target market; this is the product decision. The second decision concerns the activities that make the product available to customers wishing to purchase the product. The third decision relates to the communication methods and media used to inform, persuade and remind customers of the benefits of the product and encourage them to purchase. The last decision relates to the price, which is the amount of money customers must pay to obtain the product.[1] The four variables of *product, price, place* and *promotion* are known as the four Ps and make up the marketing mix.

Figure 7.1 illustrates how the core analysis and topics discussed in the previous chapters interact during the marketing process in order to facilitate the achievement of the organisation's goals and objectives. After the target market has been chosen, based on the research conducted to understand customers and markets, the marketing mix can then be developed. If the marketing mix is developed effectively, the marketer can contribute to the fundamental objectives of the organisation and to the maximisation of long-term profitability.

Some marketers have questioned whether the traditional marketing mix (the four Ps) is adequate for marketing services in current marketing environments. It has been proposed that an expanded, more comprehensive version of the mix ought to be used. There are three additional elements in the expanded version of the marketing mix, which need to be considered by companies that market a combination of product and service, or those that offer mostly service. These additional elements include the following:

1. *Customer service.* This can assist marketing management to build closer relationships with customers and retain customers, and possibly to differentiate the business.
2. *People.* The staff members, especially those who interact with customers on a daily basis, form an integral part of the product.
3. *Processes.* The creation and delivery of the product or service are influenced by the policies and procedures of the business.

The concepts and ideas discussed previously and their relation to the marketing mix will now be examined.

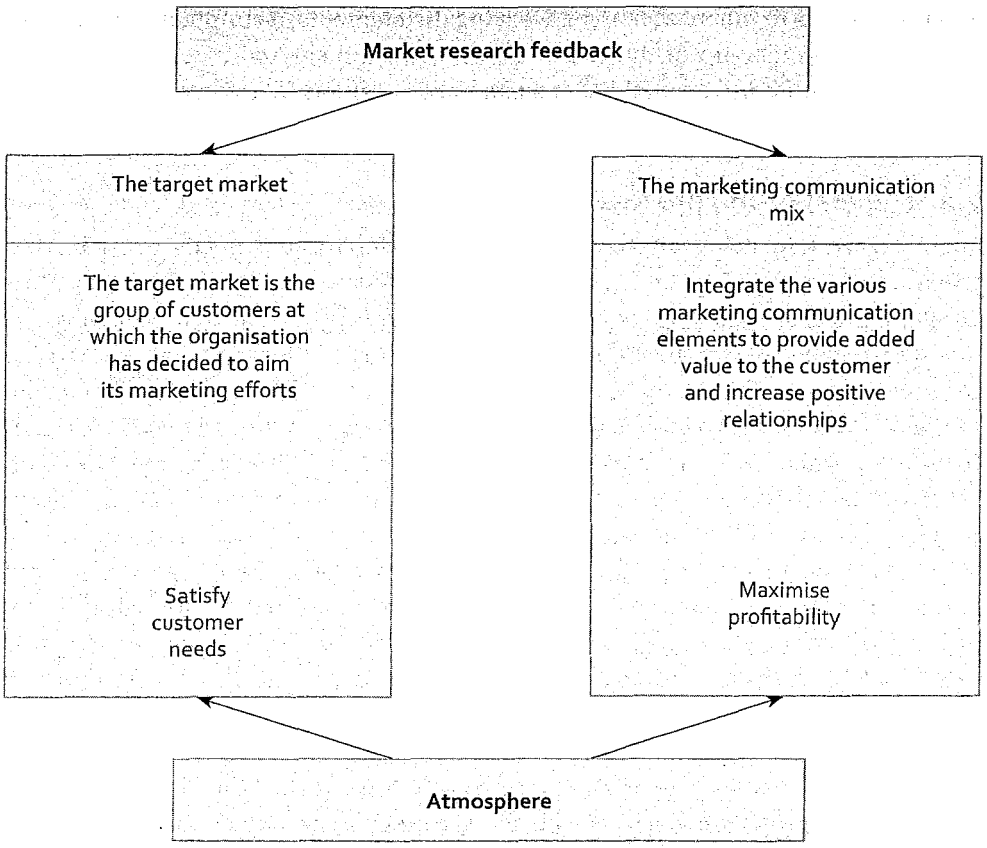


Figure 7.1 The marketing process

Source: Adapted from Cant, MC & Van Heerden, CH. 2010. *Marketing management: A South African perspective.* Cape Town: Juta, p 18.

7.3 Marketing orientation

Marketing orientation is, in essence, the marketing activities that an organisation adopts in order to meet customers' wants and needs and provide superior value to customers.[2] A market-orientated business has three characteristics:[3]

1. *Customer orientation.* The business has to understand the customers' wants and needs in order to provide superior value to the customer. Telkom's Heita (8ta) has focused on the mass market, and as Africa's largest integrated communications company, Telkom has tried to increase internet access in South Africa, provide new landline offers and become active in the cell phone market.
2. *Competitor orientation.* The business has to understand the strengths, weaknesses, capabilities and strategies of current and potential competitors. Heita offers 3G services; therefore, Telkom has entered a market in which there are strong competitors with well-developed 3G systems in place.

3. *Inter-functional or team coordination.* This is the use of the business's resources, particularly human resources, to create superior value for targeted customers. Southwest Airlines, an airline in the United States of America, embodies this, as even pilots assist in loading the luggage in order to have faster turnaround times.

These three characteristics strengthen the effort to satisfy the customer and provide superior value. This should be measured, and if the customers' needs are satisfied, the profits the business accrues can be enhanced through better customer retention and increased loyalty. This is illustrated in the benefits that a business gains through retaining the correct customers over an extended period of time. These benefits are increased purchases, reduced operating costs, referrals to other potential customers and the ability to justify a price premium to differentiate the product from price competitors. The profitability of a business is reinforced when the market orientation is combined with effectiveness in the marketplace. This relationship is illustrated in Figure 7.2.

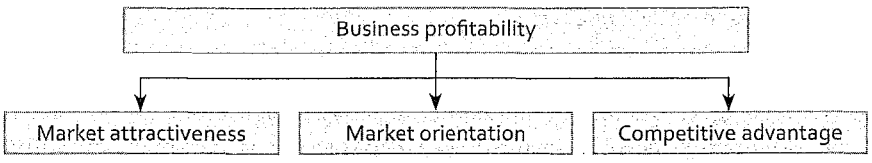


Figure 7.2 Drivers of business profitability

Source: Adapted from Best, RJ. 1997. *Market-based management.* Upper Saddle River, NJ: Prentice Hall, p 8.

The ultimate goal of market orientation is to develop and implement strategies that attract, satisfy and retain target market customers. This goal is accomplished through the use of a marketing strategy, which includes the decisions made by the organisation about the target market and the marketing mix.[4] This is illustrated in Figure 7.3.

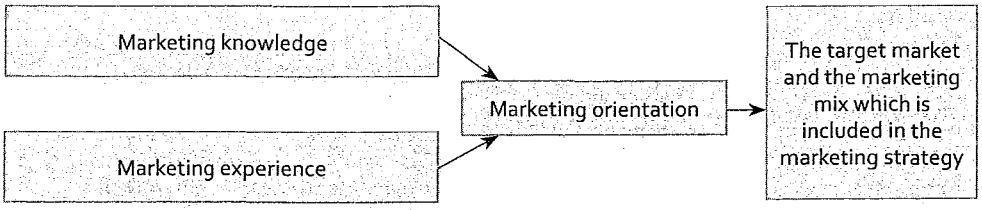


Figure 7.3 Marketing orientation shapes marketing decisions

Source: Adapted from Best, RJ. 1997. *Market-based management.* Upper Saddle River, NJ: Prentice Hall, p 25.

7.4 The marketing environment

The marketing environment is made up of several sub-environments. These sub-environments are dynamic in nature and have a number of interacting influences.

In certain sub-environments there are uncontrollable variables, such as the economic, legal, social and technological variables in the macro environment.[5] On the other hand, variables such as the marketing mix are controllable by marketing management.

It is necessary to stress that the controllable variables are indirectly affected by these uncontrollable elements in the environment. The marketer must ensure that the variables that can be controlled reflect the realities of the uncontrollable variables in the marketing environment. This is illustrated in Figure 7.4.

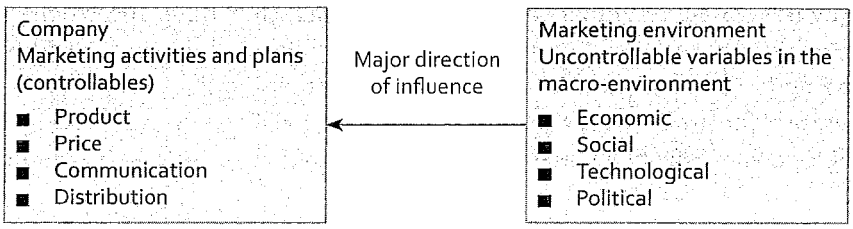


Figure 7.4 Environmental influence

The effectiveness of marketing will be determined by how well it can match the business's offerings to the requirements from the marketplace. The ability to adopt an outside-in orientation is seen in the business's response to changes in the environment. This is the strategic role of the marketing function in the organisation. The ability to constantly respond to the environment is a difficult task, as businesses become preoccupied with daily operations and lose track of occurrences in the environment. A mistake many businesses make is to ignore or discount small changes in the environment; in reality, these small changes often indicate big changes to come.

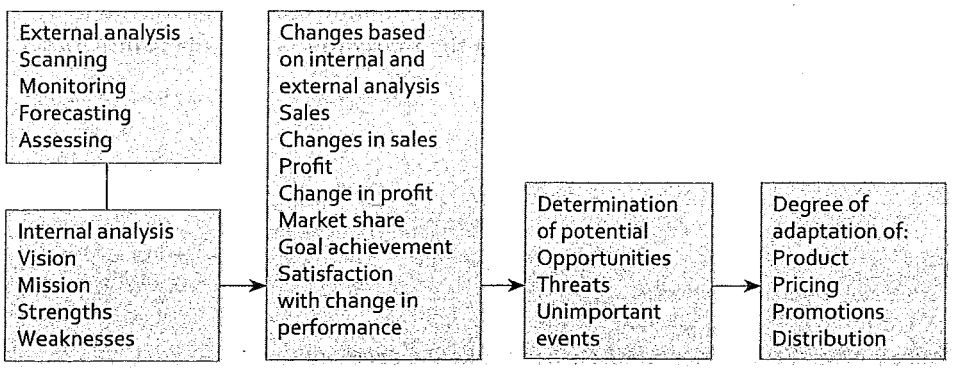


Figure 7.5 Environmental adaptation and monitoring

Sources: Adapted from Busch, PS & Houston, MJ. 1985. *Marketing: Strategic foundations.* Homewood: Irwin, p 82; Theodosiou, M & Leonidou, LC. Standardization versus adaption of international marketing strategy: An integrative assessment of the empirical research. *International Business Review*, 12: 141–171, 143; Morrison, JL. 2005. *Environmental scanning.* Available from: http://horizon.unc.edu/courses/papers/enviroscan/ (Accessed 2 August 2012).

In order to identify the short-term changes and long-term trends, environmental monitoring has to be conducted. This is the constant monitoring of the business environment. Figure 7.5 provides a framework for environmental monitoring and adaptation. The changes and trends can be translated into opportunities, threats or inconsequential events. If there is a need to adapt the current position on certain aspects, this should be reflected in the marketing mix of the business. In other words, the business must change something to respond to the change.

EXAMPLE: Responding to environmental change

- McDonald's has responded to the growing concern for fast-food restaurants to offer healthier options on their menus. This is evident in the addition of options such as salads and wraps, as well as healthier options for children.
- Honda has responded to the environmentally aware consumer by creating vehicles that are environmentally friendly, such as the Civic Natural Gas, various hybrid models, as well as the fuel-cell vehicle. Toyota has had great success with the Prius, which is a response to the same trend.

7.5 Obtaining and using marketing information

It is imperative that a marketing organisation has an efficient marketing information system (MIS), as discussed in Chapter 4. This is a tool to manage information effectively, and consists of a system made up of interactive and independent subsystems that function as a whole. This system assists the integration of the different types of marketing information and makes it accessible to the decision-makers, in a timely and useful form.[6] This concept is illustrated in Figure 7.6.

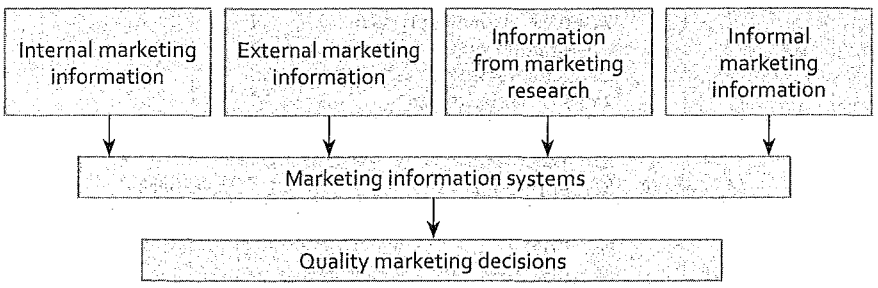


Figure 7.6 Sources of information

The purpose of an MIS is to gather and analyse data continuously 'to provide marketing managers with the information they need in order to make decisions'.[7] This system stands between the market environment and the decisions that marketers make, and provides an interface between the two. This information is, however, not only made available to the marketing function, but also to the other functions

within the organisation such as finance, production, operations, and research and development.

The MIS system assists the organisation in identifying trends, opportunities and threats that occur within the market environment. This scanning of the environment will help empower the organisation to react to changes in the environment in a timely fashion. Some companies have formal MIS structures in place, especially the bigger companies. Many small companies, on the other hand, make use of informal channels to be aware of the happenings in the market environment. These informal channels prove to be effective for small companies.[8] Figure 7.7 illustrates the link between the information that is received from the MIS structure and the decisions made based on this structure. The activities that the organisation performs are shown as the gathering of data and information. As soon as this information has been analysed and evaluated, a response must be made by marketing management in the form of some key marketing decision related to the change. The value of information is in its use. Decisions on a response have to be made based on information about the changes in the environment.

The response is not the end of the process, as the response then has to be monitored and evaluated to determine the success of attempting to align the organisation in response to environmental trends and the market.

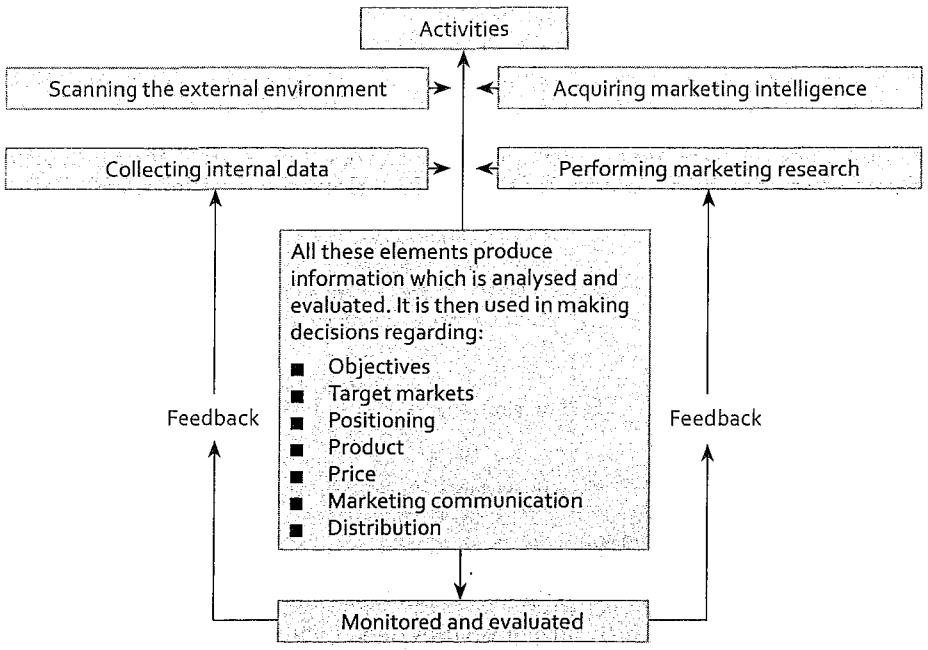


Figure 7.7 MIS and marketing decision-making

Source: Adapted from Jobber, D. 2007. *Principles and practice of marketing.* London: McGraw-Hill, p 231.

For example, Procter & Gamble videotapes the day-to-day behaviour of its consumers. By doing this with a sample of families in some European countries, they found that information and knowledge about caring for their babies was as important to new mothers as the nappy itself. It responded by launching Pampers.com, which is an online community where mothers can obtain information on areas of concern to them.

7.5.1 Perspectives on consumer behaviour

Marketing's essence lies in the organisation understanding the customers they serve or intend to serve. This includes understanding customers' buying behaviours, habits and needs. Once this understanding is gained, the marketer is better able to assist the customer to achieve their objectives by designing and developing an effective offering for them.[9]

Questions such as who the organisation's customers are and why they buy should be answered by the marketer. These answers are important for the marketing function as they are the link between the customer and the organisation.

Various factors influence the relationship between the environment, the marketer and the customer and impact on the decision-making process. These factors are summarised below:

- *Internal factors* such as age, gender, income, education, lifestyle, values and personality
- *External factors* such as social, cultural, family, opinion leaders and reference group influences
- *Buyer decisions* include questions such as 'Buy or not to buy?', 'What, where or when to buy?', 'How much to buy?', 'Buy again?'
- *Stimuli in the environment* include economic, technological, political and cultural influences
- *Marketing stimuli* relate to price, promotion, product and quality questions.

Both the uncontrollable environmental variables and the controllable marketing mix have an influence on the customer. These two factors are external stimuli to the customer. The decisions made by the customer are also affected by the internal characteristics of the customer. These internal stimuli, such as the customers' characteristics, perceptions and expectations, which are all different for each customer, can affect customers' decisions.

The different individual and group influences, the manner in which customers proceed through the decision-making process, as well as their habits, will influence customers' decision-making.

Another factor that could influence customers' decisions is their involvement with the product. This will serve as an indication of the seriousness and systematic manner in which customers proceed through the steps of the decision-making

process. Customers or buyers have a number of stages to go through to make their decisions. This is where marketers come into play as they persuade customers, with the use of the marketing mix, to buy the organisation's product. Marketers also have to persuade customers after the purchase that their need satisfaction has been achieved and that they will remain loyal to the organisation.

We have mentioned that the marketing environment is constantly changing; therefore, the monitoring of the environment should be a continuous process in order for the organisation to make appropriate responses. As the organisation is affected by changes in the environment, so are customers, and their needs may change.

In addition, in order for any business to be successful, it has to be aware of the changing nature of customers' characteristics and needs. These changes may have a significant effect on the organisation and the organisation should be prepared to respond to these changes with their marketing activities.

In the late 1990s, Wilson and Gilligan identified a number of characteristics that are associated with what they term the 'new' consumer.[10] Many of these are still valid and they include:

- the development of new value systems
- greater emphasis on value for money
- higher levels of price awareness and price sensitivity
- an increased demand for and a willingness to accept more and exciting new products
- less fear of technology
- lower levels of brand and supplier loyalty
- a greater willingness to experiment with new products, ideas and delivery systems
- a greater cynicism
- higher levels of environmental awareness
- greater scepticism about politicians, big business and traditional institutions
- the changing roles of men and women.

There is a connection between the characteristics mentioned above and the design of the marketing mix. How many of them do you think apply to the South African consumer?

Commitment to understanding customers' needs and problems is at the core of any marketing strategy. The process of understanding customers is known as customer analysis and is illustrated in Figure 7.8.

Figure 7.8 shows that changing customer needs and product usage have to be continuously monitored by the business. These two factors affect the benefits that the customer is seeking and desires. The business responds to these factors by changing the controllable variables such as the marketing mix.

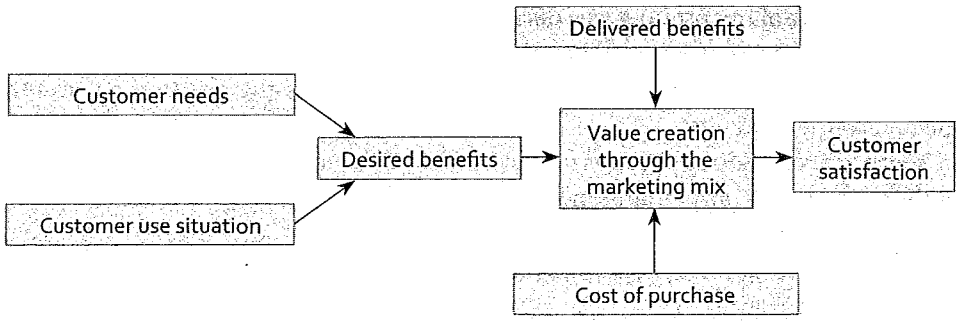


Figure 7.8 Customer analysis and the marketing mix

Source: Adapted from Walters, D & Lancaster, G. 2000. Implementing value strategy through the value chain. *Management Decision*, 38(3): 160–178.

If customer needs are successfully met and the desired benefits are delivered, the business will satisfy the customer needs and increase the likelihood of success. Note that the value perceived by customers is determined by the benefits they perceive to have received in relation to the cost of the product or service. This emphasises the important role that marketing management plays in ensuring that customers perceive they are receiving value for money relative to what they would receive from competitors.

In a previous example we discussed Procter & Gamble's research findings that new mothers were equally concerned about information and nappies. In this case, the company responded to their concerns in order to retain customers and add value in areas of importance to them.

7.6 Target market selection and positioning

The concept of market fragmentation helps one to understand the importance of target market selection and positioning.[11] Fragmentation occurs when the market splinters into different groups according to aspects such as income bracket, lifestyle, race or experience. This leads to markets becoming smaller and an increase in the number of product ranges required to cater for the various segments.

There are various groups within a target market and marketers have to understand this. Market research on the different groups in a market assists the marketer in optimising the market segmentation process.

The potential for each segment must be established after each of the different segments has been identified. This is part of the market research that has to be conducted to assist in the selection of appropriate segments.

After the target market has been decided on, the marketer will have to decide how to position the product. This is often accomplished by further market research that focuses on competitor positioning and customer need satisfaction. The marketing mix must be tailored to meet the customers' needs, but this can be done only once the positioning strategy has been established.

The positioning of the product was discussed in Chapter 6. If correctly designed, the marketing mix is the method the marketer uses to meet the needs of the customer so that the customer's perception of the product matches the positioning strategy selected by the marketer.

There are continuous changes in the market, so the market must be continuously monitored. This is particularly important in order for the marketer to determine whether the product needs to be repositioned or not. The overall process of segmentation, targeting, positioning and designing the appropriate marketing mix is illustrated in Figure 7.9.

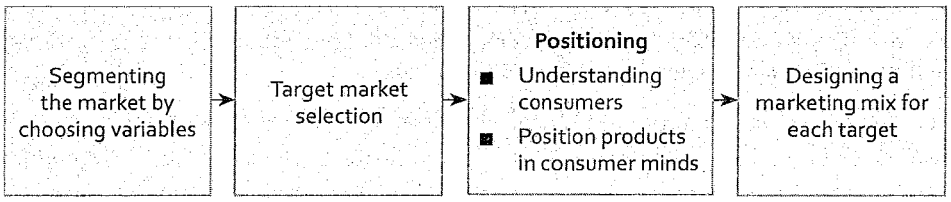


Figure 7.9 Progression for choosing your market

Source: Adapted from Groucutt, J, Leadley, P & Forsyth, P. 2004. *Marketing: Essential principles, new realities*. London: Kogan Page, p 129.

7.7 Integrated marketing communication (IMC)

In order to effectively deliver the message that the business would like its target market to receive, there needs to be an effective marketing communication campaign. This is usually achieved by means of an integrated marketing communication (IMC) campaign. This is an effective mass-media communication technique that supports strategies the business and marketer make use of in order to persuade the customer to purchase the product offering. The methods used to create an IMC campaign will be discussed in the sections below.[12]

7.7.1 The need for integrated marketing communication

Consumers see countless advertisements every day, which all add to the blur of marketing messages from businesses. When a single business delivers messages through more than one medium, the consumer will view the messages as part of a single message. In order to avoid confusing the target audience, the business has to ensure that its messages are compiled in such a way that they are not contradictory or ambiguous.

When messages are not in line, consumers may become confused and this may jeopardise the company image, brand position and customer relationships. The messages that the business delivers should be aligned as this helps to make the message delivery more effective. Problems arise when messages are created by different people inside and outside the business. In some cases, the advertising campaign will be created by an agency that is outsourced to do the job, the personal

selling message is created by sales management and the marketing department creates sales promotion events.

The various messages are delivered using different media channels, such as the internet, social networking sites, television and radio.[13] This is where IMC can avoid the many mistakes businesses make when they deliver messages across different mediums. IMC is a concept that 'carefully integrates the communication channels to deliver a clear, consistent and compelling message'.[14]

Customer touch points are the situations in which the consumer will encounter the brand or business. IMC recognises that the business has to ensure that each touch point will deliver a consistent message to the consumer.

The goal of IMC is to ensure that the company provides a consistent message every time the consumer comes into contact with the business in any shape or form.[15] This is especially true when IMC is able to tie all the company's messages and images together. This is accomplished by making sure that all the communication channels the business wishes to use have a similar 'feel' and overall message.

7.7.2 Elements of integrated marketing communication

IMC is a method of communicating with the consumer that is customer centred and is driven by the need to provide specific messages to the customer. This method is the management of all types of communication methods such as advertising, personal selling, sales promotion, public relations and direct marketing.[16] This is a difficult task as the specific combination of the marketing communication elements has to fit with the intended message, the target audience and the objectives.[17] The elements of IMC are the following:[18]

- *Advertising.* This is any paid form of personal presentation and promotion of ideas, goods and services by an identified sponsor.
- *Sales promotion.* This is the encouragement of sales through short-term incentives.
- *Public relations.* This involves building good relations with the various target audiences by obtaining favourable publicity, creating a good corporate image and controlling unfavourable rumours or the potential for unfavourable rumours.
- *Direct marketing.* This involves making direct connections with the target audience to obtain an immediate response and to cultivate a lasting customer relationship.

These elements of IMC are used to communicate the value and benefits that the customer can receive when purchasing the product or making use of the service.

7.8 The new marketing communications model

A number of factors that influence the marketing communications model have evolved. These changes have occurred in communications technology and marketing strategies. Customers now have access to information and communication

technology that give them the ability to gather more information and be more empowered to make informed decisions.[19]

The changing nature of communications technology has enabled customers and companies to communicate differently from how they did a decade ago. This has created a platform for many information and communication tools, such as smartphones, satellite TV and the internet. Even the manner in which companies may decide to deliver the message has changed in terms of specialisation.[20] For example, a company may decide to target consumers through blogs and e-mails rather than broadcasting via the traditional communications channels.

7.9 Steps in developing effective marketing communications

There are certain steps that marketers should follow in order to create an effective IMC and promotion programme. These steps are: identifying the target audience, determining the communication objectives, designing a message, choosing media and collecting feedback. These steps are discussed below.

7.9.1 Identifying the target audience

In order for marketing communications to be effective, there needs to be a clear idea of who the business should be targeting and the possible audiences in that target market. This could be anybody from the person who uses the product to the purchasers or even a group of individuals. The target audience will influence the message that is to be delivered in every way, that is, the content of the message, the manner in which it is said, the time and place of delivery, as well as who delivers the message.[21]

7.9.2 Determining the communication objectives

It is all very well to have a beautiful communications campaign, but what does the company want to achieve with the campaign? If the company does not have a clear idea of what it would like to achieve, it will be impossible to determine if the communications campaign was a success or not. The company has to establish a set of communication objectives.

For example, one of the objectives of the campaign could be the desired response from the target audience. In order for communication objectives to be established, there has to be an understanding of what the audiences' perceptions of the business are and what can be done to adapt these to the desired perception the business wishes to create.

There are six stages that the target audience can occupy in terms of the purchase decision-making process. These are known as the buyer-readiness stages, which include: awareness, knowledge, liking, preferences, conviction and purchase. Basing the communication campaign on the consumer's buyer-readiness stage can influence the manner in which the campaign will be set out.[22]

7.9.3 Designing a message

Designing a message that is effective has to include a number of actions or behaviours that are sought, such as getting the attention of the audience, holding that interest, arousing desire and obtaining action. These elements are reflected in the *attention, interest, desire and action (AIDA) model.* The essence of message design includes the message content, message structure and the message format. These elements are discussed further.[23]

7.9.3.1 Message content

The message has to appeal to the audience in order to produce the desired response. The appeals that the business can make use of are the rational, emotional and moral appeals.

- *Rational appeal* is the self-interest that the audience experiences. These are the qualities such as value, economy and performance that the product provides.
- *Emotional appeal* relates to the emotions that might be evoked when purchasing a product, be they positive or negative. For example, this could be the love experienced when exchanging jewellery between partners, the fear of driving a car without an automatic braking system or the joy of a child who receives a toy as a gift.
- *Moral appeal* is created in the attempt to capitalise on the audience's morals, ie the customers' views of what is considered to be right and wrong. Often this appeal is used in support of social causes, such as the political situation in Tibet or healthcare campaigns. An example of a moral appeal is the Earth Hour campaign that takes place annually, when people are urged to switch off their lights for an hour at a specific time, on a specific day to raise awareness about the need to do something about climate change.

Alongside these appeals is the common use of humour that attempts to get the audience to pay attention, create a joyful mood or to make the brand seem to have a personality.

7.9.3.2 Message structure

Usually an advertisement has structure, which includes a beginning, a middle and an end that follow a chronological or logical chain of events. Sometimes, however, marketers may decide not to give the audience an end or resolution. This creates questions in the mind of the audience, and leaves them wanting more.

Another aspect to consider is where to place the strongest point? Should the marketer place the strongest arguments for the use of the product or service at the beginning or end of the advertisement? Having the argument in the beginning of the advertisement may lead to an early climax and therefore an anti-climactic ending that loses the audience's attention.

The final aspect to take into consideration in terms of the message structure is the nature of the argument. Should the marketer present an argument that displays only the strong points of the product while neglecting to display the possible shortcomings, or should the marketer discuss both the strengths and shortcomings?

7.9.3.3 Message format

The format of the message includes the placement of the headline or copy as well as the illustration and use of colour. If the message has to be delivered over the radio, the chosen words to convey the message, the sounds that are included in the message, as well as the voices have to be appropriate for the product being advertised. If the message is delivered on television, the visuals used, the props, the sounds and the body language of the model have to all be appropriate in relation to the product. There are many details that the marketer has to consider when looking at the way in which the message is being conveyed. The small details of the advertisement have to create the overall intended effect when delivering an effective message.

7.9.4 Choosing media

There are two channels of communication from which the marketer will have to choose. These channels are personal and non-personal. These communication channels are discussed below.

7.9.4.1 Personal communication channel

In this channel, two or more people communicate directly with each other. This communication may take place face-to-face, over the telephone, via e-mails or through internet chatting. This is an effective form of communication because the individuals involved are able to address each other personally and there is room for feedback.

Some of these communication channels are controlled by the company, whereas others are controlled by outside bodies, such as agencies the company hires for this specific purpose.[24]

Two effective personal communication channels are word-of-mouth influence and buzz marketing. Word-of-mouth influence is an example of viral marketing, whereby customers themselves give opinions on the product or service through different media channels, which in turn can affect sales. Buzz marketing is the channel that makes use of an opinion leader who spreads information about a product or service in the circles in which these opinion leaders operate.

7.9.4.2 Non-personal communication

These channels are considered non-personal as they are meant for mass media, which leave no room for personal contact or feedback. These channels include major media, atmospheres and events. Major media includes online media, print media,

broadcast media and display media. Atmospheres are designed environments that reinforce the consumer's inclination to purchase a product or service. This is the type of channel that lawyers make use of, in terms of their offices being stylishly and elegantly furnished. Events are the media channel that makes use of staged events to inform the consumers about the company or about a specific message.

Often non-personal communication is followed up by personal communication. There has also been a trend to include the personal communications that have taken place between the company and the customers in the non-personal communications.[25]

7.9.5 Collecting feedback

This is the response of the target market or the audience to the message that has been sent out. This is an important step as the company can establish whether the message and its objectives have been successful. This is imperative as the company has to know if the message has to be adjusted in order to achieve the intended results.

Certain aspects of feedback are important in order for the company to make the necessary changes. These aspects are: whether customers remember the message and the frequency of viewing the message; which points they can recall; and their attitude towards the product and company before and after the message has been seen.[26]

7.10 The marketing mix

The care and attention to detail that has to be exercised by marketers will assist in the key decision-making areas of marketing, such as choice of target market and the appropriate marketing mix for that target market.

The choice of a target market and positioning of the product offering in the market were dealt with in Chapter 6 and briefly in Section 7.6.

The second key decision-making area is the marketing mix. Although it is not the aim of this book to discuss the marketing mix in detail, we do need to introduce the topic and briefly discuss the impact of these building blocks on the components of the marketing mix.

The marketing mix is a set of marketing tools that the business makes use of to implement its marketing strategy.[27] These tools are used by the business to produce the response it desires from the target market, which is almost always for the customer to purchase its products and/or services. These marketing tools are also known as the four Ps, which are product, price, place and promotion. *Product* refers to the goods-and-services combination that the company offers to the customers it has decided to target. *Price* is the amount of money that the customer has to exchange for the product. This is the value of the product, in monetary terms, which the customer will be willing to pay. *Place* includes the activities that need to take place in order for the product to be made available to customers. *Promotion* is the activities that the business uses to communicate to the target market the benefits of the product, as

well as to persuade them to purchase the product. It is accomplished through the use of advertising, personal selling, sales promotion and publicity.[28] These four tools are combined to assist the business in achieving its objectives, as shown in Figure 7.10 and discussed below.

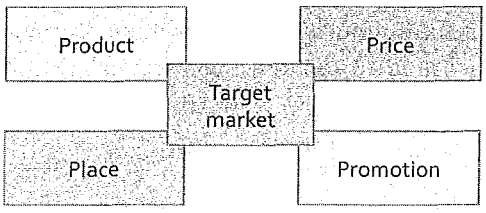


Figure 7.10 The four Ps of marketing

Source: Adapted from Laínez, JM, Reklaitis, GV & Puigjaner, L. 2010. Linking marketing and supply chain models for improved business strategic decision support. *Computers and Chemical Engineering*, 34(12): 2108.

7.10.1 Product decisions

The product decision is imperative as this represents the key component in the marketing offering. This concerns the construction of the offering that is of value to the customers that the business targets. This is the basis on which the business builds the customer relationship that is profitable for the business.[29]

The marketer needs to make decisions regarding the range of products and/or services that the business wishes to offer. This is called product mix. The marketer has to establish specific product strategies. The marketer could either decide to extend the product mix through product diversification or to reduce the product mix through specialisation. The product range can also be standardised or differentiated. In the product strategy, the marketer has to decide on development and commercialisation of the products that must be developed. Decisions for the product and package design are imperative as these are related to the product decisions.

Other product-related issues that have to be considered are the branding decisions and how to raise awareness about the product or brand within the selected target market. The development and design of the product offering and the package depend on the results of the environmental analysis and the customer analysis. These are essential steps that have to be completed before making decisions about the marketing mix because the marketer cannot design a product offering to meet the customers' needs if these two areas have not been researched.

For example, changing economic conditions may make it necessary to develop a lower-priced product. Toyota SA developed the Tazz range of cars as a response to economic changes in the marketplace that generated more attention on entry-level cars. (The Tazz was eventually replaced by the Etios and Yaris ranges.)

Evolving use of products may necessitate design changes. Both of these could lead to new product opportunities and/or brand extensions.

7.10.2 Pricing decisions

Price is important as it is the only element of the marketing mix that makes revenue possible. The marketer's role in generating revenue for the business is to establish the price sensitivity of the target customers, which will contribute to establishing the basic price that can be set for the product offering. This price can be calculated by taking into consideration the basis of costs, demand for the product and the competitive pricing structures, all of which are able to influence the setting of a price.

The use of adjustments can assist in establishing flexibility in the pricing structure. This can be done through instruments such as discounts, as well as the geographic location of the target customers.

The environment has an effect on pricing as the different economic conditions of a specific location can mean that lower-priced alternatives may be preferred. Environmental scanning has to be conducted in order to analyse whether environmental factors have an effect on pricing. Material or process developments could have an impact on the bottom line as they will have an effect on costs, which in turn will have an effect on pricing and profit margins. Technology is another factor that could have an effect on pricing as this is an ever-changing factor that may have positive or negative effects on the business. Developments such as 'just-in-time' materials management systems and e-commerce have had a significant impact on the profit margins of motor vehicle manufacturers, as it is now possible to buy and sell vehicles online. Other products that are sold online include clothing and groceries.

Marketers must also carefully research and monitor the target market's sensitivity to its pricing strategy. In India, shampoo manufacturers discovered that many lower-income consumers could not afford their shampoo offerings because the price was too high for the quantity offered. They responded by developing single-occasion sachets that allowed the consumer one shampoo, and priced it accordingly. This resulted in a significant increase in the volume of shampoo sold and improved profitability.

7.10.3 Distribution (place) decisions

In order for the product offering to reach the customer, there has to be an effective distribution channel to meet the market's needs and expectations. The marketer's task in distribution is to determine what intensity of distribution is needed to meet the market's needs and wants and to then establish the necessary channel. The different types of distribution intensities are intensive, selective or exclusive.

Along with this distribution intensity decision, the marketer decides on the type of distribution channel that will be most effective in delivering the product or service to the target market. There are a number of channels from which the marketer can choose, such as direct channels, or those that make use of intermediaries, such as retailers, wholesalers and agents. The environment also has an effect on this element of the marketing mix, such as the added advantage of being able to order products

over the internet, or deliver digital products over the internet. The internet has had a revolutionary effect on the way in which some businesses, such as Amazon, reach their target markets.

Dell overtook Compaq as the leading personal computer seller in the US, and one aspect that may have helped is that Dell had a completely different distribution strategy from Compaq. While Compaq distributed through traditional computer retailer channels, Dell used a direct channel by selling to customers by means of the internet. This innovation led to significant reductions in distribution costs and also had a direct effect on its pricing policy.

Marketers must monitor changes in the environment as well as the customers' expectations of where they want to purchase products. In so doing, they will always be able to meet customers' needs by providing the right product at the right time and in the right place.

7.10.4 Promotion decisions

The promotion variable of the marketing mix revolves around the business informing current and potential customers about its products and services as well as marketing activities. This can be communicated by means of marketing communication tools such as advertising, sales promotion, personal selling and publicity.

Not only does the marketer have to decide which channel to use, but he or she also has to decide on what message to deliver, what media to use, what size budget is required and which promotional support activities will have to be implemented. The marketer also has to take into consideration communicating these decisions to employees so that they are aware of what the market's expectations are and the message the business is intending to deliver to the target market. These decisions have to be coordinated, applied and evaluated.

The selection of the media is imperative and therefore the marketer has to pay special attention to the media choices available. The internet provides an increasing number of growing media channels. The marketer's role is to choose the appropriate media channel that is suitable for the target audience and the message being delivered, as well as the product offering. Effectiveness of the message being delivered has to be taken into consideration as this is dependent on the type of media chosen. This requires systematic research of the customer base to monitor trends in terms of media, as well as advertising-campaign impact. Nando's, for example, has been particularly effective in designing campaigns that are related to current events in South Africa. Its success is the result of monitoring the environment for opportunities.

A good example of the process of setting a marketing mix is the actions Samsung took when trying to establish its brand as a global consumer brand. It had been a manufacturer of computer chips and decided to reposition itself as a global consumer-goods brand. Its target market changed from mostly business customers

to global consumers, and it wanted its brand name to be positioned as a well-loved, high-quality consumer brand. It broadened its product mix into consumer goods, such as white goods and consumer electronics, and embarked on a global marketing campaign to get its brand known and associated with high quality. It chose to deal with big retailers and wholesalers who were active in consumer markets. It priced its products in line with its desire to be seen as high quality, but still provided highly attractive price points in order to reach value-seeking segments. It used mass media to get its name better known as a player in consumer products for consumer lifestyles. The success of the Samsung brand over the last 20 years was not based on luck, but on a carefully thought-out, well-executed, integrated marketing campaign, with all the elements of the marketing mix working in unison to achieve its marketing objectives.

TaylorMade and database marketing for golfers

TaylorMade is a well-known manufacturer and marketer of golf clubs and footwear, and its products are used by millions of golfers around the world. The leadership of TaylorMade, in terms of database marketing, has given them a significant advantage over their competitors in a very competitive industry. Their database consists of over 1,4 million names and addresses. This enables the company to contact and enhance relations with the users of its products. If individuals on the list have internet access, for example, they receive a weekly online magazine with information on golfing destinations and playing tips from golf professionals. In each mailing of the magazine, readers are asked information about products they prefer, prices, and so on. This is then used to input into product designs and pricing decisions. It can also merge its list with that of subscribers to golf magazines and then tailor e-mail ads to each category of subscriber.

EXAMPLE: Cause-related marketing provides opportunity for companies

Cause-related marketing is any business-related activity by which business, charities and/or causes form a partnership with each other in order to market images, products and/or services for the benefit of both. A lot of organisations are forming agreements with charities and/or causes with the aim in mind that each party will benefit. It is important to realise that this type of relationship is much more than just 'we give X rand for each amount spent'. This relationship means a collaboration between the parties, where the business can help deliver physical benefits to a particular cause or charity over a specified time.

Source: Adapted from Barrett, D. 2002. *The rise of cause-related marketing.* Harvard Business School, Harvard College, p 2.

EXAMPLE: Harley-Davidson and the four Ps

Harley-Davidson provides a good example of how a company used the traditional four Ps of marketing to position its motorcycles in a new customer segment, the baby boomer generation in the US. The product was changed by introducing a new engine, but the heavy-metal look was retained. The promotional strategy was changed by shifting the advertising to promote a softer image. It featured celebrities on a Harley-Davidson, the objective being to attract the high-income segment. It changed its distribution strategy by cleaning up the dealerships so that they did not look so dark and so that they were more customer friendly. Harley-Davidson does not sell only motorcycles now – it also sells motorcycle fashion accessories, which are displayed in a clean, bright atmosphere. The motorcycles are priced to reflect the value that the high-income earners place on living out their fantasies on a Harley-Davidson motorcycle. The upper end of the motorcycle range often runs into the $20 000 price range. All these components demonstrate a well-coordinated marketing mix targeted at a specific segment of the market.

Summary

In this chapter, we have established how the topics covered in the previous chapters help to shape the decisions made by marketers in terms of the marketing mix. In fact, a number of analyses were needed in order to accomplish this. Firstly, the marketing orientation of the business had to be analysed to ensure that the company culture is correct and proactive. Secondly, the marketing environment and its effect on all the decision-making areas of marketing were highlighted. Thirdly, we emphasised the importance of marketing research in order to align the market offering with the marketing environment and to meet customer needs. This all entails a thorough understanding of the customer and the characteristics that affect the decisions made in terms of purchasing. Lastly, target market selection and positioning is critical, as all the decisions made by marketing are as a result of selection and positioning, which are the main considerations for all marketing decisions. Figure 7.11 places the philosophy and approach discussed in this book into context.

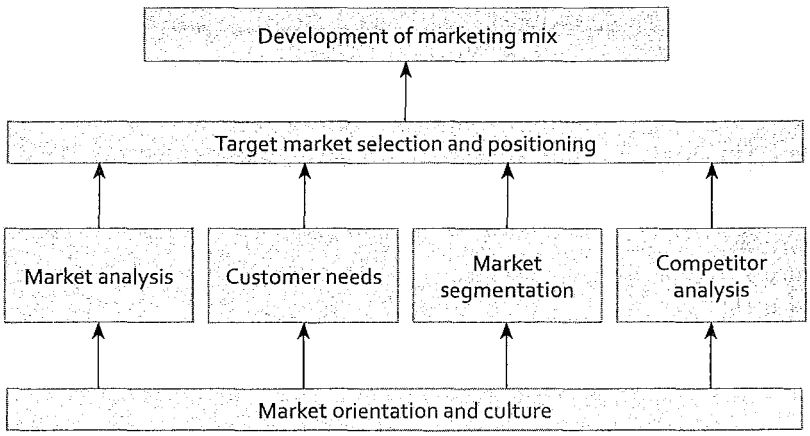


Figure 7.11 Core analyses for marketing decisions

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Chapter 8

Strategic marketing

Learning objectives

After you have studied this chapter, you should be able to:

- understand and explain what strategic marketing is
- discuss strategic versus tactical planning
- examine the importance of implementation
- describe the nature of control
- identify and explain the steps in the evaluation and control process.

8.1 Introduction

Throughout this textbook, a number of important issues have been discussed, all of which marketing managers should focus on. When discussing the integration of the marketing components, the elements of a marketing strategy were mentioned. To make a success of any strategy, it is essential that the total marketing process is managed with care. This leaves managers with the responsibility of implementing, monitoring and controlling plans and taking corrective action if necessary.

Marketing management is responsible for planning, implementation and control, which should be conducted on a continuous basis. Doing these activities once a year or once a quarter is not sufficient. When planning a marketing strategy, marketers must follow up by implementing and controlling efficiently, because it is senseless to spend vast sums of money on the planning stage if the plans are not implemented properly.

8.2 Strategic marketing management

8.2.1 The meaning of strategic marketing management

The strategic marketing management process consists of three steps, namely planning, implementation and control. These steps and the relationships that exist between them are illustrated in Figure 8.1.

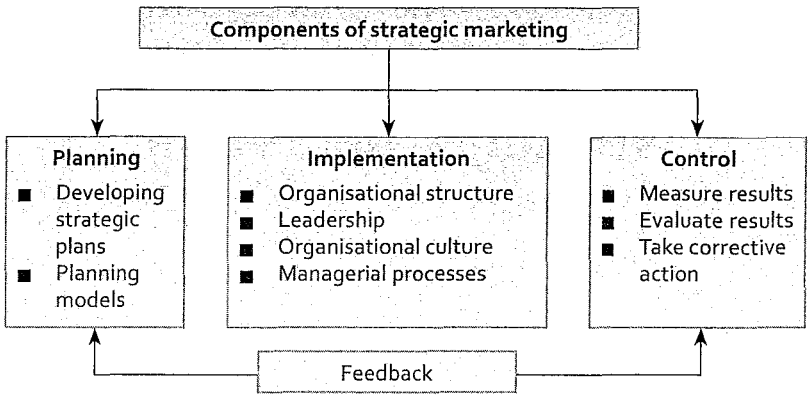


Figure 8.1 The relationship between planning, implementation and control

Source: Adapted from Kotler, P & Armstrong, G. 1993. *Marketing: An introduction.* 2nd ed. Englewood Cliffs, NJ: Prentice Hall, p 52.

Strategic marketing occurs in a strategic context, suggesting that the organisation has a long-term vision of achieving its organisational goals, while incorporating marketing objectives with the overall organisational objectives. Therefore, it can be concluded that strategic marketing management requires the marketing department to base decisions on long-term growth with the aim of survival in a competitive environment.

In this chapter, the management tasks of planning, organising, leading and controlling will be discussed.[1]

8.2.2 Strategic versus tactical planning

Planning can be categorised according to its scope or breadth, for example, a broad plan focuses on far-reaching organisational objectives that could play a major role in the organisation for over five years. More specific plans focus on individual business units and are applicable for shorter time periods. Planning can also be categorised as strategic or tactical, as described below.

Strategic planning occurs when an organisation's primary objectives are determined and certain courses of action are adopted to achieve these objectives. An organisation's future can be influenced drastically by strategic planning, as this provides the organisation with a long-term direction on which all decisions should be based.

Tactical planning complements strategic planning by guiding the implementation of activities identified in the strategic plan. Tactical planning generally concentrates on shorter-term actions and focuses on activities that must be completed in the near future. These activities should be completed in order to implement the larger strategies. Tactical planning may require swift decision-making and responses.[2]

BMW's far-reaching strategic planning generally enables BMW to maintain its status as a top-quality vehicle manufacturer. Unfortunately, its excellent strategic planning could not prevent the organisation from having its reputation damaged because of a recall of 1,3 million vehicles globally. After discovering a potentially dangerous issue, the organisation's officials were forced to formulate and implement a new tactical plan as quickly as possible in order to keep the damage to BMW's reputation minimal. They developed a solution to the issue and contacted all the owners of the specific model. The owners of these vehicles were requested to visit a BMW dealership for repairs, free of charge, which were completed in 30 minutes. Quick response and a practical, simple solution allowed BMW to regain the trust of its loyal customers and restore its reputation.[3]

8.3 Planning

8.3.1 The nature of planning

Planning is one of the most central marketing activities and it *always begins with information gathering*. Information can be sourced from internal and external environments and should be interpreted and continuously monitored. A decision can be reliable only if it is based on reliable information; this highlights the importance of extensive marketing research and forecasting before decisions are made. This usually requires a detailed SWOT analysis to be conducted by marketing management in order to identify the organisation's capabilities, limitations and possible lucrative opportunities.

Planning holds many advantages for any organisation, including:

- encouraging systematic thinking about the organisation's future
- leading to improved communication between different departments and levels of management
- establishing performance standards for measuring results
- providing a logical basis for decision-making
- improving the organisation's ability to cope with change
- enabling the organisation to succeed in a rapidly changing business environment
- enhancing the organisation's ability to identify marketing opportunities.[4]

Various factors can cause an organisation to fail in a competitive market environment, for example, the market segment size, customer preferences and the actions of competitors all interact to affect the outcome of any strategic marketing plan. The large number of influential factors and the uncertainty these cause, leave organisations with no choice but to analyse them systematically in order to determine their impact. Strategic marketing plans can then be designed to meet current and future challenges in the environment. These tasks are accomplished through the marketing planning process.

Strategic and marketing plans are then turned into actions aimed at achieving objectives through implementation. People from inside and outside the business should work together to implement the strategic and marketing plans. The results of the plans should be measured and controlled in order to determine whether or not they were implemented successfully. Should the results be unsuccessful and the objectives unmet, corrective action should be taken. Marketing analysis provides an organisation with information and controls that are needed for all the other marketing activities.

While it makes sense to conduct planning before starting with implementation and control, bear in mind that planning (like implementation and control) is dependent on the results of preceding analysis. It does not always have to be first in the process, and it does not necessarily end before marketers start with the other activities.[5]

8.3.2 The marketing planning process

A marketing plan is a written document containing guidelines for an organisation's marketing programmes and allocations over a certain period of time. The use of marketing plans includes the following benefits:

- *Consistency.* Marketing action plans will be consistent with the overall corporate plan as well as with the other functional plans.
- *Responsibility.* Those people responsible for implementing the individual parts of the marketing plan will know their responsibilities and their performance can be monitored accordingly.
- *Communication.* Those involved in implementing the plans will be aware of what the overall objectives are, as well as the assumptions that lie behind them.
- *Commitment.* If all involved agree to the plans, their agreement should stimulate a group commitment.

Marketing planning is an activity directed towards the future. An organisation will need wide-ranging and reliable information about all the environments applicable to them before being able to make a knowledgeable estimate of what their future could hold. While some decisions are implemented immediately, many decisions that are made today may be implemented only in the distant future. This demonstrates that marketing planning can occur in the short, medium and long term. It is relatively easy to make accurate forecasts in the short term (usually about one year). It becomes more difficult in the medium term (three to five years), and it is increasingly risky and difficult to make long term forecasts (over five years), when the accuracy of forecasts may become uncertain. Nevertheless, it is crucial to conduct planning over all three phases to ensure long-term survival and growth.

An important step in planning is environmental scanning. In most cases, a marketing audit will serve as the foundation of such an environmental scan. The

process may be complex, but the aim is straightforward: to identify the existing factors - external and internal - that could significantly impact the future of the organisation.

A particularly practical and widely used technique for analysing the material gathered in the environmental scan is the SWOT analysis. A SWOT analysis is a summary of the major findings of the organisation's current situation under the headings strengths, weaknesses, opportunities and threats, as illustrated in Table 8.1. This makes it easier for an organisation to identify which areas to focus on. The SWOT analysis groups information into two main categories, namely internal factors and external factors.

1. *Internal factors.* The strengths and weaknesses identified during the SWOT analysis can be seen as internal factors, suggesting that the organisation has a certain level of control over these factors.
2. *External factors.* The opportunities and threats identified during the SWOT analysis can be seen as external factors, suggesting that the organisation cannot control these situations.

All information regarding internal and external factors is systemised and kept up to date in a marketing information system. This allows convenient access to the information for planning purposes and market forecasting.[6]

Table 8.1 The components of a SWOT analysis

STRENGTHS	WEAKNESSES
Activities that an organisation performs well and that set it apart from its competitors	Activities that an organisation should improve on to keep competitors from gaining advantage
OPPORTUNITIES	**THREATS**
Situations in the marketing environment from which the organisation can benefit if it takes advantage of them	Situations in the marketing environment that the organisation cannot use to its advantage, but instead pose a threat to the organisation's profitability

Source: Adapted from Cant, MC. 2013. *Marketing: An introduction.* 2nd ed. Cape Town: Juta, p 233.

8.4 Implementation

The next step in the strategic marketing management process is implementation. Planning is useless to any organisation without having an implementation strategy in place. Strategy implementation as outlined in Figure 8.2 will now be discussed.

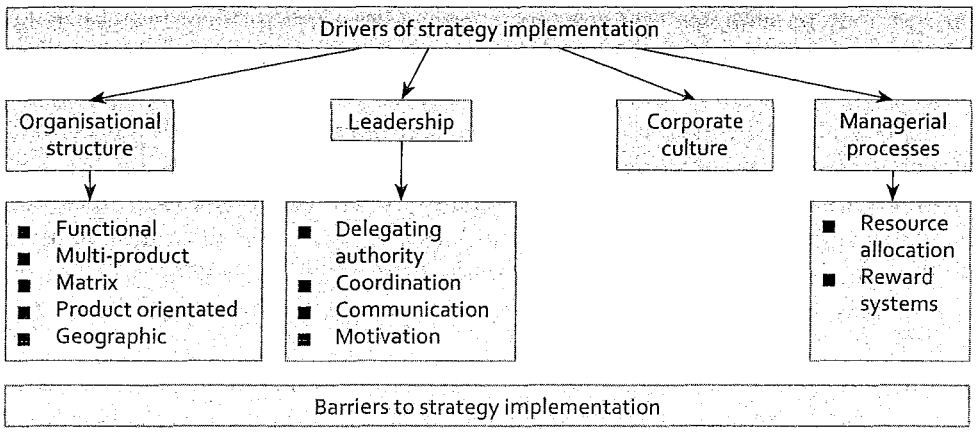


Figure 8.2 Important factors of strategy implementation

Source: Adapted from Cant, MC, Strydom, JW, Jooste, CJ & Du Plessis, PJ. 2006. *Marketing management.* 5th ed. Cape Town: Juta, p 566.

8.4.1 The importance of implementation

Implementation refers to the process of putting marketing strategies into action. Even though marketers often neglect the implementation process, focusing instead on strategic planning, the implementation process can determine the success or failure of a marketing strategy. Marketers should therefore realise the importance of implementation.

Another important factor to remember is that marketing strategies seldom turn out as planned. Organisations usually deal with two kinds of strategy, namely the intended strategy and the realised strategy. The *intended strategy* is what was decided on during the planning phase. The *realised strategy* is the one that actually takes place. The way in which the plan is implemented will result in a difference between the intended and realised strategy. The realised strategy could turn out to be either better or worse than the intended strategy, but it usually does not live up to the expectations of the planners.[7]

The course of implementation strategies through the organisation can be compared to a cascade; goals and decisions flow down an organisational hierarchy much like water flows from pool to pool in a Japanese garden. Strategic plans are developed at the first level in an organisation; they are then communicated to the level below, where they are interpreted and translated into actions, which aim to achieve the broader strategy. Therefore, an organisation's design and management are critical factors in the successful implementation of a strategy.

Marketers do not have one specific, agreed-upon framework that can be used for strategy implementation; this is one of the main reasons for failure during the implementation process. A practical yet theoretically sound model that guides executives, managers and supervisors through the implementation process can prevent failure.

Research on various implementation strategies suggests that there are important similarities among the different strategies. Most strategies consist of similar factors, including strategy formulation, organisational structure, culture, people, communication, control and outcome. This means that when marketers develop an implementation strategy, they should consider multiple factors simultaneously.[8]

8.5 Control

8.5.1 The nature of control

The control phase – also known as the *evaluation phase* – is an absolute necessity for today's marketing managers. Control enables managers to assess mistakes made before or during a project in order to ensure more effective planning and implementation in the future. The term 'control' is closely linked to 'monitoring', but differs in the following way: 'control' is concerned with the periodic process of assessment for the purpose of learning, while 'monitoring' is an ongoing process of data capture and analysis for the purpose of control. The number of stakeholders who want proof of the results of their project investments is increasing, making the control phase all the more important.

The purpose of control and monitoring includes:

- ensuring project performance through informed management decision-making and control
- demonstrating accountability through transparency and accountability
- promoting organisational learning through testing development hypotheses and capturing lessons learned.

Evaluation is a necessary adjunct of control, as actions must first be evaluated to determine whether or not they are on target before they can be controlled. Control is seen as the ongoing process of measurement and the monitoring of the results of marketing strategies and plans. Afterwards, corrective action is taken, ensuring the achievement of marketing objectives and success over competitors. Thus, it is the directing and redirecting of an organisation's actions with the aim of ensuring that objectives are achieved.

In terms of marketing, control has two dimensions: a corporate or strategic business unit (SBU) dimension, and a product dimension. Control in the corporate or SBU dimension refers to keeping the components of the strategic marketing plan on target and redirecting them when needed. In the product dimension, it refers to product-marketing control or keeping the marketing plan on target.[9]

8.5.2 Steps in the evaluation and control process

It is essential for an organisation to have a systematic basis on which each marketing effort can be evaluated and controlled at corporate and product levels. Figure 8.3 represents a model of marketing evaluation and control.

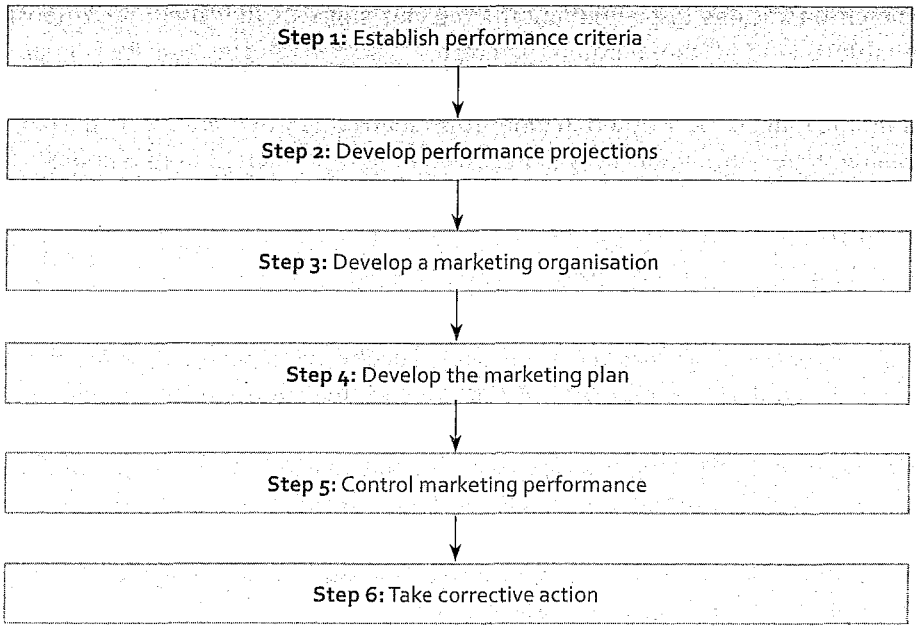


Figure 8.3 A model of marketing evaluation and control

Each step in the model is discussed below.[10]

Step 1: Establish performance criteria

There is a strong link between planning and controlling, as the performance criteria that are set during the planning phase have to be measured during the control phase. These performance criteria could include, for example, the business and marketing objectives. The control phase can be made much easier if performance criteria are set in such a way that they are measurable, ordered according to priority and achievable. Control will be difficult and sometimes impossible if performance criteria are vague, generalised and unrealistic.

Standards can be determined for various marketing activities. They are especially useful with routine activities, for example, determining the weekly number of visits or demonstrations that are expected of sales representatives. Standards can also be set for once-off marketing projects, like the activities regarding a specific advertising campaign.

Performance criteria can be set in quantitative and qualitative terms, depending on the marketing activities.

Step 2: Develop performance projections

After establishing performance criteria, the organisation must develop performance projections for products and business units. This is done in the form of a profit-and-loss statement. A profit-and-loss statement is developed by establishing a budget for a product or business unit, including cost and revenue estimates.

Many organisations today are using zero-based budgeting for this, a variation of an objective-task approach, in which past sales or competitive expenditures are not considered. The organisation decides on a budget at the beginning of each year and estimates the necessary expenditures by considering the actions that are required to meet its profitability goals. Zero-based budgeting provides an objective basis for controlling marketing performance, making it a popular approach. It simplifies the control phase as expenditures are evaluated from a zero starting point.

Other organisations prefer to assess marketing expenditures by comparing the numbers to those of previous years. An organisation would, for example, argue that it increased the advertising budget by 5% compared to the previous year and control advertising results on this basis. The fallacy is that notwithstanding the increase, the budget from the previous year might have been too high or too low to begin with. This problem is overcome by using zero-based budgeting. No matter what the budget is, the only basis for assessing the expenditure value is by considering the profit it produces, with no reference to previous expenditure.

Step 3: Develop a marketing organisation

During this step, the organisation must establish a marketing organisation capable of implementing and controlling marketing strategies. The different marketing organisation structures have been discussed previously.

Step 4: Develop the marketing plan

The development and implementation of a marketing plan have also been discussed previously. Bear in mind that people are involved in the implementation of plans and that it is natural for conflict and resistance to occur. A corporate culture conducive to harmony in the organisation is therefore a critical requirement.

Step 5: Control marketing performance

Control takes place when the actual results are compared to the previously formulated performance criteria. This means that managers need to systematically analyse whether or not the activities that have taken place are in line with the performance criteria identified during the planning phase. Strategic control points are established beforehand and overseen by individuals with the necessary authority to exercise control. The product manager, advertising manager and sales manager are responsible for measuring and noting actual performance against the previously identified performance criteria.

As mentioned before, control can take place before, during and after the actual activity takes place. Even though it might not always be possible, it is ideal to control the implementation of activities before or at least during the process, in order to identify deviations from the plan in time to be able to make the necessary changes. Time and money can be saved this way. If this is not possible, marketing control will have to take place after the event has occurred and becomes a matter of recovery

management. Recovery management aims to establish a basis that can be used in future planning and to prevent a repetition of a deviation in the future, known as preventive management. It may be difficult to exercise effective control, especially in large organisations. To solve this issue, strategic control points can be delegated to lower-level employees, while top management is informed only in cases where there are exceptional differences and deviations from the preset performance standards. This process is known as control by exception. Should deviations occur, the responsible parties should first determine the nature and extent as well as reasons for the deviations before taking corrective action.

Step 6: Take corrective action

In many cases, actual performance will be below the preset performance criteria and steps must be taken to improve performance. For example, if sales during the first quarter of the year are lower than the norm set in the sales budget, corrective measures can be taken in the form of an intensive marketing campaign. Corrective action can be taken in three possible areas: territory decisions, product decisions and customer and order-size decisions. For example, if the relative profitability of each product or group of products is known, informed decisions can be taken. As in the case of unprofitable models, sizes or colours can be eliminated; salespeople's compensation plans may be altered to encourage the sale of high-margin items; or channels of distribution may be changed.

While there are specific actions that can be taken in each area, the following three broad guidelines can be followed. When the discrepancies between actual and set performance are significant, a decision must be made on whether the deviations warrant correction.

These deviations can be dealt with in various ways:

1. take corrective action that eliminates the cause of the deviation
2. change performance standards if it becomes clear that the standards set in the marketing plan are no longer realistic
3. keep the same goals and allow the deviation from the plan to continue.

In cases where the deviation from the preset plan is caused by uncontrollable environmental factors, standards have to be lowered if they were set too high to begin with. It is also possible that actual performance can exceed the preset standards in more favourable circumstances. Standards will also have to be adjusted in this case. For example, if actual sales in the first quarter exceed the norm set in the budget, an adjustment will avoid possible stock problems in the second quarter.

The information on past deviations, the reasons for those deviations and the nature of corrective action can be used in future periods during the forecasting process in order to set more accurate standards and minimise deviations.

Summary

Planning, implementation and control, known as the components of strategic marketing, direct the marketing task in the organisation. Marketing management plans market-driven marketing and market strategies while considering internal strengths and weaknesses, as well as external opportunities and threats. It considers consumer needs, demands and preferences as well as the competitive position of the organisation. The main objective of all organisations is the maximisation of profits. This can be realised only through aggressive marketing efforts, the creation of an effective organisational structure, the judicious application of resources and the establishment of a control system through which performance standards are set and activities controlled.

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