Cambridge

AS - Level

Business studies

CODE: (9609)

Unit 03- Chapter 16

What is marketing?

Introduction

Most people think of **marketing** as just being about advertising and selling of products. This is a very limited view – marketing embraces much more than just telling people about a product and selling it to them.

Marketing is the process of planning and undertaking the conception, pricing, promotion and distribution of goods and services to create and maintain relationships that will satisfy individual and organisational objectives. It seems from this defi nition that marketing involves a number of related management functions. Th ese include:

■ market research ■ product design ■ pricing ■ advertising
■ distribution ■ customer service ■ packaging.

Related concepts

Markets

This term is vital to achieve an understanding of marketing. It has two rather diff erent meanings. Perhaps the most obvious meaning is the 'place or mechanism where buyers and sellers meet to engage in exchange'. Th e weekly fruit and vegetable market would be one example of this. Shopping centres and auctions are other examples of markets.

Human needs and wants

A human need is a basic requirement that an individual wishes to satisfy. Physical needs include food, clothing and shelter. Individual needs include desires for knowledge, recognition, affection, self-esteem and self-expression, e.g. through the clothes people wear.

Wants are often described as being goods and services that fulfil the needs of individual consumers. Many marketing managers believe that it is their aim to convert human needs into wants by very persuasive product imagery through advertising.

Value and satisfaction

Do cheap goods always off er good value? Do expensive goods always provide consumer satisfaction? Clearly, the answer to both of these questions is 'no'. Value is not the same as cheapness.

Customer satisfaction is not always obtained with very expensive products – a good might be so expensive that, although it performs its function well, the consumer believes that 'good value' has not been received.

Marketing objectives and corporate objectives

The long-term objectives of the company will have a significant impact on both the **marketing objectives** and **marketing strategy** adopted. A business with clear short term profit targets will focus on maximising sales at the highest prices possible.

Examples of marketing objectives include an increase in:

■ market share – perhaps to gain market leadership

■ total sales (value or volume – or both)
■ average number of items purchased per customer visit

■ frequency that a loyal customer shops

■ percentage of customers who are returning customers

■ number of new customers

■ customer satisfaction

■ brand identity.

To be effective, marketing objectives should:

■ fit in with the overall aims and mission of the business – the marketing objectives should reflect the aims of the whole organisation and they should attempt to aid the achievement of these

■ be determined by senior management – the key marketing objectives will determine the markets and products a business trades in for years to come and these issues must be dealt with by managers at a very senior level in the company

■ be realistic, motivating, achievable, measurable and clearly communicated to all departments in the organisation. Why are marketing objectives important?

■ They provide a sense of direction for the marketing department.

■ Progress can be monitored against these targets.

■ They can be broken down into regional and product sales targets to allow for management by objectives.

■ They form the basis of marketing strategy. These marketing objectives will have a crucial impact on the marketing strategies adopted, as without a clear vision of what the business hopes to achieve for its products, it will be pointless discussing how it should market them.

Coordination of marketing with other departments

This is vital. Th e links between the marketing department and other functional departments – such as fi nance, operations (production) and human resources are an essential component of a successful marketing strategy.

Here are some examples of these links:

Marketing → fi nance

■ The finance department will use the sales forecasts of the marketing department to help construct cash-flow forecasts and operational budgets.

■ The finance department will have to ensure that the necessary capital is available to pay for the agreed marketing budget, for example for promotion expenditure.

Marketing → human resources

■ The sales forecasts will be used by human resources to help devise a workforce plan for all of the departments likely to be aff ected by a new marketing strategy, for example additional staff may be needed in sales and production.

■ Human resources will also have to ensure that the recruitment and selection of appropriately qualified and experienced staff are undertaken to make sure there are suff icient workers to produce and sell the increase in sales planned for by the marketing department.

Marketing → operations

■ Market research data will play a key role in new product development – as explained above.

■ The sales forecasts will be used by the operations department to plan for the capacity needed, the purchase of the machines that will be used and the stocks of raw materials required for the new output level.

Market orientation and product orientation

This is an important distinction. Most businesses would today describe themselves as being '**market oriented' or 'market led'.**

The benefits of market orientation are:

■ The chances of newly developed products failing in the market are much reduced – but not eliminated – if effective market research has been undertaken first. With the huge cost of developing new products, such as cars or computers, this is a convincing argument for most businesses to use the market-oriented approach.

KEY TERM

Market orientation: an outward-looking approach basing product decisions on consumer demand, as established by market research.

KEY TERM

Product orientation: an inward-looking approach that focuses on making products that can be made – or have been made for a long time – and then trying to sell them.

■ If consumer needs are being met with appropriate products, then they are likely to survive longer and make higher profits than those that are being sold following a product-led approach.

■ Constant feedback from consumers – market research never actually ends – will allow the product and how it is marketed to be adapted to changing tastes before it is too late and before competitors 'get there first'. Compare the market-orientation concept with that of **product orientation** (or product-led businesses)

However, product led marketing still exists to an extent and the following instances help to explain why:
■ Product-oriented businesses invent and develop products in the belief that they will find consumers to purchase them. The development of the WAP mobile phone was driven more by technical innovation than by consumer needs – consumers were not aware that such versatile products were likely to be made available until the basic concept had been invented and developed into an innovative new product.

■ Product-oriented businesses concentrate their eff orts on efficiently producing high-quality goods. They believe quality will be valued above market fashion. Such quality driven firms do still exist, especially in product areas where quality or safety is of great importance, such as bottled water plants or the manufacture of crash helmets

Evaluation of these two approaches

The trend then is towards market orientation, but there are limitations. In contrast, researching and developing an innovative product can be successful, even if there has been no formal market research – consider Dyson's hugely profi table cyclone vacuum cleaner, for example. A third way – between market and product orientation – is called **asset-led marketing.**

Societal marketing

This approach to marketing adopts a wider perspective than the previous forms of orientation. It focuses on other stakeholders as well as the business and its consumers. Managers who believe in '**societal marketing'** claim the latter concept of marketing is the correct one to adopt.

> **KEY TERM**
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> **Societal marketing:** this approach considers not only the demands of consumers but also the effects on all members of the public (society) involved in some way when firms meet these demands.

The societal-marketing concept has the following implications:

■ It is an attempt to balance three concerns: company profits, customer wants and society's interests.

■ There may be a diff erence between short-term consumer wants (low prices) and long-term consumer and social welfare (protecting the environment or paying workers reasonable wages). Societal marketing considers long-term welfare.

■ Businesses should still aim to identify consumer needs and wants and to satisfy these more eff iciently than competitors do – but in a way that enhances consumers' and society's welfare.

■ Using this concept could give a business a significant competitive advantage. Many consumers prefer to purchase products from businesses that are seen to be socially responsible.

■ A societal-marketing strategy, if successful, could lead to the firm being able to charge higher prices for its products as benefiting society becomes a 'unique selling point'

Demand, supply and price relationship

Meeting consumer wants profitably – the central aim of marketing – means that marketing managers need to know how free markets work to determine prices. In free markets the equilibrium price is determined when **demand** equals **supply**. 'Demand and supply analysis' helps us understand this relationship.

> **KEY TERMS**
>
> **Demand:** the quantity of a product that consumers are willing and able to buy at a given price in a time period.
>
> **Supply:** the quantity of a product that firms are prepared to supply at a given price in a time period.

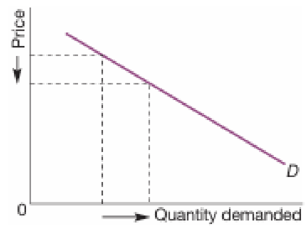

Figure 16.1 A normal relationship between price and demand for a product

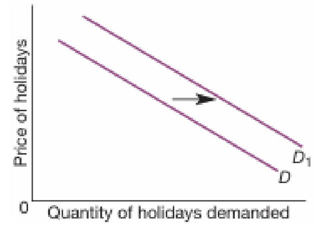

Figure 16.2 New demand curve, D_1, caused by changes in the determinants of demand

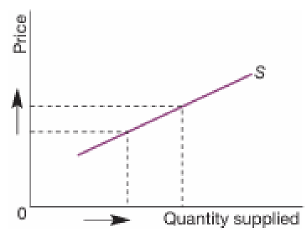

Figure 16.3 Supply increases when the price rises

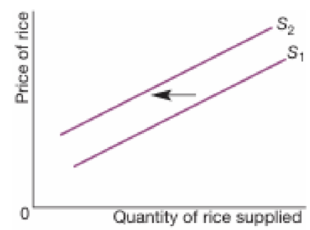

Figure 16.4 Supply of rice falls after a bad harvest

Demand

1 This varies with price – for all normal goods the quantity bought rises with a price fall and the quantity bought falls with a price increase. This is shown by a demand curve (see Figure 16.1).

2 Apart from price changes – which cause a new position on the demand curve as shown in Figure 16.1 – the level of demand for a product can vary due to a change in any of these determinants of demand:

■ changes in consumers' incomes

■ changes in the prices of substitute goods and complementary goods

■ changes in population size and structure

■ fashion and taste changes

■ advertising and promotion spending.

3 All of these changes above lead to a new demand curve (see Figure 16.2). So, for example, the demand for holidays will increase to D1 aft er an increase in consumer incomes.

Supply

1 This varies with price – firms will be more willing to supply a product if the price rises and will supply less as the price falls. This is shown in Figure 16.3.

2 Apart from changes in price – which cause a new position on the supply curve as shown above – the level of supply of a product can vary due to a change in any of these determinants of supply:
■ costs of production, e.g. change in labour or raw material costs

■ taxes imposed on the suppliers by government, which raise their costs

■ subsidies paid by government to suppliers, which reduce their costs

■ weather conditions and other natural factors

■ advances in technology to make cost of production lower.

3 All of these changes above lead to a new supply curve (see Figure 16.4). So, for example, the supply of rice will be reduced aft er very poor weather in the major growing areas. This leads to S_2.

Determining the equilibrium price

When demand and supply are combined, the equilibrium price will be determined. This will be at the point where demand = supply. This is shown in Figure 16.5

Figure 16.5 Equilibrium price is at the level that equates demand with supply

Features of markets: location, size, growth, share and competitors

Successful marketing requires fi rms to understand which market they are operating in, who their consumers are and where they are located, whether the market is growing or shrinking, what the business's share of that market is and the major competitors.

KEY TERM

Equilibrium price: the market price that equates supply and demand for a product.

Market location

Local businesses, such as laundries, florist shops, hairdressers, and bicycle-repair shops, sell products in their local market. Regional businesses expand into larger areas to increase sales. Few businesses expand to national markets, such as banking firms, supermarket chains, and large clothing retailers. International markets offer the greatest sales potential, as multinationals exploit these markets. Expanding into foreign markets requires strategic changes in marketing to respond to differences in tastes, cultures, and laws.

KEY TERM

Market size: the total level of sales of all producers within a market.

Market size

This can be measured in two ways: volume of sales (units sold) or value of goods sold (revenue).

The size of a market is important for three reasons:

1. A marketing manager can assess whether a market is worth entering or not.
2. Firms can calculate their own market share.
3. Growth or decline of the market can be identified.

Market growth

Market growth and decline can be influenced by factors such as economic growth, consumer income changes, new market developments, consumer tastes, and technological advancements. The rate of growth also depends on market saturation. For example, sales of washing machines in Western countries are not increasing annually, while laptop computer sales are still rising in India and China.

KEY TERM

Market share: the percentage of sales in the total market sold by one business. This is calculated by the following formula:

$$\frac{\text{firm's sales in time period}}{\text{total market sales in time period}} \times 100$$

Market share

'Firm's sales' and 'total market sales' can be measured in either units (volume) or sales value in this market. **Market share**, and increases in it, is often the most effective way to measure the relative success of one business's marketing strategy against that of its competitors.

The benefits of a high market share – especially of being the brand leader – are:

■ Sales are higher than those of any competing business in the same market and this could lead to higher profits too.

■ Retailers will be keen to stock and promote the best-selling brands. They may be given the most prominent position in shops.

■ As shops are keen to stock the product, it might be sold to them with a lower discount rate – say 10% instead of 15%, which has to be offered by the smaller, competing brands. The combination of this factor and the higher sales level should lead to higher profitability for the producer of the leading brand.

KEY TERM

Market share: the percentage of sales in the total market sold by one business. This is calculated by the following formula:

$$\frac{\text{firm's sales in time period}}{\text{total market sales in time period}} \times 100$$

■ The fact that an item or brand is the 'market leader' can be used in advertising and other promotional material. Consumers are often keen to buy 'the most popular' brands.

market growth can be measured in two ways:

■ By volume – the market has risen from 24 to 26 million units, an increase of 8.33%.

■ By value – the revenue has risen from $768 million to $936 million, an increase of 21.88%

Competitors

Businesses operate in a competitive environment. For example, mobile (cell) phone providers are in fierce competition with each other to provide the best possible value for money phones, and to off er the most suitable range of phone services for their customer

Most businesses are faced by **direct competitors**. Stall holders in a large open market selling materials or tourist gifts will face competition from many similar stalls. However, most products are differentiated in some way. In addition to direct competition, businesses also face **indirect competition**.

Important marketing concepts

1 Creating/adding value

In Chapter 1, the important concept of creating or adding value was explained. Literally, 'added value' means the difference between the selling price of a product and the cost of the materials and components bought in to make it.

Here are some examples of marketing strategies that are likely to add value:

■ Create an exclusive and luxurious retail environment to make consumers feel that they are being treated as important. This will make them feel more prepared to pay higher prices and may have the psychological effect of convincing them that the product is of higher quality too.

■ Use high-quality packaging to differentiate the product from other brands – again, widely used in cosmetics and confectionery (luxury boxes of chocolates).

■ Promote and brand the product so that it becomes a 'must-have' brand name that consumers will pay a premium price for, even if they may realise that the actual ingredients are little different from those used for other brands.

■ Create a '**unique selling point' (USP)** that clearly differentiates a product from that of other manufacturers. **Product differentiation** can lend to sales success. Apple's iPad mini is a good example.

KEY TERMS

USP – unique selling point (or proposition): the special feature of a product that differentiates it from competitors' products.

Product differentiation: making a product distinctive so that it stands out from competitors' products in consumers' perception.

2 Mass marketing and niche marketing

Th is market segment in **niche marketing** can be a very small section of the whole market and may be one that has not yet been identified and filled by competitors. Examples of firms employing niche marketing include Versace designs and Clinique perfumes.

KEY TERMS

Niche marketing: identifying and exploiting a small segment of a larger market by developing products to suit it.

Mass marketing: selling the same products to the whole market with no attempt to target groups within it.

Mass marketing is the exact opposite. 'One product for the whole market' is now becoming quite an unusual concept for fi rms to adopt – yet is still seen in, for example, the toothpaste and fi zzy drinks markets. Hoover, the vacuum-cleaner manufacturer, used to sell a very limited range of products as most consumers wanted just a simple and effective cleaner.

Advantages of niche marketing	Advantages of mass marketing
■ Small firms may be able to survive and thrive in markets that are dominated by larger firms. ■ If the market is currently unexploited by competitors, then filling a niche can offer the chance to sell at high prices and high profit margins – until the competitors react by entering too. Consumers will often pay more for an exclusive product. ■ Niche market products can also be used by large firms to create status and image – their mass-market products may lack these qualities.	**Note:** these can also be viewed as the disadvantages of niche marketing. ■ Small market niches do not allow economies of scale to be achieved. Therefore, mass-market businesses are likely to enjoy substantially lower average costs of production. ■ Mass-market strategies run fewer risks than niche strategies. As niche markets contain relatively small numbers of consumers, any change in consumer buying habits could lead to a rapid decline in sales. This is a particular problem for small firms operating in only one niche market with one product.

Table 16.1 Advantages of niche marketing and of mass marketing

3 Market segmentation

This is a very widely practised marketing strategy. It is customer-focused so it is consistent with the concept of market orientation discussed above.

KEY TERMS

Market segment: a sub-group of a whole market in which consumers have similar characteristics.

Market segmentation: identifying different segments within a market and targeting different products or services to them.

Examples of market segmentation are:

■ Computer manufacturers, such as Hewlett-Packard, produce PCs for office and home use, including games, but also make laptop models for business people who travel.

KEY TERM

Consumer profile: a quantified picture of consumers of a firm's products, showing proportions of age groups, income levels, location, gender and social class.

■ Coca-Cola not only makes the standard cola drink but also Diet Coke for weight-conscious consumers, and flavoured drinks for consumers with particular tastes.

■ Renault, the car maker, produces several versions of its Mégane model, such as a coupé, saloon, convertible and 'people carrier' – all appealing to different groups of consumers.

Market segmentation – identifying different consumer groups

Successful segmentation requires a business to have a very clear picture of the consumers in the target market it is aiming to sell in. A 'picture' of the typical consumer needs to be built up to help with market research sampling, designing the product, pricing and promoting the product. This is called the **consumer profile.**

1 Geographic differences

Consumer tastes vary across different geographic areas, making it appropriate to offer different products and market them in location-specific ways. This approach, also known as pan-Asian or pan-European marketing, may not be effective if the differences are significant due to cultural differences or adjusting the promotion methods, such as competitions or lottery-type promotions.

2 Demographic diff erences

Demographic factors like age, gender, family size, and ethnic background are commonly used for market segmentation in house-construction firms. These factors help determine the target market for new apartments, such as retirement flats, small studio flats, or interconnecting doors. Income and social class are also crucial factors, as occupation determines social class and income level. Price and promotion strategies should be tailored to each segment.

The main socio-economic groups used in the UK are:

A – upper middle class – higher managerial, administrative and professional, for example directors of big companies and successful lawyers

B – middle class – managerial staff, including professions such as teachers

C1 – lower middle class – supervisory, clerical or junior managerial

C2 – skilled manual workers

D – working class – semi- and unskilled manual workers

E – casual, part-time workers and unemployed

3 Psychographic factors

People's lifestyles, personalities, values, and attitudes can influence their purchasing decisions. Social class can also influence these attitudes, with middle-class individuals having different attitudes towards private education. Ethical business practices and organic food interest are strong among consumers, influencing societal marketing. Lifestyle refers to activities, interests, and opinions, while personality characteristics influence consumption decisions. Companies often appeal to consumers who share certain personality characteristics, such as aggressive or impulsive individuals, in their advertising. This highlights the importance of understanding and addressing these differences in consumer behavior.

Advantages	Limitations
■ Businesses can define their target market precisely and design and produce goods that are specifically aimed at these groups, leading to increased sales. ■ It enables identification of gaps in the market – groups of consumers that are not currently being targeted – and these might then be successfully exploited. ■ Differentiated marketing strategies can be focused on target market groups. This avoids wasting money on trying to sell products to the whole market – some consumer groups will have no intention of buying the product. ■ Small firms unable to compete in the whole market are able to specialise in one or two market segments. ■ Price discrimination can be used to increase revenue and profits – see Chapter 18.	■ Research and development and production costs might be high as a result of marketing several different product variations. ■ Promotional costs might be high as different advertisements and promotions might be needed for different segments – marketing economies of scale may not be fully exploited. ■ Production and stock-holding costs might be higher than for the option of just producing and stocking one undifferentiated product. ■ By focusing on one or two limited market segments there is a danger that excessive specialisation could lead to problems if consumers in those segments change their purchasing habits significantly. ■ Extensive market research is needed.

Table 16.2 Advantages and limitations of market segmentation

Revision questions

Q1.9609/12/O/N/17/Q4 (a)
Define the term 'product orientation'. [2]

Q2.9609/11/O/N/18/Q2
(a) Define the term 'niche marketing'. [2]
(b) Briefly explain two limitations of niche marketing. [3]

Q3. 9707/11/O/N/10/Q2
(a) Define the term 'niche marketing'. [2]
(b) Briefly explains two possible disadvantages for a company operating in a niche market [3]

Q4. 9707/12/O/N/09/Q2
(a) Define the term 'market segmentation'. [2]
(b) Briefly explains two methods of market segmentation. [3]

Q5. 9707/11/O/N/12/Q2
(a) State two marketing objectives for a business. [2]

(b) Briefly explains two reasons why marketing objectives are limited for a business. [3]

Q6. 9707/12/O/N/12/Q2
(a) Define the term 'demand'. [2]
(b) Briefly explains two factors that might influence the demand for a product. [3]

Q7. 9707/13/O/N/12/Q2
(a) Define the term 'supply'. [2]
(b) Briefly explains two factors that could influence the price of rice. [3]

Q8. 9707/11/M/J/14/Q1
(a) Define the term 'marketing mix'. [2]
(b) Briefly explains the importance to a business of place within the marketing mix. [3]

Q9. 9707/12/M/J/14/Q1
(a) Define the term 'market segmentation'. [2]
(b) Briefly explains two ways a hotel could segment the market for hotel accommodations. [3]

Q10. 9609/13/M/J/16/Q1
(a) Define the term 'market segmentation'. [2]
(b) Briefly explain two reasons why a business might segment the market for its products [3]

Q11. 9707/13/M/J/14/Q1
(a) Define the term 'niche marketing'. [2]
(b) Briefly explain two possible disadvantages of a niche marketing strategy. [3]

Q12. 9609/12/M/J/17/Q4
(a) Define the term 'demand'. [2]
(b) Briefly explains two factors that could influence the demand for restaurant meals. [3]

Q13. 9609/12/F/M/19/Q2
(a) Define the term 'supply'. [2]
(b) Briefly explains two factors which might influence demand for digital camera [3]

Q14. 9609/12/M/J/19/Q1
(a) Define the term 'supply'. [2]
(b) Briefly explains two non-price factors which could increase the demand for products or service. [3]

Q15.9609/11/O/N/2016/Q3
Explain why the distinction between market orientation and product orientation could be important for a business operating on a very competitive market. [5]

Q16.9707/11/M/J/2013/Q5 (a)
Explain why the marketing objectives of a business need to be closely linked to its corporate objectives. [8]

Q17.9707/11/M/J/2012/Q7 (a)
Explain and analyses the difference between 'product orientation' and 'customer orientation'. [8]

Q18.9707/12/M/J/2014/Q7 (b)
Discuss how the action of competitors could influence the operations management decisions of a car manufacturer. [12]

Q19.9707/11/M/J/2010/Q7
(a) Explain the importance of the marketing function to a service business. [8]
(b) Discuss the advantages and disadvantages of niche marketing for a business. [12]

Q20.9707/11/M/J/2011/Q5
(a) Explain how a business might segment its market. [8]
(b) Discuss a benefit to a business of segmenting its market. [12]

Q21.9707/13/O/N/2012/Q7
(a) Explain the link between marketing objectives and corporate objectives. [8]
(b) Discuss how and understanding of marketing segmentation could help a luxury hotel achieve its marketing objectives. [12]

Q22.9707/12/O/N/2014/Q5
(a) Explain the interrelationships that exist between marketing and other departments within a business. [8]
(b) Discuss the advantages and disadvantages of niche marketing for a small manufacturer of fashion clothing. [12]

Q23.9707/11/M/J/2015/Q7
(a) Explain the difference between niche marketing and mass marketing. [8]
(b) Discuss the view that marketing is only about the advertising and selling of products and service. [12]

Q24.9609/11/O/N/2017/Q5
(a) Analyses the role of marketing in adding value to a product. [8]
(b) Discuss how the market segmentation could be used to improve the profitability of a hotel. [12]

Q25.9609/13/O/N/2018/Q7
(a) Analyses the importance to a business of having clear marketing objectives. [8]
(b) Discuss the view that marketing objectives will not be achieved without a close relationship between the marketing, finance and operations departments of a business. [12]

Q26.9707/13/O/N/2015/Q6
Discuss the view that business success is more likely if the operations department works closely with the marketing. Finance and human resource management departments. [20]