

Unit 04 – Marketing

4. 33 Market research

Purpose of market research

Market research involves gathering, presenting, and analysing information regarding the marketing and consumption of goods and services.

To identify and understand customer needs.

A business will be more successful if it can supply products that meet customers' needs. This means that a business must gather information to identify these needs. These might include:

- Model design and style
- Colour
- Durability
- Efficiency/performance
- Ease of handling
- Ease of storage.

If possible, businesses need to **anticipate** customer needs. This means they try to predict what customers want in advance and respond to changes very quickly.

To identify gaps in the market

Finding **untapped** markets is not easy but gathering information from people might help.

To reduce risk

Launching a business or product is risky due to larger markets and fierce competition. Effective market research can reduce the risk of failure.

To inform businesses decisions

Market research can enhance decision-making in businesses, particularly in marketing decisions like product pricing. Access to meaningful information, such as market research, can significantly improve the quality of these decisions.

Methods of primary research

Primary field research is a method used by businesses to gather new information from unknown sources, often through questioning or observation of people's behavior.

Questionnaires

A questionnaire is a list of written questions. They are very common in market research and are used to record the views and opinions of respondents. A good questionnaire will have the following features.

- A balance of open and closed questions. Closed questions allow respondents a limited range of responses.
- Contain clear and simple questions. Questions must be clear, avoiding the use of jargon, poor grammar, and bad spelling.
- Not contain leading questions. Leading questions are those that 'suggest' a certain answer. They should be avoided because otherwise the results will be biased.
- Be short. If questionnaires are too long people may be reluctant to answer them or may stop part way through.

Questionnaires can be used in different situations.

- Postal surveys: Questionnaires are sent out to people by letter, and they are asked to complete them in their own time. They may be more convenient for people, but most questionnaires are never returned. This means that resources are wasted.
- Telephone interviews: The main advantage of interviewing people over the telephone is that it is cheaper. A wide geographical area can also be covered.
- Personal interviews: These are often carried out in the street or on the doorstep, and the interviewer fills in the answers.
- Online surveys: As access to computers increases around the world, so does the use of online surveys.

Focus groups or consumer panels.

These groups, led by market researchers, are representative of the entire population and can provide detailed responses.

Observation

Market researchers observe customer behavior in retail outlets, recording product and display time without feedback. This method may leave unanswered questions and does not prompt customers to explain reasons.

Test marketing.

This involves selling a new product in a restricted geographical area to test it and sales levels before a national launch. After a set period, feedback is gathered from customers.

Methods of secondary research

Businesses use **secondary or desk research** to collect information that already exists. It has been collected by someone else and may be available for other users.

Qualitative and quantitative data

Qualitative data, which includes attitudes, beliefs, and intentions of consumers, is a valuable tool for market researchers. It can be recorded in words, videos, focus groups, interviews, or social media.

Qualitative data, such as sales figures and market share, is often collected through surveys and government publications, while quantitative data, such as sales figures, is collected through numerical methods and is easier to process and interpret.

Role of social media in collecting market research data

Social media is increasingly being utilized by businesses for marketing purposes, providing a cost-effective method to gather information about customers, market trends, and brand appearance.

Importance of the reliability of market research data

Market research is crucial for reducing product failure risks, but it's essential to ensure data reliability. Accurate data can lead to unsound decisions. To avoid bias, businesses use a sample of people, representing all market views.

Broad reach	It can reach millions of people all around the world.
Ability to target	It allows specific groups of people to be targeted.
Free or low-cost	It may be free for business and paid options are usually cheap.
Personal	It allows communication on a personal basis with individual customers and groups.
Fast	Information can be collected very quickly from large numbers of people.
Easy	High-level IT skills and complex equipment are not needed.

4.34 The importance of marketing

Markets and marketing

Goods and services are sold in a market. A market exists when buyers and sellers communicate and exchange goods for money. Historically, markets were places where buyers and sellers would meet to exchange goods.

Marketing involves a range of activities that help a business to sell its products. However, marketing is not just about selling, it involves:

- Identifying the needs and wants of consumers
- Designing products that meet these needs
- Understanding the threat from competitors
- Telling customers about products
- Charging the right price
- Persuading customers to buy products
- Making products available in convenient locations.

Marketing can be defined as 'a management process involved in identifying, anticipating and satisfying consumer requirements profitably'.

Satisfying customer needs

Businesses must satisfy customer needs and wants by producing goods and services that customers are willing to buy. Market research is crucial for identifying customer needs and designing products that meet them.

Building customer relationships

Businesses aim to establish customer relationships through effective communication and meeting their needs. They are increasingly using social media to engage with customers, transitioning from traditional broadcasting to conversations.

Keeping customer loyalty

Retaining customers is crucial for businesses to maintain their business, as it costs about 10% less than acquiring new ones.

REWARD CARDS

Some businesses, such as supermarkets, cafés and airlines, reward customers every time they make a purchase. In the case of supermarkets, customers are awarded points according to the amount they spend.

FREE GIFTS

Loyal customers may receive free gifts from a business.

CHARITABLE DONATIONS

One approach to rewarding customer loyalty is for a business to make donations to charity because of a customer purchase. The size of a donation may be linked to the value of the purchase. According to a study by Cone

PARTNERSHIP DEALS

Some businesses set up deals with other businesses to share the cost and benefits of rewarding customer loyalty.

Product and market orientation

Product-orientated businesses prioritize product quality and design, while **market-orientated** firms focus on understanding customer needs.

Market share and market amylase

Businesses are often interested in their **market share**. The product market in Kenya is dominated by three large suppliers: Total, Vivo, and Kenol, accounting for 72% of the market.

$$\text{Market share} = \frac{\text{Total product or business sales}}{\text{Total sales in the whole market}} \times 100$$

A business might be more successful if it carries out **market analysis**.

Niche market and marketing.

Mass markets are where businesses sell the same products to all consumers, exploiting economies of scale to produce large quantities at lower unit costs. This leads to higher sales and profits, but often requires significant marketing. **Niche markets**, on the other hand, are small market segments not served by larger businesses, offering unique opportunities for businesses to differentiate themselves.

Responding to changes in the market

Markets are dynamic, undergoing growth, shrinking, breaking up, or emerging. For instance, the US frozen concentrated orange juice market nearly collapsed due to reduced consumption and preference for freshly squeezed juice.

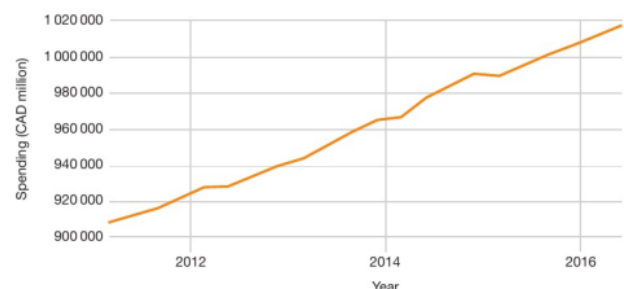
CHANGING CUSTOMER NEEDS

One of the reasons why markets change is because the needs of customers change. These needs change for several reasons.

- Consumers' incomes change so they choose different products.
- Consumers become better educated and more sophisticated
- Consumers are influenced by changes in social habits.
- Fashions change over time.
- New technologies result in different needs.

CHANGING CUSTOMER/CONSUMER SPENDING PATTERNS

Businesses can analyze market spending patterns through research, government statistics, or specialist agencies, focusing on local and global trends, particularly considering Canada's consistent consumer spending increase over the past five years.



INCREASED COMPETITION

Competition is the rivalry that exists between businesses in a market. It would be rare for a business to operate in a market where there was no competition. The behaviour of competitors in the market needs to be monitored very carefully.

COMPETITION PUTS BUSINESSES UNDER SOME PRESSURE

The pressure from competition means that businesses must encourage customers to buy their products in preference to those of rivals. They will use a range of methods to attract customers, such as:

- Lowering prices
- Making their products appear different to those of rivals
- Offering better quality products
- Using more powerful or attractive advertising or promotions offering 'extras' like high quality customer service.

4.35 Market segmentation

What is meant by market segmentation?

Markets can be divided into different sections or market segments. Each segment is made up of consumers that have similar needs. Businesses recognise this and target market segments with their products.

- Some businesses concentrate on producing one product for one segment.
- Some businesses produce a range of different products and target them at several different segments.
- Some businesses aim their products at nearly all consumers.

Methods of market segmentation

LOCATION (GEOGRAPHICAL) SEGMENTATION

Different customer groups are likely to have different needs depending on where they live.

DEMOGRAPHIC SEGMENTATION

It is common for businesses to divide markets according to the age, gender, income, social class, ethnic origin, or religion of the population.

- Age: Infants, teenagers, young adults and the over-65s are all likely to have different needs because of their age. Quite a lot of products are targeted to different consumer groups on the grounds of age.
- Gender: Businesses are likely to target male and female consumers with different products.
- Income: Incomes in most countries vary considerably. As a result, businesses target products at certain income groups.
- Social class: Businesses pay a lot of attention to different socio-economic groups. Such groups are usually based on occupations. These can be used by businesses to target products.
- Ethnic origin: Many countries in the world are becoming more cosmopolitan, with populations made up of different ethnic groups. This is important for businesses because different ethnic groups are likely to have different needs owing to their varying cultures.

SOCIAL GRADE	SOCIAL STATUS	HEAD OF HOUSEHOLD OCCUPATION	PERCENTAGE OF UK POPULATION (APPROX.)
A	Upper middle	Higher managerial, administrative or professional – doctors, lawyers and company directors	4
B	Middle class	Intermediate managerial, administrative or professional – teachers, nurses and managers	12
C1	Lower middle class	Supervisory or clerical and junior managerial, administrative or professional – shop assistants clerks and police constables	22
C2	Skilled working class	Skilled manual workers – carpenters, plumbers, cooks and train drivers	33
D	Working class	Semi-skilled and unskilled manual workers – fitters, window cleaners and storekeepers	19
E	The poor	State pensioners or widows, casual or lower grade workers or long-term unemployed	10

LIFESTYLE (OR PSYCHOGRAPHIC) SEGMENTATION

Using geographic and demographic segmentation may have limitations.

Benefits of market segmentation

It is easier for a business to meet the needs of different customer groups if the market is segmented. However, some specific advantages include the following.

- Businesses that produce different products for different market segments can increase revenue. This is because some businesses can charge higher prices to different customer groups.
- Customers may be more loyal to a business that provides products that are designed specifically to them.
- Businesses may avoid wasting promotional resources if they only target their adverts at those people who are really interested in the product.
- Some businesses can market a wider range of goods to different customer groups.

4.36 Product

The marketing mix

A good marketing strategy is one that meets customers' needs. This means that a business must:

- Design and produce high quality products
- Charge a price that is acceptable to consumers
- Let consumers know about products through promotion
- Make products available in the right place at the right time.

This is called the **marketing mix** and is usually referred to as the four Ps.

Product development

Product development is a continuous process for businesses to replace outdated products and gain market competitiveness.

GENERATING IDEAS

Ideas for new products may come from business owners, customers, competitors, staff, and research and development. Ideas might also result from time spent analysing the products of rivals.

ANALYSIS

Once a list of product ideas has been drawn up, there is a need to analyse each one closely. A business must decide whether products are marketable, technically possible, a suitable fit with the current portfolio and legal.

DEVELOPMENT

This might be a lengthy stage and could involve carrying out experiments, using simulations, building models, producing samples and initial testing. Frequent changes and modifications in designs might be a necessary part of this process.

TEST MARKETING

This stage involves testing the product in a small section of the total market. The sample used must be representative of the whole market. Test marketing is used to gather information about what consumers think of the product.

COMMERCIALISATION AND LAUNCH

During this stage, a business puts the 'final touches' to the product. Any problems identified during the test marketing stage can be resolved by making changes or modifications.

Goods and services

Businesses produce various goods and services, including consumer goods like clothes, food, and mobile phones, as well as services like telecommunications, banking, and healthcare.

Packaging

Packaging is crucial for products like perfume, confectionery, and make-up, as it communicates the product's quality and helps consumers recognize it when compared to rivals. Businesses should carefully consider factors when designing packaging.

Product life cycle

Marketing may be more effective if businesses understand the product life cycle. This shows the level of sales at the different stages through which a product passes over time.

DEVELOPMENT

During the development stage sales are zero. This is because the product is being researched, designed and tested. It is not yet on the market.

INTRODUCTION

Businesses often introduce new products with an official launch. There may be a presentation or a party to give a new product good promotion when it is launched.

GROWTH

If a product is successful, sales will start to grow. If the line on the product life cycle is very steep, this shows that sales are growing sharply. The business will now get increased revenue and begin to recover the costs of development.

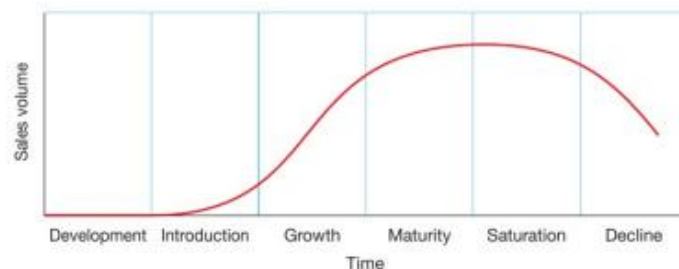
MATURITY AND SATURATION

Eventually, sales will start to level off. Development costs will have been recovered and the product will be making a profit. Cash flow will also be improving. As more businesses enter the market, it will become saturated, and some businesses will be forced out.

DECLINE

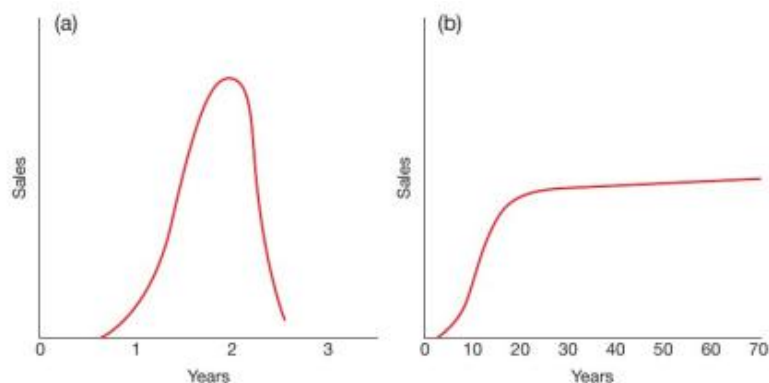
Many products experience decline due to changing consumer tastes, new technology, or market changes. Businesses often replace declining products with new ones, such as Volkswagen's Golf.

► Figure 36.2 Product life cycle



Extension strategies

► Figure 36.3 Product life cycles for (a) 'fads' and (b) long established products, such as Kellogg's Corn Flakes



Extension strategies prolong product life before decline, saving costs and generating more cash. Successful refreshment can recover sales and revenues, potentially leading to growth in businesses.

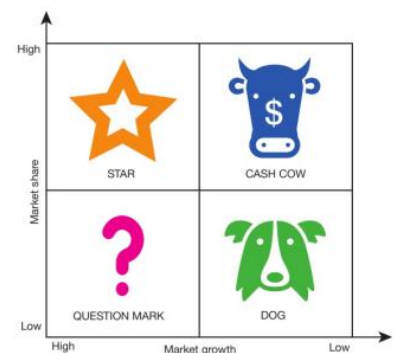
Managing and reviewing the product portfolio

The **Boston matrix** helps analyze these products by categorizing them based on market share and life cycle position. By constantly reviewing and making necessary changes, businesses can effectively manage their **product portfolio**.

The Boston matrix puts products in four categories.

■ Stars are valuable products for a business. They have a high market share but also the potential for growth. They are likely to be profitable.

► Figure 36.4 The Boston matrix



■Cash cows are mature products. They have a high market share, but the market is not likely to grow very much. Cash cows generate a steady flow of income for the business.

■Question marks are products with a low market share, but the market is growing. If the right marketing action is taken these products could do well. They have potential.

■Dogs are at the end of their life cycle. They have a low market share, and the market is not likely to grow any more. Dogs are likely to be replaced with new products.

4.37 Price

Pricing is another element in the marketing mix. It is important to get the price right otherwise people will buy goods and services elsewhere. Some of the important factors are summarised in Figure 37.1.

► Figure 37.1 Factors that affect the price charged by a business



Cost – plus pricing

Businesses must set prices that generate a profit. One method, which ensures that all costs are covered, is **cost-plus or cost-based pricing**. It is simple and involves adding a **mark-up** to total costs.

Penetration pricing

Sometimes a business will introduce a new product and charge a low price for a limited period. This is called **penetration pricing**. There are two main reasons why a business might use this strategy.

1. It is hoped that consumers get into the habit of buying the product when the price is low. Then, when the price starts to rise, people continue to buy the product.
2. Large retailers and other bulk buyers are more likely to show an interest in a product if it is generously priced. This will help a business using penetration pricing to sell larger quantities of the new product and get established in the market.

Competition – based pricing

Some businesses take a close look at what their rivals are charging when setting their prices. This is called **competition-based pricing** and is likely to be used by businesses operating in very competitive markets

In competitive markets where prices are all very similar, businesses are more likely to engage in non-price competition. This might involve special promotions or strategies designed to **differentiate** the product.

Finally, a business might lower its price for a temporary period to drive out competition. This is called **destroyer or predatory pricing**.

Skimming

Some businesses may launch a product into a market charging a high price for a limited time. This is called **skimming or creaming**.

Promotional pricing

Promotional pricing usually involves lowering the price of a product for a short period of time to draw in customers. Prices might be cut for several reasons:

- To get rid of old stock (before the start of a new selling season perhaps)
- To generate some cash quickly to help solve a cash flow problem
- To generate renewed interest in an existing product
- To attempt to win a larger share of the market by encouraging brand switching.

There are several different approaches to promotional pricing. Some examples are outlined below.

DISCOUNTS AND SALES

Businesses often cut prices for a short period. They have sales where goods are sold below the standard price. Some of these sales are seasonal.

PSYCHOLOGICAL PRICING

One common pricing strategy is to set the price slightly below a round figure—charging £99.99 instead of £100. This is called psychological pricing.

LOSS LEADERS

Some products are sold at a price lower than cost. These are called a loss leader and are popular with supermarkets. The objective of this strategy is to draw customers into a store where they will buy the loss leader.

4.37 Place

What is place?

Place is one of the 4Ps in the marketing mix. It refers to the location where people can buy products. If businesses cannot get products in the right place at the right time, they are not likely to be successful.

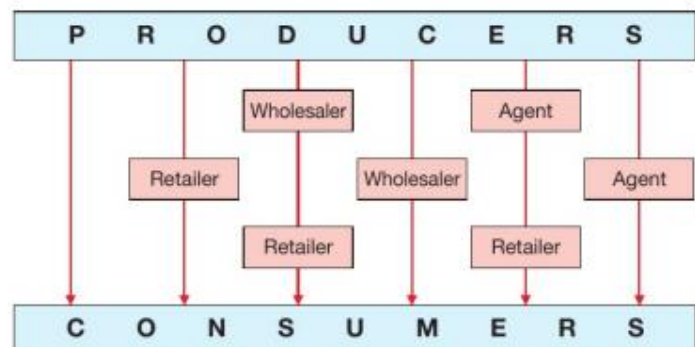
Distribution channels

The route taken by a product from the producer to the customer is called a **distribution channel**.

One approach is to sell goods directly to consumers, but others involve using an **intermediary**, such as retailers and **wholesalers**.

Retailing

Figure 38.1 shows that most distribution channels use **retailers**. Retailers provide manufacturers and other sellers with some key services.



■ They buy large quantities from manufacturers and wholesalers and sell small quantities to customers. This is called **bulk breaking**.

■ They sell in locations that are convenient to consumers.

■ They may add value to products by providing other services. These might include help with packing, delivery, repair services, information about products, guarantees and gift wrapping.

INDEPENDENTS

These tend to be relatively small outlets, although there are exceptions.

SUPERMARKETS

Supermarkets are large stores selling up to 20,000 product lines, including groceries, fresh food, greetings cards, clothes, electrical goods, books, and household goods, often located on outskirts of towns or cities, offering free parking.

DEPARTMENT STORES

These are large stores split into distinct selling departments, such as menswear, nightwear, cosmetics, food, gifts and children's clothing. They usually aim to provide good quality products with high levels of customer service.

MULTIPLES OR CHAIN STORES

One approach to retailing is to develop a chain of stores. This is where one owner opens multiple stores selling the same range of goods in many different locations. Stores will usually have a standardised:

- Product range
- Pricing strategy
- Store fronts
- Store layout
- Staff uniform (if appropriate)
- Staff training, wages and conditions of work.

SUPERSTORES OR HYPERMARKETS

Hypermarkets are large, outskirt-located stores selling a wide range of goods under one roof, offering a cheaper, broader product range compared to supermarkets, but lacking essential services and a more attractive display.

KIOSKS AND STREET VENDORS

These are very small outlets selling a limited range of goods. They may be found in airports at bus and train stations, in streets and the cinema.

MARKET TRADERS

Market traders are small-time businesses selling goods from stalls, often with low overheads and lower prices. They may relocate or sell from a permanent location in markets like souks.

ONLINE RETAILERS

Businesses, such as Amazon, that buy goods from manufacturers and sell them online to customers. These are discussed in more detail below.

E tailing (E – commerce)

The most important new trend in distribution in recent years is probably the development of online distribution. It is often called e-commerce or e-tailing because it involves the use of electronic systems to sell goods and services. There are two main types.

BUSINESS TO CONSUMERS

Business to consumers (B2C) is the selling of goods and services by businesses to consumers. Most e-tailing involves ordering goods online and taking delivery at home..

BUSINESS TO BUSINESS

Business to business (B2B) involves businesses selling to other businesses online. Businesses can also use specialist software to purchase resources. The software helps to find the cheapest supplier and carries out all the paperwork.

The benefits to consumers and businesses of online distribution are summarised in the two boxes opposite.

Despite the advantages to both consumers and businesses of online distribution, there are some disadvantages.

■ Businesses will face increasing competition since selling online is a relatively cheap method of distribution and can be organised from any location in the world. Consequently, businesses will face more competition from overseas.

■ There is a lack of human contact, which might not suit some customers. There is also a heavy dependence on delivery services where e-tailers often lack control on the quality of delivery.

■ There may be technical problems online.

■ There is a security risk as computer hackers might gain access to sensitive information.

■ Consumers cannot touch or look at goods before purchase and people may have problems taking delivery of goods if they are out.

■ Customers may experience poor aftersales service.

■ Customers without Internet access and credit cards may be excluded.

■ Fake traders may be more difficult to identify online.

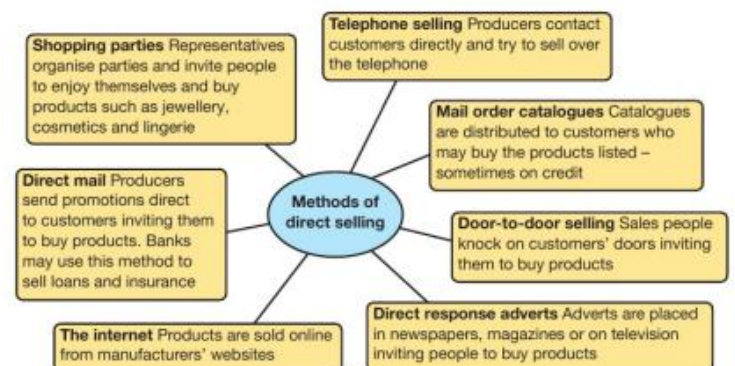
Other distribution methods

DIRECT SELLING

Some producers market their products directly to consumers. Direct selling can take several forms, as summarised in Figure 38.2.

WHOLESALE

Some producers use wholesalers to help distribute goods. Wholesalers usually buy from manufacturers and sell to retailers. Some wholesalers are called **cash and carry stores**.



AGENTS OR BROKERS

The role of an agent or broker is to link buyers and sellers. They are used in a variety of markets.

Choosing appropriate distribution channels

THE NATURE OF THE PRODUCT

Different types of products may require different distribution channels.

COST

Businesses prefer direct and cheapest distribution channels, as intermediaries take a share of profits. Large supermarkets buy directly from manufacturers for lower prices, while independents buy from wholesalers, charging higher prices. Many producers now sell directly to consumers through websites.

THE MARKET

Producers selling to mass markets are likely to use intermediaries. In contrast, businesses targeting smaller markets are more likely to target customers directly.

CONTROL

For some producers, it is important to have complete control over distribution.

