Kampala International University
Uganda

BACHELOR OF COMMERCE

MODULE

PRINCIPLES OF MARKETING

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INTRODUCTION

Unit 1

Marketing Management

1.1 Introduction

What Is Marketing?

NB: There are various definitions by various schools of thought: i.e.

- Peter Drucker defined marketing as "Activities/processes that should result in a customer who is ready to buy"
- It's the task of creating, promoting and delivering commodities to consumers and businesses. This task is of various forms that can be classified as:
  - Entrepreneurial marketing i.e. owners' initiative
  - Formulated marketing i.e. research, sales dept, ads, etc
  - Entrepreneurial marketing i. e customizing gds to suit market, etc
- A societal process by which individuals and groups obtain what they need and want thru' creating, offering & freely exchanging products and services of value with others."
- "The identification and meeting of human & social needs"
- "The practice of meeting needs profitably"
- "It can be understood and defined by the tasks involved in marketing practice which are basically aimed at ***stimulating and managing demand.*** I.e. Marketers seek to influence the level, timing, and composition of demand that meets their firm's goals.

- The American Marketing Association (AMA) defined marketing as ***"The process of planning anti executing conception, pricing, promotion, and distribution of ideas, goods and services to• create exchanges that satisfy individual & organizational objectives".*** This is among the most recent & acceptable definitions although it includes non-biz exchange processes.

1.2 The Marketing Management Process

This can be defined as "The Analysis, Planning, Implementation, and Control of programs designed to create desired exchanges within target markets for the purpose of achieving Organizational goals/objectives.. It bases on designing the Firm's offerings in terms of the target market's needs & desires and on using effective pricing, communication, and distribution (Market mix) to inform, motivate & service the market.

It is a conscious effort to achieve desired exchange outcomes within target markets.

1.3 The Scope of Marketing

This refers to the various categories of market offers that Marketers deal with. NB: each category calls for a special marketing mix/strategy.

Goods: Physical, tangible items e.g. eggs, cars, pins, planes, fish etc. These constitute the biggest %age of market offers-with least & reducing profit margins.

Services: Basically, "Intangible" offers e.g. offers by hotels, airlines, rentals, barbers, doctors, consultants. Etc. NB: A major focus for advancing economies e.g. LISA is 70-30% into services/goods. NB: Services can be purely intangible (psychiatrist), semi-

Events: i.e. promotion of time-based events e.g. Olympics, Trade-Shows, Sports events, artistic events etc

Properties: Intangible rights of ownership of real property (Real estates) or financial property K (Stocks and Bonds) often marketed by Agents.

Information: i.e. offers by colleges, Universities, Internet, Books, Magazines, newspapers, CDs, etc. NB. Once consumed, customer may never buy again. Most lucrative item today

Places: i.e. Cities, regions, Nations, etc competing for tourists, investors, events, Occasions, sports, etc

Organizations: These strive to build a strong & favorable image in the minds of their target publics. Public relations agencies focus on such marketing.

Persons: i.e. Celebrity marketing. E.g. show-biz celebrities CEOs, professionals such as layers, doctors, etc hire celebrity marketers. Management Consultant Tom Peters, a master at self-branding, advises each one to become a "BRAND"

Ideas: Each market offering includes a basic idea at its core. E.g. Charley Revson of Revlon said: In factories we make cosmetics, in shops we sell hope. Other forms of ideas marketed include CLASS, STYLE,

Status, Image, Impressions

NB: therefore this calls for Marketers should always search & identify the core need they're trying to satisfy and what is imbedded in their market offers. The basic skill of a marketer is to stimulate demand for his offering.

1.4 Core Marketing Concepts

Definition of the following core marketing concepts enhances one's understanding of marketing.

- Market Segment: A distinct group of buyers who prefer/require varying offers & marketing mixes. This is only a portion of the total market with specific characteristics that marketers strive to satisfy. Segmentation may be based on geographical, demographical, psychological, economic, political, or behavioral differences.
- Market Niche: This a fraction/sub-section of a market segment with clearly distinguishable unique characteristics. I.e. special needs.
- Target Market = market Segment = Niche. Target markets are determined by the levels/forms of demand. Save for oxygen & water, no market offering has the same level of demand.
- Market Offering: whatever is developed for and or provided to each chosen target market (Market segment)
- Market Positioning: Intention and Format of presentation/availing a market offering in respect to the target buyer's opinion/central benefit. E.g. Volvos are positioned as cars for safety.
- Industry: Classification of all sellers/providers of a particular offering e.g. hotel industry, car industry textiles, soft drinks, etc
- Market: Traditionally = a physical place for buyers & sellers to exchange gds. Today the term "MARKET" has various connotations and meaning to various categories of people. I.e. To Marketers, it's a collection of buyers. I.e. sellers send gds & info. To the market and receive money & info from the market

To Business People & Lay men, it is a grouping of customers with homogeneous characteristics e.g. Product Market e.g. shoe market, Demographic market e.g. the Elderly/baby/teenagers market, Geographic markets e.g. Africa, & Labor market.

To Modern Economists: It is either a) Resource market (labor, •raw mat, money market), Manufacturers' market c) Intermediary market d) Consumer market e) Government market.

- **Market Place:** A physical location of exchange e.g. supermarkets, stores,
- **Market Space:** Computer digital/ Internet markets. NB as IT advances, there is an increase shift from a market place to a market space.
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- **Market Space:** Computer digital/ Internet markets. NB as IT advances, there is an increasing shift from a market place to a market space.
- **Meta Market**: A concept advanced by Mohan Sawhnen to describe a cluster of complementary products & services that are closely related in the minds of consumers but are spread across a diverse set of industries. This greatly influences manufacturing and packaging of gds today e.g. mobile phones, TVs, cars, etc. This is caused by an increasing demand for convenience in shopping egg. The Automobile metamarket consists of manufacturers, car dealers, insurance firms, internet sites, auto magazines, spare parts dealers, etc
- **Met Amediary:** Any one component of the metamarket.

- **Marketer VS Prospect**: A marketer is one seeking a response (attention, a purchase, a vote, a donation) from another party, called the Prospect.
- **Needs:** basic human wants e.g. air, shelter, water, clothing, sex etc
- **Wants:** Urges directed to specific objects that might satisfy the basic needs. E.g. we need food but want rice or potatoes.
- DEMANDS: Wants for specific goods backed by an ability to pay. I.e. a want accompanied by willingness and ability to buy. NB marketers DO NOT create needs but only stimulate demand.
- OFFERING: What satisfies a need or want (can be a combination of goods, services, info, experiences, etc).
- **Product**: An output of an entity.
- **Brand:** an offering from a known source
- **Brand Name:** Title for an offering from a specified source e.g. Coca Cola.
- **Negotiation:** An attempt to get to mutually agreeable terms,
- **Transaction:** A trade of values between 2 or more parties that may be monetary or barter in nature.
- **Behavioral Response:** In generic terms, it's what marketers seek to elicit from their clients.
- **Relationship Marketing:** This is the tendency to build long-term mutually satisfying relations with key parties,(customers, suppliers, distributors, bankers, etc) in order to earn and retain long-term preference (loyalty) and biz. I.e. This is done through establishing strong economies of scale, technical & social ties among parties aimed at advantages such as reed transaction costs, time (JIT), and leading to routine biz.
- **Market Network:** a mutually profitable biz r/ship between one firm & its supporting stakeholders (customers, workers, suppliers, retailers,

consultants etc) NB: The beta a marketing network one has the more competitive he is.

- **Marketing Channels**: i.e. a linkage, connection, avenue, or passage between a marketer & the target market. 3 major classifications of marketing channels exist namely:
  - Communication channels: What is used to deliver & receive messages from the target markets. This may be categorized as **Monologue Channels** e.g. ads, radio, TV, newspapers, bill board, magazines etc.; or **Dialogue Channels**: e.g. phones, e-mail, interviews, questionnaires, etc.
  - **Distribution Channels**: I.e. Avenue for availing/delivering market offers to buyers/users. These, too, may be classified as **Physical Distribution Channels** e.g. warehouses, vehicles etc; or **Service Distribution Channels**
  - **Selling Channels:** whatever is used to transact with buyers e.g. retailers, banks, insurance firms.
- **The Supply Chain (Value Delivery System):** lank/channel stretching from raw mat. Components — to final offers, distribution, & finally buyers/customers e.g. for leather shoes, the supply chain may start from hides to BATA shoe shops.
- **Completion:** i.e. actual/potential rival offerings & substitutes that a buyer might consider. Basing on substitutability, competition may further be classified as:
  - BRAND Competition
  - Industry Competition
  - Form Competition
  - Generic Competition

1.5 Marketing Environment

- **Task environment**
- **Broad environment**:

- **Economic environment**
- **Political-legal,**
- **Natural,**
- **Socio-cultural,**
- **Demographic**, (statistics about people e.g. age, sex, income etc)
- **Technological.**

The Marketing Mix: A set of tools that a firm uses to pursue its marketing objectives. McCarthy grouped these tools into the 4 Cs/Ps of Marketing namely:

- **C**ustomer Solution/**P**roduct, (Market offer)
- **C**onvenience/Place (delivery, logistics, sales channels, etc)
- **C**ommunication/**P**romotion (i.e. adverts, promotions, PR, etc)
- **C**ost/ **P**rice (monetary value)

(3 other **P**s are suggested by Booms & Bitner in respect to marketing of Services)

- People (effective, creative, caring, responsive, initiative, good-willed, competent & efficient workers = customer satisfaction)
- Physical evidence & Presentation (appeal & ambience of business premises)
- Process (service delivery e.g. Restaurants may opt for cafeteria, fast-food, buffet, candlelight, etc).

NB: A successful marketer is one who meets customer needs economically, conveniently, and with effective communication.

1.6 Orientations towards Markets

Philosophies/Concepts of marketing determining a marketer's/firm's approach to the market

A firm/Entity may affect its marketing activities by pursuing/observing one or a combination of the following concepts/philosophies:

- Production Concept
- The Product Concept
- The Selling Concept
- The Marketing Concept
- The Societal Marketing Concept
- The Customer Concept

The Production Concept: holds that consumers will prefer products that are widely available and cheap. This is popular in Less Developed Countries. This is good when firms need to expand markets. Implies focus is placed on efficiency. Prone to impersonal & poor quality services e.g. dental/medical services

The Product Concept: holds that consumers prefer products offering the highest quality, performance or innovative features. Emphasis is . on quality & not mass production.(ostentatious/status gds e.g. Ferraris). Weakness: lacks customers' views/participation in product design & development leading to marketing myopia (looking in de mirror instead of window).

The Selling Concept: Hold that: "Consumers, if left alone, will ordinarily not buy enough of a firm's offers. I.e. need 4 an aggressive selling & promotion effort. (Suitable for unsought goods e.g. insurance policies, encyclopedias, & funeral plots.) Also 4 non-profitable activities e.g. 4 fundraisings, political party, GOD's Religion, etc). Aim is 2 sell what u have but not what the market wants. Marketing, here, is identified with hard selling & advertisement/Promotions.

The Marketing Concept: Holds that "thee key to achieving Organizational goals consists of being more effective than competitors in creating, delivering, & communicating value to its target markets". I.e. out-compete others. Pp 19— 24 P. Kotler

The Societal Marketing Concept (cause-relationship marketing): Ho his "The firm's task is to determine de needs, wants & interests of target markets & deliver de desired satisfaction more effectively & efficiently than its competitors in a manners that preserves/enhances de customer's & society's well being". I.e. Marketers should build societal & ethical considerations in their profession to boost image - e.g. MTN, Shell, Stan-Chart, etc.

The Customer Concept: This holds that, beyond the marketing concept, there is need to shape separate offers, services and messages to individual customers (customization). Here, firms hope to achieve profitable growth through capturing a larger share of each customer's expenditures by building high customer loyalty and focusing on customer lifetime value.

Review Questions

1. Explain any three of the following concepts in respect to a firm's approach to the market

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Unit 2
Competition
2.1 Introduction

Analyzing the role of competition and how companies position themselves relative to competitors
P. Kotler. "Poor firms ignore their competitors, average firms copy their competitors, and winning firms lead their competitors ".

What is Competition? I.e. generally it refers to: Rivalry! vie/ challenge! participation/ contest/ war between 2 or more parties. NB: In marketing competition is viewed from two perspectives namely:

- The Industry Concept of Competition
- The Market Concept of Competition

The Industry Concept of Competition: Competition here is the rivalry within an Industry (i.e. firms that offer a product or class of products that are close substitutes for one another). Competition in industries can be classified according to:

- Number of sellers, & Degree of product differentiation, *(leading to: pure monopoly, oligopoly, monopolistic competition & pure competition)*
- Entry, Mobility & Exit Barriers, e.g. legal, *political, financial, HR, moral, emotional, technological, etc considerations.*
- Cost structure cost burden e.g*. steel industries*
- Degree of vertical Integration*: backward & forward linkages*
- Degree of Globalization: *firms in global industries should compete on a global basis so us to achieve economies of scale & keep up with the latest advances in technology.*

The Market Concept of Competition: i.e. competition is rivalry among all firms that satisfy the same customer need e.g. *"writing Need" is met by all the firms in pens, chalk, pencils, computer-printer, typewriters, etc*

NB: A firm's closest/primary competitors are those seeking to satisfy the same customers needs and making similar offers. Latent/secondary competitors are those who may offer new or other ways to satisfy the same needs as those met by a firm.

- It is vital for each firm to identify its competitors by using both industry and market — based analyses.

Why & How to Deal with Competition

Why deal with competition?

- Studying one's competitors is of paramount necessity in preparing good marketing strategies. (I.e. To prepare an effective marketing strategy, afirm must study its competitors as well as its potential and actual customers.)

How to deal with competition:

- In dealing with competition, firms ought to identify their competitors' strategies, objectives, weaknesses, strengths & reaction patterns:

1. Healthy competition is about winning market share (but not buying it)
    - Strategies. marketing mix (strategic groups firms with similar strategy in target market)
    - Objectives: (what each competitor seeks in the marketplace? — current profitability, market share, growth, cash-flow, technological leadership, service leadership, milking, stifling competitors etc)
    - Weaknesses& Strengths: i.e. analyze competitor's:
        - Share of the market (competitor %age of target market)
        - Share of mind (%age of customers that names the competitor as the 1' co. when asked about the industry)

        - Share of heart (%age of customers that name competitor as 1s1 choice from whom to buy)
    - Reaction Patterns: firms react differently to competitive assault i.e some strike back swiftly & strongly.
- NB: A sure way of gaining market share & profitability is establishing a steady gain in mind share and heart share.
- Another means of improving market share for most firms is through benchmarking their most successful competitors, as well as world-class performers.

2.2 Competitive Intelligence System

It is a means/process of collecting, interpreting and disseminating competitive intelligence in a continuous and timely manner. Firms are required to establish effective Competitive intelligence systems so as to furnish marketing managers & decision makers with accurate and timely information about their competitors. *There are 4 main steps in designing a good competitive intelligence system namely:*

- Setting up the system i.e. identifying the vital types of competitive information, best sources of such information, and assigning tasks of managing the system.
- Collecting the data. I.e. this should be continuous. Data sources include: I.e. this should be continuous. Data sources include: Salesmen, suppliers, channels, market research firms, observing competitors, Internet, mass media, etc. Unethical methods/sources include studying competitors' garbage, fake job interviews targeting competitors' employees, following patent applications
- Evaluating & analyzing the data: i.e. check validity, reliability, interpret & organize

- Disseminating Information and Responding to queries: i.e. send key information to relevant decision makers & answer managers' questions.

NB: Good competitive intelligence assists managers in formulating competitive strategies. These strategies begin with a technique called "Customer Value Analysis"

Customer Value Analysis

This is a tool used to reveal a firm's strengths & weaknesses relative to its competitors. I.e. "Customer Value = Customer Benefits-Customer Costs"

- *Customer Benefits = product, service, personnel & image benefits, durability, low maintenance costs, acquisition convenience, etc*
- *Customer Costs = purchase price, costs of acquisition, usage, maintenance, ownership, & disposal.*

NB: The aim of this analysis is to determine the benefits customers want and how they perceive the relative value of competitors' offers.

2.3 Classes and Strategies of Competitors

A conventional market contains 4 classes/types of competitors namely: Market leader (40% of market share),

Market challenger (30%), Market Followers (20%), and Market Nichers (10%)

Market Leader Strategies

A market Leader usually has the largest market share in the relevant product market (i.e approx. 40% of total market share) and leads the other firms in price changes, new-product introductions, distribution coverage, & promotional intensity. To remain dominant, the leader has to be vigilant, ignore no competitor, and constantly strive to do the following 3 activities: namely: a) Expanding the total market demand, b) Protecting its current market share through good defensive & offensive actions, c) Increasing its market share, even if the market size remains constant.

Expanding The Total Market Demand: i.e. Total market demand can be expanded by/through looking for]) New Users, 2) New Uses, 3) more Usage of the product.

- **New users** (NB. Each product class has a potential of attracting buyers who are unaware of the product or those resisting it because of price or lack of certain features. Strategies to use include: Market penetration, new-market segment, & Geographical expansion
- **New uses**: i.e. Discovering & promoting new uses for the product.
- **More usage i.e.** convince people to use more product per use occasion/whenever e.g. tooth-brushing more often (e.g. anytime is tea time slogan by Broke-Bond Tea Uganda Ltd)

Defending Market Share: i.e. exercising initiative, setting the pace, & exploiting competitors' weaknesses. E.g. leading in innovations, customer care, brand length, qualify, multi-branding, promotion, distribution, etc. Defense strategies often used include:

- Position Defense: i.e. building superior brand power that puts it beyond competition.
- Flank Defense: i.e. outpost/brands protecting/shielding weak points or serving as invasion bases for counterattacks. E.g. expanding product width & length
- Preemptive Defense: e.g. taking initiative & pace-setting in innovations, price cuts, R & D
- Counteroffensive Defense: i.e. Replicating competitors' actions more aggressively e.g. invading their territories/areas of focus so that they withdraw from your territory.

- Mobile Defense: i.e. venturing into new areas that can serve as future centers for defense and offense e.g. market diversification & market broadening.
- Contraction Defense: i.e. planned contraction/strategic withdrawal. E.g. close unprofitable business.

2.4 Increasing Market Share

Market Challenger Strategies

Market challengers are the firms in 2"', 3rd or lower ranks that attack the market leader and/or other competitors in an aggressive bid for usually more market share. E.g. *PEPSCO Vs. Coca-cola.*

General Attack Strategies

A challenger may apply one or a combination of any of the following 5 types of general attack:

- Frontal Attack: matching Opponent/rival's marketing mix i.e. product quality, pricing, promotion, distribution, etc. The winner takes presidency.
- Flank Attack: Here the challenger either attacks the opponent in geographical areas or market segments where the opponent is under performing. E.g. Japanese automobiles.
- Encirclement Attack: i.e. attack on several fronts. NB Good only when challenger has superior resources.
- Bypass Attack: i.e. getting ahead of rival by either:]) diversifying into unrelated products, 2) diversifying into new geog. Markets, 3) leapfrogging into new technology to supplant existing products,

- Guerrilla Warfare: waging small intermittent attacks to harass and demoralize the opponent and eventually secure permanent foothold. E.g. CELTEL VS MTN

Specific Attack Strategies: Beyond the five general strategies stated above, the challenger applies one/some of the following specific strategies

- Discount price
- Produce cheaper goods
- Deal in prestige goods e.g. Mercedes vs. Japanese cars
- Product proliferation (Produce a wide variety of goods) e.g. House of *DAUDA Vs. Coke in Uganda*
- Product innovation (Innovate in products)
- Distribution innovation.
- Improved services e.g. AVIS vs. HERTZ
- Manufacturing-cost reduction (reduce manufacturing costs)
- Intensive advertising/promotion.

Market Follower's strategies: A market follower is a runner-up/trailer that is willing to maintain its market share (follow rather than challenge market leader). *Avoids antagonizing the leader, destabilizing the market shares & stealing others' customers. They simply present similar offers to buyers, usually by copying the leader.*

- Strategies Pursued: a follower can play any of the following roles:
- Counterfeiter: duplicates leader s products & package and sells it on a black market or thru disreputable dealers. E.g music, Rolex watches, Apple computers in East Asia.
- Cloner: emulates leader s' products, name, & packaging with slight differences. Common in electronics & computers.
- Imitator: copies some things from the leaders but maintains differentiation in terms of packaging, advertising, pricing or location. Leaders often ignore imitators.

- Adapter: takes leader's products and adapts or improves them. E.g Japanese firms.

Market Nicher's Strategies: A nicher serves small market segment not being served by larger firms. The key strategy to nichermanship is specialization.

2.5 Competitor Orientation Vs Customer Orientation

It is not advisable to focus on competitors at the expense of customers. There is need for maintaining a good balance of competitor and consumer monitoring. Firms should not over-emphasize competitor care at the ignorance of customer care. *Firms that often focus on competitors at the expense of their customers usually fail to set and attain their own goals. They fail to formulate & execute a consistent customer-oriented strategy because competitors dictate their moves. On the other hand, customer-centered firms are often in a better position to identify new opportunities and set a course that promises to deliver long-run profits.*

Review Questions

1.

Unit 3
Market Segmentation, Targeting and Positioning
3.1 Introduction

Market Segmentation refers to identifying and profiling distinct groups of buyers who differ in their needs & preferences. (Fragmenting, 'dividing, portioning, partitioning, or stratifying the market according to certain criteria).

Market Targeting refers to selecting one or more market segments to enter.

Market Positioning: refers to establishing & communicating the key distinctive benefit(s) of the firm's market offering for each target segment. (*We will not deal with this topic in detail here.)*

NB: Target Marketing involves 3 activities namely: 1) market segmentation 2) market targeting & 3) market positioning.

3.2 Rationale/ Importance Of Market Segmentation:

- NB a firm can't satisfactorily serve all customers in a broad market e.g. computers or soft drinks coz customers are too numerous & diverse in their buying requirements. So most successful firms resort to target marketing where they identify and focus on segments that they can effectively serve with specifically tailored/befitting marketing mix.
- Target marketing (micro-marketing) is the recommendable strategy as opposed to MASS Marketing (i.e. mass production, distribution, promotion of one product for all buyers e.g. Coca-cola, Ford model-T, etc).

- However, advantages of mass marketing include: creating the largest potential market, thus: lowest production costs, low prices, & high profit margins-but it's increasingly difficult to serve e.g. promotion channels& messages are many.

Levels & Patterns of Market Segmentation: Markets can be segmented and, thus, targeted at 4 levels namely:

- Segments Level. (Segment Marketing)
- Niches Level: (Niche Marketing)
- Local Areas Level: (Local Area Marketing)
- Individuals level (Individual Marketing)

Segment Marketing: Market Segments are large identifiable groups sharing similar sets of wants within a market. E.g. The car market can be segmented into 1) those seeking low-cost transport 2) those seeking luxurious transport.

NB

A market Segment should NOT be confused for a market SECTOR. I.e. a market sector refers to a group of buyers defined by their respective characteristics such as: income levels, age groups, race/ethnicity, and gender, while market Segments refer to grouping buyers according their specific needs/tastes/preferences e.g. low-cost gds, luxuries, fatty foods, and vegetarian segment

- Marketers do not create but only identify segments and decide which ones to target.
- Segment marketing has more advantages than mass marketing e.g.: in segment marketing a marketer can tailor/customize his/her marketing mix to fit the target market segment, identify & study competitors in the target segment.

Niche Marketing: refers to marketing programmes tailored to the needs and wants of Market Niches. A Niche is a more narrowly defined group seeking a distinctive mix of benefits. A niche is a sub segment of a market. *E.g. a segment of heavy smokers has 2 niches i.e. those trying to stop & those who don't care.*

- Niches are fairly small and normally attract few (1 or 2) competitors. (A good/attractive niche is characterized by: customers with distinct set of needs & are willing to pay a premium to the firm that best satisfies their needs, niche that is not likely to attract other competitors, one that gains economies through specialization and a niche with size, profit &growth potential)
- Niche marketers understand and meet their customers' needs so well that the customers willingly pay a premium price for the market offers received. E.g. funs of Ferrari sports cars, & Harley Davidson bikes.
- Niche marketing (& micro-niching) is increasingly becoming popular & profitable e.g. magazine biz, German's midsized firms. Many big firms are resorting to niche marketing coz of its profitability e.g. *Estee Lauder(cosmetics e.g. Clinique, M.A.C, Aveda, etc), Johnson & Johnson (has 170 SBUs dominating niches), Mercedes, Hallmark,*

Local Marketing: I.e. marketing programmes tailored to the needs and wants of local consumer groups (e.g. trading areas, ethnic neighborhoods, individual stores e.g. "*SHOPRITE*" in Kampala).This is common with Banks and Supermarkets. NB such marketing can be costly/ unprofitable if the target local area/neighborhood is not substantial.

Individual Customer Marketing: *(i.e. Customized marketing/One-to-One marketing/built-to-order marketing). This is the ultimate segmentation & target marketing level.* These are marketing programmes designed according to the unique tastes of a targeted Individual. This type of marketing occurs in services such as legal, health, cobbling, tailoring, hairdressing, etc.

- The industrial revolution shifted focus from "Built-to-Order" to "Built-to Stock" marketing most items e.g. apparel, shoes, etc.
- The Information revolution has enabled "MASS CUSTOMIZATION" i.e. ability to prepare on a mass basis individually designed products, services, programmes, & communication, to meet each customer's requirements. There is an increasing individual participation in designing & production due to I. T. developments (CHOICE BOARD =an online interactive system enabling individuals to design own products & services by choosing from a menu of attributes, components, prices, & delivery options.)

3.3 Customerization

(Also a result of I. T. revolution) is a combination of mass customization and customized marketing by firms over internet empowering customers to design products of their choice.

NB: More Firms are increasingly practicing individual and mass customization, basically as a result of the revolution of Information Technology.

- The future is poised to experiencing more self-marketing, a form of individual marketing in which individual customers take the initiative in designing products and brands.

Segmentation of Consumer Markets: There are two bases/criteria for segmenting consumer markets namely:

I) Consumer Responses: i.e. attitudes toward products' benefits (This is the primary basis for segmentation)

II) Consumer characteristics: i.e. demographic, geographic, & psycho graphic characteristics (This is a secondary basis for segmentation which is basically intended for market sectoring)

The major **segmentation variables** of consumer markets are generally:

a) Geographic factors (=Geographic. Segmentation) e.g. regions, climate, population density (urban/ rural), etc
b) Demographic factors (=Demographic segmentation) e.g. age, family size, family lifecycle (young, married, etc), gender, income, occupation, education, religion, race (black/white), generation (baby-boomers/generation-X), nationality (British/Japanese), Social class (middle/low/upper), etc
c) Psycho graphic factors: (=psychographic segmentation) e.g. lifestyle (sporty, cultural, outdoor, etc), Personality (e.g. ambitious, gregarious, authoritarian, etc)
d) Behavioral factors: (=Behavioral segmentation) e.g. Occasions (regular/special), benefits (quality/ economy/, etc), User status (regular/list time/ex/non/potential user), Usage rate (light/heavy), Loyalty status (none/strong, hardcore/split/shifting, loyals/ switchers), Readiness stage (unaware/aware/interested/intending 2 buy), Attitude toward product (positive /negative/ indifferent).

NB: The above stated 4 variables may be used singly or in combination.

Segmentation of Business Markets *(basis/criteria for segmenting Business markets):* The variables used to segment a business market include all those stated above (all those applying to consumer markets) plus the following:

a) Demographics: i.e.

- Industry (category of industry to serve)
- Company size (customers 'sizes/capabilities)

- Location (geog. Locations of customers)

b) **Operating variables: i.e.**

- Technology, (customer technological needs/level)
- user/non-user status, (customer user status)
- Customer capabilities (bulk/small order sizes)

c) **Purchasing approaches: i.e.**

- Purchasing-function of the firm (centralized/decentralized purchasing)
- Power structure (engineering/financially dominated/focused customers)
- Gen. purchasing policies (leasing/contracts/systems purchase/sea led bidding)

d) **Situational factors: i.e.**

- Urgency (JIT/delayed delivery customer needs)
- Specific Applications (uses of seller's products)
- Order Sizes. (focus on big/small orders)

e) Personal Characteristics: i.e.

- Buyer — seller similarity (Values/people)
- Attitude toward risk (risk-taking/avoiding customers)
- Loyalty (level of seller-buyer coop/loyalty needed e.g (JIT)

3.4 Qualities of a Good Market Segment

(Attractiveness indicators): A good segment must be:

- Measurable: i.e. quantifiable customers, geog. Size, dollar value, etc
- Substantial: i.e. feasible/viable monetary value —worthy venturing into
- Accessible: i.e. politically, economically, geographically, culturally, technologically, etc
- Differentiable: i.e. distinguishable/identifiable/unique description
- Actionable: viable/feasible/profitably affordable to serve

3.5 The Market Targeting Process

Once a firm has established its market segment opportunities, it has to evaluate the various segments and choose how many and which ones to target. In evaluating the segments, a firm has to consider the following:

- The Segment's attractiveness Indicators: (qualities of a good segment stated above)
- The Company's goals & objectives (consider the mission, goals, objectives & strategies)
- The Resources available (competences in terms of human, capital, technology, political connection, legal power, etc)

Options In Market Targeting: In choosing which segments to target, a firm choose to focus on any of the following options:

a). Single-Segment Concentration: (Single segment): *ADV. A firm gains deeper understanding of the segment's needs and thus a strong market presence. The firm also enjoys operating economies through specializing its production, distribution & promotion. It can easily capture segment leadership hence earn a high return on its investment: E.g. Ferrari/Porsche 'in sporty car market segment. DISADV. This can be risky*

b). Selective Specialization (several segments): *This diversifies risk. The two segments do not necessarily have to have synergetic advantages but each has to be lucrative e.g. Radio One & Kaboozi Ku Bin FM stations.*

c). Product Specialization *(A specific product): A firm specializes in producing & selling a certain product to different segments e.g. microscopes sold hospitals, schools, etc, TNTEL micro chip, Blue Tooth-chip, etc. Here there is room for slight modification to suite various segments. This risks technological supplanting.*

d). Market Specialization (A specific market*): i.e. focus on serving many needs of a particular customer group. E.g. selling assortments of items to hospital theatres e.g. siemens. The risks here include budget cuts.*

e). Full Market Coverage (The full market): *i.e. servings all customer groups with all the products they might need e.g. Coca Cola, Gen. Motors, Toyota, IBM.*

NB: If a firm decides to serve a full market, it must choose between:

a). **Differentiated Marketing:** *designing different product (& other marketing tools) for each segment. E.g. .Toyota, IBM, GM, etc. This can be costly in many ways e.g. product modification costs, admin. Costs, promotion costs, inventory costs, manufacturing costs, etc*

b). **Undifferentiated Marketing:** *i.e. ignoring segment differences and going for the whole market with one offer-adopt mass production/distribution/promotion/-one marketing mix program. E.g. Coca-cola.*

Additional Considerations in Market Targeting

The following are also vital considerations required of any firm that is market targeting:

- Ethical Choice of Market Targets: i.e. Target markets must be chosen in a socially responsible manner.
- Segment-By-Segment Invasion Plans: marketers must develop segment-by-segment invasion plans. Do not rush into several segments at once.
- Intersegment Cooperation: Market segment managers should be prepared to cooperate in the interest of overall company performance. They must monitor and respect segment interrelationships, seek

economies of scope and the potential for marketing to super-segments.

Review Questions

1.

Unit 4
Marketing Managements Strategies, Product Management Strategies
4.1 Introduction

What Is A "Product"? A product is the first & most vital element of the marketing mix.

In the marketing context, a product refers to:
- An offer that satisfies a want or a need. A product may also be defined as:
- The sum of the physical, Psychological and sociological satisfaction " the buyer derives from purchase, ownership and consumption of market offers.
- Consumer-satisfying objects that include such items as accessories, packaging and service. Marketable products include: - Physical goods, services, places persons, organizations, Information, properties, ideas, events and experiences (i.e. product = market offering + Its satisfaction of want)

The Main Product Levels (***Customer value hierarchy):*** - A typical product has 5 major components or levels namely:

In planning a market offer the marketer needs to think through five levels of the product (stated above).

Each level enhances customer value, and the 5 levels constitute *a "Customer Value Hierarchy".*

These 5 levels are:-
- ***Core Benefit Level:*** This is the most fundamental level. I.e. the primary service or benefit the customer really buys e.g. hotel guests basically buy 'rest and sleep'
- ***Basic Product Level:*** Here the marketer converts a core benefit into a basic product e.g. "a hotel room with beddings, bathroom, towels, desk, & closet.
- ***Expected product Level:*** I.e. a set of attributes and conditions buyers normally expect to accompany a core/basic product e.g. clean and

comfortable bed, fresh towels, lamps, & quietness/peace. NB: this depends on product positioning.

- ***Augmented product Level:*** Marketers' innovations / Creativity used to meet & exceed customers' expectations e.g. fresh flowers in hotel rooms with modern TV Telephone, e-mail or games in mobile phones. This may refer to extra packaging, services, adverts, advice, financing, & delivery among other extras. NB augmentation is costly and augmented benefits soon become expected benefits. NB good augmentation is based on ***consumption system*** (how consumers get & use products & related services. (NB competition in Developed Countries is at this level while in less developed countries, it is at the "expected product" level).
- Potential Product Level: i.e. All possible arguments and transformation the product might under go in future leading to delight e.g. blue tooth chip in telephones today or candies on hotel pillows / magazines and electric plugs in planes.

4.2 Product Classification

Traditionally, products were classified basing on product characteristics, durability, tangibility, use/ market, degree of processing and/ or physical transformation.

Importance of product classification:

- Product classification serves as an analytical device to ease planning of marketing Strategies and programs. *I.e. products with common attributes (same classification) can be marketed in a similar fashion. The buying motives, buying habits and market characteristics of each product classification differ from those of other product classifications.*

Product Classification According To Product Durability and Tangibility

Products can be classified into 3 major groups according to their durability and tangibility- namely:

Durable Goods: i.e. tangible goods that normally survive long usage e.g. cars, clothing, fridges, & tools. Normally, these require more personal selling and sales service, guarantee and are/were relatively highly profitable.

Non-Durable Goods: i.e. tangible goods that are quickly used up (with short useful lives) e.g. soap, canned foods, & soda. Market strategies required for such goods are: wide & convenient availability, low pricing and heavy adverts/promotion.

Services: i.e. intangible, inseparable, variable and highly perishable products. Hence, these require high quality control, supplier credibility and adaptability. E.g. hotels' offers, haircuts, equipment repairs, etc.

Classification Of Consumer Goods

(Most of the consumer goods are classified according to consumers' shopping habits) these classifications include:

Convenience Goods: i.e. goods often purchased immediately with minimum effort e.g. soap, newspapers, and tobacco. Convenience goods are further sub-classified into:

- **Stapples:** - i.e. Habitual! regular purchases / routine purchases e. g Colgate, Salt, cabbages, candles, bread, etc. The marketing strategy for such goods focuses on brand promotion.

- **Impulse Goods:** i.e. goods purchased without any prior-planning or search effort e.g. magazines, candies, condoms, perfumes, etc. Marketing strategy for such is strategic placement/positioning/location e.g. near cash points in supermarkets.
- **Emergency Goods:-** i.e. goods bought due to urgent need e.g. plaster, bandage, umbrellas, & boots. (Strategy is to spread them out to as in many outlets as possible — location convenience)

Shopping Goods: i.e. Goods purchased often after spending time, energy/bother comparing the various offers i.e. a buyer of such goods selects and buys after comparing suitability, quality, price, color and style among other features of one good against others. Shopping goods are further classified as:

- Homogenous shopping goods: - goods similar in quality but different in prices.
- Heterogeneous Shopping goods:- goods with different features and services (differentiated goods as per buyers' views)

Specialty Goods: - Goods with unique characteristics or brand identity for which many buyers are willing to make special and extra purchasing efforts e.g. cars, stereos, suits, etc. The marketing strategy applicable here is brand strengthening.

Unsought Goods: i.e. goods consumers don't know about or don't normally think of buying voluntarily e.g. smoke detectors, grave stones, cemetery plots, & life insurance policies. These require serious advertisement personal selling support.

Classification of Industrial Goods

Industrial goods are classified using 2 criteria namely:

- How goods enter the production process
- Their relative costs.

There are 3 major categories of industrial goods namely:

Materials and Parts: i.e. Goods that are directly and completely used up in the manufacture/production of other goods/products. These are further divided into:

- **Raw materials** which also comprise of:
- Farm products (e.g. cotton, fruits, Animals products, etc)
- Natural products (e.g. fish, oil, timber, gold, & iron)
- **Manufactured materials and parts:** - These two are sub-categorized as:
  - Component materials e.g. steel, yam, cement, wires, for fabrication
  - Component parts: e.g. tires, buttons, motors, & nails that are simply fixed into other parts to make finished products — (These need no further modifications.)

Capital Items i.e. durable goods that facilitate development of finished products. These goods are of 2 major types namely: installation and equipment.

- ***Installations:*** i.e. major purchases .e.g. buildings/plants. (factories/offices), heavy machinery/equipment e.g. generators, elevators, elevators, & mainframe computers). **NB:** These are often bought directly from makers/manufacturers.
- ***Equipment:*** I.e. Portable factory equipment and tools (hand tools and fork-lift trucks) and office equipment (personal computers, desks) **NB:** Quality, features, price and service are vital considerations in marketing equipment

4.3 Supplies and Business Services

Short lasting items that facilitate development / managing the finished products. These are similar to convenience goods, usually bought with minimum effort and on a straight re-buy basis.

Supplies: are of 2 major kinds namely:

- Operating supplies e.g. lubricants, office stationery, power, & water.
- Maintenance and repair Items (e.g. paint, brooms, & tool box items.)

Business Services

These are usually bought/ sold under contract terms. Business services are of 2 major categories namely:

- **Maintenance and repair services** (e.g. window cleaning, & equipment repair.)
- **Business Advisory Services** (e.g. legal, management consulting, & advertisement).

4.4 The Product Strategy

The product strategy calls for making coordinated decisions on the following issues/factors:

- Product Mixes
- Product Lines
- Brands
- Packaging And Labeling

Product Mixes (Also Called Product Assortment)

This refers to all products/ items that a particular seller offers for sale. Most organizations market / sell more than one product. A product mix, of any firm can be classified / measured basing onto its width, depth and consistency. (I.e. what are these?)

- The **WIDTH** of a product mix refers to how many product lines a firm carries. E.g. MUKWANO's product lines include cooking oil, bar soap, powder soap & tea as part of its product mix width.
- The **LENGTH** of a product mix refers to the total number of items in the mix (average length is got by dividing total lengths by the number of product lines)
- The **DEPTH** of a product mix refers to how many variants are offered of each product in each product line e.g. if OMO is of two grades/forms and each form is of 3 sizes then OMO has a depth of 6
- PRODUCT MIX CONSISTENCE Refers to how closely related the vario us products are in end use, production requirements, distribution channels, or otherwise. E.g. Uniliver has highly consistent *channels.*

PRODUCT MIX WIDTH

POWDER SOAP	**TOILET SOAP**	**COOKING OILS/FATS**	**TOOTH PASTE**	**PERFUMES**
– Vim	Geisha	Bule band	Close up	XYZ
– Omo	Life buoy	Kimbo	Close down	Good
	Imperial	Cowboy	Don't close	Funny
	Rexona	Rama		Beautiful
	Sunlight			

The four product mix dimensions above permit the company to expand its business in four ways. I.e. It can develop new product lines thus widening its product mix. It can lengthen each product line. It can add more product variants to each product and deepen its product mix. Also a company can pursue more product line consistency.

The four dimensions are the tools for developing a company's marketing strategy and deciding which products lines to grow, maintaining, harvest and/ or divest.

Product-Line Decisions Include:

- **Product Line Analysis:** - i.e. analyzing a product-line and deciding the amount of resources to invest in that line. Product — line managers consider/ base on) sales and profits and the market profile to determine optimal product lines.
- **Product Line Lengths:-** (A product line is too short when I if profits can be increased by adding items (lengthened). The line is considered too long if profits can be increased by dropping some items (shortened) (NB each firm's product line covers only a certain part of the total possible range e.g. BMW's are located in the upper price range of automobile market)

A company can change the product component of its product mix by lengthening its products through:

- line stretching (down market, up market or both)
- Line filling (i.e. adding more items with the present range')
- By modernizing its products
- By featuring certain products (sell them at lower / higher price), and
- By Pruning (dropping) its products to eliminate the least profitable products.

4.5 Brand Decisions

A **Brand** is a name, color, symbol, term, sign, design, or a combination of them, intended to identify the offerings of a firm/group of firms and to differentiate them from those of competitors. NB: a Brand identifies the seller or maker.

Branding is a vital issue in product strategy. Branding is expensive and time consuming and it can make / break a product ('i.e. it can be risky)

NB: The most valuable brands have a brand equity that is considered a valuable firm's asset (good-will e.g. COCA COLA).

In order to devise branding strategies, organizations must decide:

- Whether or not to brand
- Whether to produce manufacturer brands, or distributor or private brands,
- Which brand name to use
- Whether to use line extensions, brand extensions, multi brands, new brands or co brands)

NB: Qualities of best brand names: Good brand names:

- Suggest something about the product's benefits.
- Suggest product's qualities
- Are easy to pronounce
- Are easy to Recognize and remember
- Are distinctive/unique
- Do not carry negative meanings or connotations in other countries or languages.

Packaging and Labeling: It's vital to package and label most physical products.

Packaging

NB: Well designed packages can create: (Advantages of packaging):

- Convenience
- Value for customers.
- Promotional value for producers -(i.e. they can act as '5-second commercials' for the products)
- Safety

- Marketers ought to develop a packaging concept and test it functionally and psychologically to ensure it achieves its desired objectives and it's compatible with public policy and environmental concern.

Labeling

Labeling of Physical products is also vital for the following reasons:

- Identification of the product
- Possible grading of the product
- Description of the product,
- Product promotion
- Cautioning/warning users of possible dangers e.g. cigarettes & pharmaceutical.
- Legal requirements i.e. sellers may be required by law to present certain information on the label to protect and inform consumers.

Review Questions

1.

Unit 5
Positioning & Differentiating Market Offerings Through The Product Life Cycle
5.1 Introduction

NB: **All marketing strategy is built on STP - Segmentation, Targeting, & Positioning**.

What Is Positioning?

- Positioning is the act of designing a firm's product and image to occupy a distinctive place in the mind of the target market.
- Positioning is what you do to the mind of the prospect. I.e. you position an offering in the mind of the prospect-basing on the **P**roduct, **P**rice, **P**lace, & **P**romotion.

NB:

- Well-known products generally hold a distinctive position in consumers' minds e.g. Coca-Cola is regarded as the world's no. 1 soft drink.
- Good positioning is the basis for the good marketing planning and differentiation. Poor positioning confuses the market as to what to expect (e.g. under-positioning, over-positioning, confused positioning, or Doubful positioning)
- Positioning possibilities (IDEAS) are several and include: benefit positioning, attribute positioning (e.g. size/experience), User positioning (e.g. fun seekers' best), Competitor positioning (i.e. better than x), and quality/price positioning (i.e. value for money).
- Many marketers advocate promoting only one product benefit, thus creating a Unique Selling Proposition (USP) as they position their product. (NB it is vital for firms to develop a Unique Selling Position —USP for each brand and stick to it to ease promotion, & aligning workers' opinion of what counts & the Organizational mission.)
- People tend to remember "number one" (e.g. best quality, fastest, safest, lowest price, most reliable, best service or best value). Double-benefit

position (e.g. Volvo positions as “safest”& “most durable” car) and triple-benefit positioning (e.g. “Aqua-fresh” toothpaste) can also be successful, but must be used carefully.

Product Differentiation

- Differentiation is the process of adding a set of meaningful and valuable differences to distinguish a firm’s offering from competitors’ offerings.
- Product differentiation is the key to competitive advantage.
- A market offering can be differentiated along five dimensions:
  - Product differentiation dimension (i.e. form, features, performance quality, conformance/standardization/reliability quality, durability, reliability, reparability, style/package, design);
  - Service differentiation (ordering ease, delivery, installation, customer training, customer consulting, maintenance and repair, miscellaneous services e.g. warranties);
  - Personnel differentiation, (i.e. better trained workers. Better trained people exhibit 6 traits: competency, courtesy, credibility, reliability, responsiveness & communication. This is vital for especially the service industry e.g. Singapore airlines & McDonalds, & hotels.)
  - Channel differentiation (coverage, expertise, and performance e.g. ‘Caterpillar, DELL computers & Avon cosmetics via direct marketing), or
  - Company/brand Image differentiation (symbols, colors, slogans, special attributes, sponsorships, media, atmosphere, and events). **NB**: **IMAGE** is way the public perceives a firm/brand while **IDENTITY** is the way a firm aims to position itself *or its product. I.e. identity is controlled by the firm.*

NB: A difference is worth establishing to the extent that it is ***important, distinctive, superior, preemptive, affordable, and profitable.***

5.2 The Product Life Cycle

A firm's product strategy must take into account that products have a life cycle. A typical product life cycle consists of the 4 stages namely the: Introduction stage, Growth stage, Maturity stage, & Decline stage.

- This cycle varies according to product, industry, technology and the market.
- The product life cycle assists marketers in developing appropriate marketing strategies because each stage of the cycle has particular implications on the profitability and marketing of the product concerned.

Style, Fashion, & Fad Life Cycles

The PLCs of **style, fashions & fads** can be erratic and are hence treated as special cases. NB: the key to success in these areas lies in creating products with staying power.

- **STYLE:** refers to a basic and distinctive mode of appearing in the field of human endeavor e.g. homes, clothing & art. Style lasts for generations, going in and out of vogue.
- **FASHION** is a currently accepted or popular style in a given field. Fashion goes through 4 stages namely: 1) Distinctiveness, 2) Emulation, 3) Mass-fashion &, 4) Decline. The lengths of fashion cycles are unpredictable. However, the length of a fashion cycle depends on the extent to which the fashion meets a genuine need, is consistent with other trends in the society, satisfies societal norms & values, and does not exceed technological limits as it develops. Fashions end when they represent a purchase compromise and consumers start looking for missing attributes.

- **FADS**: are fashions that come quickly into public view, adopted with great zeal, peak early, and decline very fast. Fads are based usually on a novel or capricious aspect e.g. tattooing appealing to limited group searching for uniqueness or excitement. Their acceptance cycle is short because they do not normally satisfaction' a strong need. The marketing winners in Fads are those who recognize fads early and leverage into products with staying power.

5.3 Marketing Strategies

Each stage of the PLC calls for different marketing strategies. Because economic conditions change and competitive activity varies, companies normally find it necessary to reformulate their marketing strategy several times during a product's life cycle. Optimal marketing strategies for conventional/"normal" products at various PLC stages include the following:

The introduction stage is marked by slow sales growth and minimal/negative profits due to fewer buyers/low awareness, poor production & distribution capacity. Marketers' resources here should be focused on promotions to inform and attract potential customers and also establish sufficient distribution channels. If successful, the product enters the next/growth stage. Early adopters, opinion leaders, & the rich (price-insensitive) segments should be the ideal to target.

The growth stage marked by rapid sales growth and increasing profits and competitors are attracted. Strategies used to sustain the rapid market growth include: improving product quality, adding new product features, & improving styling, adding new models & flanker products; entering new market segments; widening distribution coverage & entering new channels; shifting from product-awareness to product — preference advertising; and lowering prices to attract price-sensitive buyers.

The maturity stage is in which sales growth slows and profits stabilize. This stage usually lasts longer than the previous 2, posing great marketing challenges for most products & stiff competition are in this stage. Here, most potential customers have tried the product and future sales depend on population growth and replacement demand. The strategies here include: niche marketing; frequent mark-downs; dropping weak products; market modification (increasing users through converting nonusers, entering new market segments& increasing brand usage); product modification (quality/feature/style improvement); market mix modification (altering prices, distribution, services,&' promotion,); increased advertising, trade & consumer promotions; increased R & D budgets for product improvements & line extensions; and private branding. Good options are either to join the "big 3" and survive through volume sales at low cost, or pursue niching strategy and make profits through low volume sales. Sales promotions are especially vital strategies in this stage.

The decline stage*.* Here the company's task is to identify the truly weak products; develop a strategy for each one; and finally, phase out weak products in a way that minimizes the hardship to company profits, employees, and customers. NB: a decline may be due to technological advance, shifts in tastes, or competition. The required strategies include:

NB: Like products, markets evolve through four stages: emergence, growth, maturity, and decline.

5.3 New Product Planning and Development

(Developing new market offerings)

- Developing new products is an indispensable requirement of every firm's competitive and growth strategies.

Once a company has segmented the market, chosen its target customer groups and identified their needs, and determined its desired market positioning, it is ready to develop and launch appropriate new products.

Organizing New Product Development

- Successful new-product development requires the company to establish an effective organization for managing the development process.
- Companies can choose to use product managers, new-product managers, new-product committees, new product departments, or new- product venture teams.
- Marketing staff should participate with other departments in every stage of new product development.

New Product Planning and Development Process: This process flows through a logical sequence of stages as outlined &illustrated bellow:

NB: Eight major stages are involved in the new product development process:

- Idea generation,
- Idea screening,
- Concept development and testing,
- Marketing strategy development,
- Business analysis,
- Product development,
- Market testing, and
- Commercialization.

NB Some sources of new product idea include:

Sales Force: - Knowledge of customers 'needs

- Inquiries from customers / Prospects
- Knowledge of the industry and competition

Research and Engineering: Basic research, creative / original thinking testing / Experimental / accidents

Other company Sources: - e.g. Employee's suggestion, use of by products /scrap and market surveys (4) Outside Sources: e.g. investors, stakeholders, suppliers/ Vendors, Middlemen, Advantaged agencies, Customer Suggestions.

NB: The purpose of each stage is to determine whether the idea should be dropped or moved to the next stage.

In developing new product policies, marketers ought to establish the number of ways a product can be termed "new". The 9 common ways / forms of a "new" product are:

- **New function** i.e. a product performing an entirely new function. E.g. 1st TV
- **Imp roved performance** of an existing product's functions e.g. new digital watch
- **New applications** of an existing product e.g. former phone cables can now transmit for cables TVs
- **Additional functions** on old products e.g. new mobile phones can tell time
- **New markets** for old product e.g. introducing a product in other geographical locations
- **Accessibility** to a product due to decreased / lower prices e.g. personal computers in homes today
- **Downgraded Product**:- One switches from buying a product to making it in house
- **Existing product** integrated into another existing products e.g. Clock - Radio

- **Restyled Product** e.g. clothing, Automobiles

5.4 New Product Success And Failure

New products may roll-out/be launched successfully as a result of various reasons. The nine commonest of new product success are as stated /explained below:

- **Product superiority / Quality:-** Its competitive advantages due to its features, benefits, or uniqueness
- **Economic Advantage to users** i.e. a product's value for money to customers (perceived value)
- **Overall company / project fit:** Its synergy with the firm's marketing, management, or general business — fit.
- **Technological Compatibility:-** Its synergy with R & D, engineering, production fit
- **Familiarly to the Company:** - i.e. how close related a new product is with the "incumbent"/old products of the Company and markets.
- **Market need, Growth and size/potential** — i.e. sufficient size of market opportunities
- **Competitive situation:** i.e. favorable market penetration
- **Defined opportunity:-** Good market segmentation, targeting and positioning. I.e. a new product should have a well defined category / established market to enter.
- **Project / Product Definition:** i.e. how well defined the development processes and product are

Causes of New Product Failure

New products may fail/flop on the market as a result. of various reasons. The commonest causes of new product failure are as stated! Explained below:

- Faulty estimate of market potential

- Un expected reaction from competitors
- Poor timing in the introduction of the product
- Rapid changes in the market (economy) after the product was approved
- Inadequate quality control
- In adequate expenditures on initial promotion
- Faulty market testing
- Improper channel of distribution
- Developing ideas that are based on negative market research findings
- Over-estimated market size/potential for the new product
- Incorrect positioning, ineffective advertisement/promotion & poor/over pricing
- Under-estimated Development costs

5.5 Pricing Management Strategies

What Is "Price"?

Price can be defined as monetary value exchanged for any market offer. (I.e. the monetary cost of obtaining market offers).

The Various Forms/Names of Price

Price has various forms/Names depending on the variety of market offers. I.e. it's called price/cost (For goods), **RENT** (House), **TUITION** (Education), **FEE** (Dentist Service), FARE (for Taxi/airline), **TOLL** (Road use), **RATE** (Local Utilities), **INTEREST** (Money), **PREMIUM** (INSURANCE), H**ONORARIUM** (guest speaker), **SUBSCRIPTION/EXPENSES** (CLUB/SOCIETIES)**,** **RETAINER** (lawyers), **SALARY** (executive), **COMMISSION** (sales agent/broker) **WAGE** (worker), **INCOME** TAX(privilege for earning), and "**Dowry**" (bride/wife) among others.

Nb: - Importance/ Significance of Price

- Price is one of the most vital elements determining market share and profitability.
- Price has traditionally served as the major determinant of buyer choice (NB non price factors are however becoming more vital especially in More Developed Countries)
- Price is the only element of the marketing mix that generates revenue (the others generate costs)

5.6 Setting the Price

(Establishing a price policy)

- A firm must set a price for the first time whenever,
  - It develops a new product.
  - It introduces its regular product into a new distribution channel.
  - It introduces its regular product into a new geographical area
  - It enters bids on new contract work

NB: A firm must set its price in relation to the value delivered to and perceived by customers.

The Procedure Of Setting A Pricing Policy (factors to consider)

Normally, setting a pricing policy follows a six — step procedure explained below: (i.e. 1) Selecting the pricing objectives, 2)Determining demand, 3)Estimating costs, 4)Analyzing the competitors' costs, prices & offers, 5)Selecting a pricing method, and 6)Selecting the final price)

1. **Selecting The Pricing Objective:** Here the firm has to clearly determine the desired positioning of its market offering so as to set an appropriate price easily. The common major objectives firms pursue include: survival, maximizing current profits, maximizing market share, maximizing market skimming, &/or product quality leadership.

2. **Determining Demand:** Normally price & demand are inversely related. Different demand levels reflect different prices & have different impact on a firms' marketing objectives (NB price elasticity of demand)
3. **Estimating Costs:** i.e. A firm estimates how its costs vary at different levels of output, at different levels of accumulated production experience and for differentiated marketing offers. Activity-Based-Cost (ABC) Accounting (NB while demand sets a ceiling on the price a firm can charge, costs set the floor). Prices should cover total costs of production, distribution, etc. NB firms can measure their profits correctly only f they measure costs correctly)
4. **Analyzing Competitors' Costs, Prices, &Offers**: this helps to determine whether to charge less, the same or more than the competitors. (NB beware of competitors' possible price reactions)
5. **Selecting a Pricing Method.** The 3 major considerations (Basis) in price setting /selection are: (i.e. the 3 Cs of pricing)
   (a) Consumers' demand schedule (i.e. customers' assessment of unique product quality features — setting the ceiling price)
   (b) Cost function (i.e. this sets the floor price)
   (c) Competitors' prices (prices of substitutes —provide an orienting point)

The 7 common price-setting methods are: ***Mark up pricing, Target-Return pricing, Perceived -Value pricing, Value pricing, Going rate pricing, Auction- type pricing, and Group pricing***

6. ***Selecting The Final Price***: - In choosing one of the above started 7 methods of pricing as the final price ,a firm must consider additional factors such as: psychological pricing

Gain- and —Risk sharing pricing, company pricing policies, the influence of other marketing mix elements on price, and the impact of price on other parties

Tutorials

Pricing Setting Methods

(a) **Mark up Pricing:-** This is the most elementary pricing method where a standard mark-up is added to the product cost

i.e. Formula: ‘Unit cost / (1 -desired return on sales) (NB unit cost = variable cost + Fixed costs/unit sales)

NB calculate unit cost then add %age or fraction =desired return (e.g. 20%)

(b) **Target —Return Pricing**: here the firm determines the price that yields its target rate of Return-On-Investment (ROI). The formula is

Target-Return unit cost +Desired return * invested capital / unit sales (total sales)

E.g. if you invest 1 million and want a 20%R01, then you charge a price that will raise 200,000/=.

NB: This Method Is Commonly Used By Investors In Public Utilities Who Need To Make A Fair Return On Their Investment.

Disadvantage —This Method Ignores Price Elasticity & Competitors ‘Prices ‘Effects.

Perceived —Value Pricing

(i.e. basing pricing on the customers’ perceived value).

Perceived value is made of buyers’ image of the product performance, the channel deliverables, the warranty quality, customer support, suppliers ‘reputation, trustworthiness, and esteem, etc

NB customers ‘perceived value=customers’ benefits — customers’ cost

- To achieve / establish such pricing, firms must communicate & enhance perceived value in buyers ‘mind.
- NB customers can be class fled as price buyers, value buyers’ & loyal buyers,- Each category needs special marketing strategies e.g. Caterpillar = low life time operating costs = increased perceived value

The key to perceived value pricing is to deliver more value than the competitor and demonstrate this to prospective buyers. (i.e. There is need to study the customers' value drivers & decision making processes)

Value Pricing

I.E. winning loyal customers by charging a fairly low price for a high quality offering e.g. IKEA, WAL-MART, and STANDARD HOTEL etc.

- NB: value pricing is not simply setting low prices but it involves reengineering operations to ensure low cost production without sacrificing quality, and lowering prices significantly to attract many value — conscious customers (e.g. EDLP i.e. Every Day Low Pricing by e.g. WAL-MART & SHOPRITE).

Going-Rate Pricing

Here the firm bases its price largely on competitors 'prices. A firm may charge the same, more or less than major competitor(s). This is common in oligopolistic markets/industries e.g. Oil, & steel.

Auction— Type Pricing

(i.e. the internet is making this method popular with a major aim of disposing off excess inventories or used goods e.g. www.freegoods.com.)

Major types of auctions include: -

- English Auctions: - (ascending bids) i.e. one seller targeting higher bidder
- Dutch Auctions: - (descending bids) i.e. one buyer and many sellers i.e. the starting price is high and keeps reducing till a sale is closed. I.e. one states what he wants to buy and sellers compete in offering it at low prices.

- Sealed — bid Auctions: - i.e. would-be suppliers can submit only one bid in secrecy and can not know the other bidders 'prices & terms. Government often uses this to procure supplies.

Group Pricing

i.e. Internet facility where consumers and biz buyers can join groups to buy at a lower price (bulk buying) e.g. www. Volumebuy.com. A pool price is set as the function of the number of orders received so far. Price reduces as orders increase.

Selecting The Final Price*:* - in selecting the final price, additional factors must be considered and these factors include: - psychological pricing, Gain and Risk sharing price, the influence of other marketing mix elements on price, company pricing policies and the impact of price on the other parties.

- **Psychological Pricing:** - i.e. using price to indicate quality/status/image (also called image pricing). This applies on ego — sensitive products e.g. perfumes, expensive cars etc. High price is at times perceived to reflect quality especially in goods of ostentation e.g. luxury cr.(i.e. POSITIONING)

Here sellers take advantage of reference prices to situate their goods among expensive ones. N,B, psychological pricing is based on perceptions and not reality.

Many sellers believe that prices should end in an odd number-e

Adapting The Price (Setting/Adjusting Price to suite Business Environment)

Instead of setting a single price, most firms usually establish a pricing structure that reflects variations in: (i.e. factors/causes for not setting a single-fixed price):

- Geographical demand and costs,
- Market — segment requirements,
- Purchase timing,
- Order levels,
- Delivery frequency,
- Guarantees,
- Service con tracts,
- Legal requirements among other factors.

This implies that it is rarely possible to realize the same profit from each unit product sold because of discounts, allowances and promotional support that firms indulge in.

The Major Price Adaptation Strategies: These include: Geographical pricing, price discount and allowances, promotional pricing, discriminatory pricing and product — mix pricing as explained below:

(1) **Geographical Pricing** (cash, counter trade and barter):- This entails deciding how to price products sold to different customers in different locations and countries.

NB: Distant geographical locations create additional operating costs e.g. shipping and taxation.

NB: **Form of payment, when dealing in international marketing, may be non-monetary (counter** trade) due to insufficient hard currencies (Foreign exchange problems) in foreign markets.

Common forms of counter trade include:-

(a) **Barter** (i.e. direct exchange of goods, with no money and no 3rd party involved).

(b) **Compensation Deal** (i.e. seller gets some percentage of payment in cash and the rest in products form)

(c) **Payback Arrangement** (i.e. seller sells plants, equipment, or technology to another country and agrees to accept, as partial payment, products manufactured with the supplied equipment)

(d) **Offset** arrangement (i.e. seller receives full payment in cash but agrees to spend a substantial amount of money in that country within a stated time period)

N.B. Some counter trade deals involved more than 2 parties and are so complex that they are better handled by barter houses or counter trade specialist.

Price Discounts and Allowances: i.e. adjusting list price to encourage early payment, bulk purchases or off-season buying. Popular types of price discounts and allowances include: -

a) **Cash discount** (i.e. price reduction for paying bills promptly (e.g. "2% /10 net 30".)
b) **Quantity Discount** (i.e. reduction for buying large volumes/bulk purchases)
c) **Functional/Trade discount:** (discount extended by manufacturer to trade channels members to perform certain functions e.g. storing, selling and record keeping etc)
d) **Seasonal Discount** (i.e. price reduction 4 buying out of season/ slow selling periods/off peak)
e) **Allowances** (i.e. reduction designed to gain reseller participation in special programs e.g. promotional allowances.)

N.B. *Discounts undermine value perceptions of the offering. (It's not advisable for distinctive Brands to engage in discounting as a response to low price attacks. People with high income and higher product involvement* *willingly pay more for features, customer care/service, quality, added convenience and brand name.)*

Promotional Pricing i.e. pricing techniques to stimulate early/more purchases. Promotional pricing may occur in any of the following forms:

- **Loss-leader pricing:** i.e. dropping of price on popular Brands to stimulate additional store in- traffic — often done by supermarkets and Departmental Stores).
- **Special — event pricing:** i.e. back to school sales, Christmas sales etc.
- **Cash rebates: -** These help to clear inventories without lowering the list price they are applicable within specified periods to boost sales. I.e. credit sales
- **Low-interest financing:** i.e. offer customers low-interest financing instead of cutting prices. N.B. Automakers can even offer no interest financing to boost sales, E.g. NHCC with Housing Finance Company in Uganda.
- **Longer payment terms:** i.e. stretching loans over longer periods thus lowering the monthly payments e.g. on leases and hire purchases.
- **Warranties and service contracts:** i.e. promoting sales by adding a free or low cost warranty or service contract.
- **Psychological discounting**: (i.e. setting artificially high prices and then offering products at great savings e.g. "Was $459, and now $399" (NB discounting unethical/illegitimate)

NB Promotional pricing strategies are often a zero-sum game i.e. if they work, competition copy them and they lose effect; when they fail they waste resources.

Discriminatory Pricing: i.e. selling an offer at 2 or more prices that do not reflect a proportional difference in costs. Price discrimination is of the following major types:

a) **1st degree price discrimination:** - i.e. charging/pricing according to buyers' intensity of demand.

b) **2nd degree price discrimination:** - i.e. charging less to large volume buyers (bulk buyers).

c) **3rd degree price discrimination:** - i.e. charging different prices to different classes of buyers. This type can be further classified as:

- **Customer-segment pricing:** i.e. Different customer groups pay different prices e.g. Museums and theatres charge students/children and senior citizens differently.
- **Product —. Form Pricing:** i.e. Different versions of a product are priced differently but not proportionately to their respective costs (e.g. Evans Mineral Water and moisturizer spray)
- **Image Pricing:** i.e. basing on image (positioning) to charge different prices. e.g. Estee Lauder's various perfume brands
- CHANNEL PRICING: Pricing according to outlets used e.g. Coca-Cola in vendor machines/ fast foods/hotels/supermarkets/etc.,
- **Location Pricing:** i.e. basing on location/classes to price differently e.g. classes or levels of seats/classes in planes, cinemas, theatre, etc.
- **TIME PRICING:** Prices varied by season, hour, or day e.g. **YIELD PRICING** used by Hotels and Airlines to charge less on unsold inventory just before it expires.

NB. Price discrimination operates well where markets can be clearly segmented with distinct demand intensities.

NB: Predatory Pricing (selling below cost to destroy competition) is unlawful/unethical/illegitimate.

Product —Mix Pricing: when a product is part of a product mix, its price-setting logic is often modified to ensure maximum profits on the total mix. Product mix pricing is of 6 various types/forms namely:

- Product-line pricing
- Optional-features pricing
- Captive-product pricing
- Two-part pricing
- By-product pricing, and
- Product-bundling pricing

(a) **Product-Line Pricing**: Normally firms develop product lines rather than single products and introduce price steps e.g. A clothing store might carry men�ََs suits at 3 price levels. The seller's task here is to establish perceived value differences.

(b) Optional Feature Pricing: i.e. tendency to price highly for every extra optional feature on a product sought by a buyer e.g. Automobiles and Restaurants foods.

(c) **Captive Product Pricing**: Tendency to set high prices for ancillary or captive product sold in the after market to offset the effects of low prices for the main product e.g. cheap cameras using expensive films, razors and razor blades etc. caterpillars and their spare parts, H.P. replacement in cartridges etc.

(d) **Two Part Pricing**: - i.e. setting affixed fee plus a variable usage fee for especially services e.g. MTN's monthly fee plus per call or entry fee to amusement parks or trade shows plus fees for each variables service enjoyed therein.

(e) **By-Product Pricing**: Setting a price for one s' by-products that is proportionate to the valve attached to such by-products. N.B. This can enable price reduction on the main product to offset competition e.g. in meats, petroleum products.

(f) **Product-Bundling Pricing**: Tendency to set a relatively lower price for a package/bundle of various items than the total price of buying each item separately e.g. Back- to-school packages by UNILEVER. These savings induce higher sales N.B. Some customers may push for unbundling or re-bundling of goods so as to save.

Initiating And Responding To Price Changes (situations that lead to cutting or raising prices). After establishing pricing strategies, firms often experience need to change prices. The change may be in any of these forms.

a) **Initiating Price Cuts**: causes of a price decrease may arise from: (major causes of price cuts):

- Excess plant capacity (with no alternative to price units)
- Declining market share (e.g. Gen. Motors 'price cut Vs Japanese Cars)
- A Desire to dominate the market through lower costs (i.e. start with low costs or lower prices).
- Economic recession (hard times when consumers reduce spending)

N.B. Pricing cutting strategy breeds the following possible traps.

- Low-quality trap (i.e. consumers assume that quality is low)
- Fragile-market-share trap (customers will shift to yet cheaper suppliers that are forthcoming)

Shallow-pocket trap (competitors may be financially more able to cut and maintain lower prices than you — the initiator.)

b) **Initiating Price Increases:** A price increase might be caused by:-

- Cost inflation
- Over demand

NB: One who avoids price increase may be better off. So, alternatives to increasing prices include:

- Shrinking the amount of product instead of raising the price '"
- Substituting less expensive materials or ingredients
- Reducing or removing product features
- Removing or reducing sales services e.g. free delivery and installation
- Using less costly packaging materials or larger package sizes
- Reducing the number of sizes and models offered
- Creating new economy brands

d) **Reaction to Price Changes:** any price change can provoke a response from customers, competitors, distributors, suppliers and or government i.e.

• **NB:** Customers reaction to lowered prices include an assumption that the item is about to be replaced by newer models, item is faulty and not selling well, the firm is in financial trouble, the price will reduce further, quality is reduced. A price increase may lower sales or imply that the item has improved quality hence leading to increased sales.

Responding To Competitions Price Changes: a firm facing a competitor's price change must try to understand the competitor's intent (i.e. stealing market share/utilize excess capacity/meet changing conditions, etc) and the likely duration of change (i.e. temporary/permanent).

NB: A firm's strategy often depends on whether it's producing homogenous or non homogenous products.

• Market leaders attacked by lower priced competitors can react by doing any or a combination of the following:

- Maintaining the price
- Maintaining the old price and adding value
- Reducing the price
- Increasing the price and improving quality
- Launching a low-price fighter line i.e. create a lower priced brand or items.

5.7 Placing Management Strategies
(Managing Value Networks and Marketing Channels):

The Concepts of Value Networks & Marketing Channels:

- **Value Network:** refers to a system of partnerships and alliances that a firm creates to source, augment, and deliver its offerings/products.
- **Marketing Channel:** (alternatively called a **Trade channel or Distribution channel)** refers to a set of intermediaries performing a variety of functions that .enable most producers to sell their offers indirectly to the final users. (I.e. Marketing channels are sets of interdependent organizations involved in the process of making an offer (Product/service) available for use or consumption. I.e. outlets/conduits/avenues/means/ways)
- Marketing channels are of various lengths/sizes. I.e. some have many intermediaries while others have few A traditional/conventional channel comprises of a wholesaler and retailers connecting the producer to final consumers/users.

Major Classifications of Channel Intermediaries:

Channel intermediaries are of various types that can be categorized as:

1. **Merchants:** These take title to, and resell the merchandise. E.g. Wholesalers & retailers.

2. **Agents:** These search for customers and may negotiate on the producer's behalf, but DO NOT take title to the goods E.g. Brokers, Manufacturers' Representatives, & Sales Agents among others.
3. **Facilitators:** These assist in the distribution process but neither, take title to the goods nor negotiate purchases or sales. E.g. Transporters, independent warehouses, banks, advertising agencies, insurers, & clearing agencies among others. (I.e. Providers of Business Logistics).

Significance of Marketing Channels

Most producers do not sell their goods directly to final users. I.e. often between producers and final users stands one or more marketing channels. (I.e. a host of marketing intermediaries performing a variety of functions thus exploiting the Advantages of specialization)

- **Marketing-channel** decisions are among the most critical decisions facing management of most firms. The company's chosen channel(s) profoundly affect all other marketing decisions. I.e. the channels chosen intimately affect all the other marketing decisions such as positioning, pricing, and market targeting. E.g. a firm's pricing depends on whether it uses Mass-Merchandisers or High- Quality Boutiques.
- NB: a firm's channel-decisions involve relatively long-term commitments to other firms e.g. dealerships, & Franchisees.

Rationale For Existence Of Trade Channels: (why /what justifies the prevalence of marketing/distribution channels?)

Companies resort to using intermediaries (indirect trade) under the following circumstances:

4. When they lack the financial & marketing resources to carry out direct marketing,

5. When direct marketing is not feasible (e.g. "Country-Of-Origin" effects), and

6. When they can earn more by doing so.

NB: The use of intermediaries largely boils down to their superior efficiency in making goods/offers widely available and accessible to target markets.

Major Functions & Flows Of Market Channels

The most important functions performed by intermediaries are:

- Information/Communication: i.e. they gather & provide information about potential and current customers, competitors, and other actors and forces in the marketing environment
- Promotion: i.e. developing and disseminating persuasive communication/promotional messages to stimulate purchasing.
- Negotiation: i.e. they reach agreements on price and other terms so that transfer of ownership or possession can be effected
- Ordering: i.e. placing orders with producers/manufacturers —bulk breaking.
- Financing: i.e. they acquire funds to finance inventories at different levels in the channel.
- Risk taking: i.e. they assume risk connected with carrying out channel work
- Physical possession: i.e. they provide for the successive storage& movement of physical goods.
- Payment: i.e. they ensure buyers pay their bills through banks & other financial institutions. This is tantamount to the Agency role.
- Title: i.e. they oversee actual transfer of ownership from one firm/person to another. NB: some of these functions are forward flows (e.g. title & promotion) while others are backward flows (e.g. ordering & payment)

and yet others may have a two-way/to-and-fro flow (e.g. Information & financing) between firm & clients/customers.

NB: Some functions have specialist intermediaries to handle them e.g. risk by insurers, payments & financing by banks/financial institutions, & transfer of ownership titles by Lawyers among others.

Channel Levels: Manufacturers have many alternatives for reaching a market. Such alternatives are known as levels of distribution channels. The major ones include:

1. Zero-Level Channel (also called Direct-Marketing Channel): I.e. selling directly to the final consumer. E.g. door-to-door sales, mail orders, telemarketing, TV selling, Internet selling and Manufacturer-owed stores.
2. One-Level Channel: i.e. using one selling intermediary e.g. retailer.
3. Two-Level Channel: i.e. using two types of intermediaries i.e. wholesalers & retailers.
4. Three-Level Channel: i.e. having/using three types of intermediaries.
5. Multiple Level Channels: i.e. using many/several intermediaries e.g. banks, insurers, clearing agents, transporters, and ware-houses among others

NB: A firm's choice of type(s)/levels of channels to use depends on (is determined by) the following factors:

- **Customer Needs:** analyzing customer needs e.g. lot size, waiting time, spatial convenience, product variety, & service back-up e.g. Caterpillar servicing through Gayle & Roberts Co. Ltd.
- **Channel Objectives:** i.e. establishing channel objectives.

Channel Alternatives Available: i.e. identifying and evaluating the major alternatives, including the types and numbers of intermediaries involved in the channel. E.g. sales forces, agents, distributors, dealers, direct mail, telemarketing, and the internet.

NB: The Company must determine whether to distribute its products exclusively, selectively, or intensively and it must clearly spell out the terms and responsibilities of each channel member. i.e.:

Tutorial

Exclusive distribution: i.e. severe limitation of the number of intermediaries. This is especially applied as means of maintaining control over service and output levels.

Selective Distribution: I.e. using few, carefully selected intermediaries for more control & wider distribution at low costs

Intensive distribution: I.e. using as many outlets as possible. This is good for cheap groceries/consumables that require spatial convenience e.g. tobacco products, soap, etc

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Review Questions

1.

Unit 6
Channel Management Strategies

Effective channel management calls for:

- **Selecting** intermediaries carefully i.e. to customers, the channels are the company. E.g. Shell Oil, McDonalds, & Sheraton Hotels.
- **Training** intermediaries thoroughly: plan and implement good training programmes for intermediaries, because they will be viewed as the company by end users.
- **Motivating** channel members: Treat intermediaries like your customers/clients. Determine their needs and construct a channel positioning such that its channel offering is tailored to provide superior value to these intermediaries. NB: The goal of good channel management is to build a long-term partnership that will be profitable for all channel members.
- **Evaluating** intermediaries on regular basis: Individual channel members' performance must be periodically evaluated against preset standards such as sales-quota attainment, average inventory levels, customer delivery time, treatment of damaged and lost goods, & cooperation in promotional and training programmes.
- **Modifying Channel arrangements:** Channel arrangements need periodic reviews and to be modified when market conditions change. E.g. when the channel is not working as planned, consumer buying patterns change, the market expands/contracts, new competition arises, innovative distributions emerge e.g. ATMs, and/or the product moves into later stages its life cycle-as a product moves to decline stages it shifts to lower-cost/value channels/outlets.

NB: There are various powers and skills that producers/manufacturers can use to manage distributors/intermediaries. Such powers include:

- Coercive Power: i.e. threats to withdraw resources/terminate relationships. Effective but Bad 4 it can breed countervailing power.
- Reward Power: i.e. extra benefits for good performance. Good but can breed expectations for every effort made by the intermediaries.
- Legitimate Power: establishing legally binding standards/contracts & warranties.
- Expert Power: i.e. special resources (e.g. skills/knowledge) of the manufacturer that is valued by distributors. NB respect disappears as the distributors acquire the special knowledge. So there is a need for continuous innovation by producers.
- Referent Power: highly respected manufacturer that intermediaries are proud to be associated with it. E.g. Sonny, IBM, Microsoft, H.P, & Caterpillar have such powers

6.1 Channel Dynamics

Marketing channels are characterized by continuous and sometimes dramatic change. Three of the most important trends are the growth of vertical marketing systems, horizontal marketing systems and multi-channel marketing systems. i.e.:

- **Vertical Marketing systems (VMS):** a unified system consisting of a producer, wholesalers & retailers, under one channel captain who owns the others, franchises them or has too much power that they all cooperate. VSM may be corporate, administered or contractual.
- **Horizontal Marketing Systems:** 2 or more unrelated firms merge resources/programmes to exploit a marketing opportunity. E.g. Shell Oil with Select shops, & MTN, ATMs with supermarkets, and Garden-city players among other one-point-of-sale establishments.
- Multi-channel Marketing Systems: One firm using 2 or more marketing channels to reach one or more customer segments

NB: competition in retailing is no longer between independent business units but between systems of programmed networks.

6.2 Channel Conflicts, Cooperation & Competition

All marketing channels have the potential for conflict and competition resulting from such sources as:

- Goal incompatibility: Contrasting aims & objectives of channel members.
- Poorly defined roles and rights: e.g. territorial boundaries & credit rights
- Perceptual differences: some may be pessimistic while others optimistic about strategies taken.
- Interdependent relationships: tendency to rely/base on manufacturers 'decisions for any channel strategies.

Management Of Channel Conflicts: Companies can manage conflict by:

- Striving for Super ordinate goals: establishing common/agreeable goals e.g. survival, market share, hi-quality, or customer satisfaction.
- Exchanging people among two or more channel levels:
- Co-opting the support of leaders in different parts of the channel:
- Encouraging joint membership in and between trade associations e.g. chambers of commerce, BUDS, & "Enterprise Uganda".
- Diplomacy: round-table
- Mediation: 3rd party to resolve conflict
- Arbitration: respectable arbitrator

Legal And Ethical Issues In Channel Relations: Channel arrangements are up to the company, but there are certain legal and ethical issues to be considered with regard to practices such as:

Exclusive dealing: stopping dealers/outlets from handling competitors' products. This may breed monopolistic competition and the related legislative burdens such as the popular anti-trust laws in USA.

Exclusive territories

Tying agreements: e.g. full-line forcing to a dealer wishing to carry only one/few of a strong manufacturer�much's products Dealers' rights. E.g. a right to make profit

6.3 Promotion / Communication Management Strategies

- Modem marketing requires firms to communicate with the present and potential stakeholders, and with the general public.
- Communication/promotion is one of the four basic marketing tools - the others being. Cost/Price, Convenience /Place, and Product / Concept or Customer needs- that constitute a marketing mix.

What Is Communication?

Communication can be simply defined as a process of transmitting messages. Communication process: A typical communication process is made-up of nine major elements namely:

- Sender (Source of message / initiator)
- Receiver (target audience / recipient)
- Message (information/understanding/meaning to be sent)
- Media/medium (Channels/means/avenues/ of communication that may be Audio, Visual, written, Audio-visual in nature)
- Encoding (Presentation format/Configuration)
- Decoding (Interpretations /Downloading)
- Response (Reaction of audience)
- Feedback / Echo (verification of response/impact)
- Noise (barriers/ disturbances,/ disruption,/ distortion/deterrents/hindrances)

The marketing communication mix (promotional tools): This mix consists of 5 major modes/forms of communication (promotional tools) namely:

- **Advertising: -** This refers to any (paid) form of non personal presentation and promotion of market offers (by an identified sponsor)
- **Sales Promotion:** - This refers to a variety of short term incentives to encourage trial or purchase of a product / market offer. (e.g. cents-off coupons, contests, premiums, buy-one-take-two, free samples)
- **Public Relations and Publicity: -** i.e. Various programs designed to promote or protect a firm's image or its individual products /offers.
- Personal Selling: i.e. Face-to-face interaction with one or more prospective purchasers for the purpose of making presentations, answering questions /making clarifications and/or secure orders.
- Direct Marketing: Use of mail, facsimile/fax, phones, e-mail, and the internet among other means to communicate directly with or solicit a direct response from specific customers/clients or prospects.

Other promotional tools/means that are increasingly getting popular include:

- Trade Promotions: i.e. incentives given to distribution intermediaries to hold/stock, promote, improve on, or simply sell one's offers. Such incentives may include favorable terms of trade/payment.
- Exhibitions: e.g. trade-shows, demonstrations, and trade symposia/conventions.
- Sponsorships: e.g. funding and participating in sports events and other community/voluntary activities such as also awareness campaigns. (Societal marketing concept/philosophy)

6.4 How To Establish Effect We Marketing Communication/Promotion

The development of effective marketing communication/promotion entails eight major stages/ steps that flow in a logical sequence as stated below:

1) **Identifying The Target Audience:** i.e. establishing the receivers/listeners for which messages are to be designed. NB: the target audience (e.g. potential buyers, current users, deciders, influencers, individual groups or general public) influence communicators decision on what to say, how to say it, when to say it, where to say it and to whom to say it). Here the marketer needs to perform a Familiarity Analysis (i.e. use familiarly scales to determine how much the targets audience knows about the company/offer to be promoted) and Favorability Analysis (i.e. use favorability scales to know how appealing an item is i.e. very favorable — Very unfavorable) then seek to close any gaps that exist between the current public perception and the image sought.

2) **Determining The Communication Objectives:** The firm may wish to put information into a consumer's mind, change the consumer's attitudes/opinions or to get the consumer to act). Note: communication objectives may be cognitive (i.e. seeking to establish awareness! attention/ knowledge! be informative), Affective (liking — preference — conviction) or Behavioral (purchase,- trial,- adoption).

3) Designing The Message: i.e. marketers should carefully consider the message content's (Rational/ Emotional / Moral) appeal, theme, idea or unique selling proposition, structure and format (i.e. presentation, color, voice, illustration, words, fonts , scent, size, shape, texture, audiovisual aspect). The source of the message is also worthy consideration when designing promotional messages (i.e. expertise, trustworthiness and liability of source e.g. use of celebrities, doctors- 4 health products, Engineers, humorous or natural sources).

4) Selecting Appropriate Communication Channels: i.e. choosing between (5/ personal channels (advocate / expert/social direct communication channels e.g. face-to-face, or E-mail.) and impersonal channels (e.g. mass media, events and atmospheres)

5) Establishing The Total Communication Budget: NB marketers ought to choose the "objective- and task method of budgeting (from among many other types of budgeting) which enables them to budget by defining their specific objectives (Best choice)

6) Deciding On The Communications Mix: Here marketers must examine the following factors:

(Factors to consider in Establishing Communication mix):

- The distinct advantages and costs of each of the major promotional tools.
- The type of product market in which they are selling i.e. consumer versus Business markets.
- Whether to use a "push" or "pull" strategy.
- How ready consumers are to make a purchase. I.e. buyer readiness stage.
- The product's stage in its product life cycle.
- The company's market rank. I.e. leadership, follower, challenger, or nicher)

7) **Measuring the Communication's Results** (Performance Appraisal): This involves asking members of the target audience such questions as: whether they recognize or recall the message, how many times they saw it, points they recall, how they felt about the message and their previous and current attitude towards the product and company.

8) **Manage The Integrated Marketing Communication Process** (IMC) = managing and co-coordinating the entire communication process. This entails synchronizing, scheduling, and coordinating the various

promotional activities/tools the firm may be involved in simultaneously. The need for an integrated marketing communication approach results from the current wide range of communication tools, messages, and audiences that today's most marketers have to deal with. I.e. an increasing rate of market segmentation, proliferation of new types of media and the growing sophistication of customers calls for various promotional approaches that ought to be integrated.

6.5 Explanatory Supplements/Tutorials

Characteristics of Promotional Tools (Qualities)

a) **Advertising**

- Public Presentation — Suggesting/implying legitimacy of products. This applies usually to Standardized offerings
- Passiveness — repetitive message — enabling customer to compare with competitor.
- Amplified Expressions i.e. Dramatization through artificial use of prints, sound and color. NB. Large scale advertising implies big company size, power and success
- Impersonality i.e. monologues - not obliging audience to respond.

NB Adverts are vital for building long term images for products, trigger quick sales, and reach geographically dispersed buyers.

NB: Advertising can be costly or cheap depending on media.

b) **Sales Promotion:-** Characteristics/advantages & disadvantages of sales promotion include:

- Communicative/interactive
- Incentives (concessions and inducements — increased customer value.
- Invitation. Draw stronger and quick buy response,
- Short term dramatization of offers and often used for boosting sagging sales

c) **Public Relations and Publicity** — Leads to:

- High credibility and authenticity
- Ability to catch buyers off- guard
- Dramatization of product and company

d**) Personal Selling** (Most effective tool at later stages of buying) especially in boosting buyer preference, conviction and action) Advantages of personal selling include:

- Personal confrontation (i.e. immediate and interactive relationship — observable reactions).
- Cultivation of "healthier" relations (leads to various relationships e.g. deep personal friends).
- Negative or positive response is learned immediately (buyer is obliged to listen and respond to sales talk).

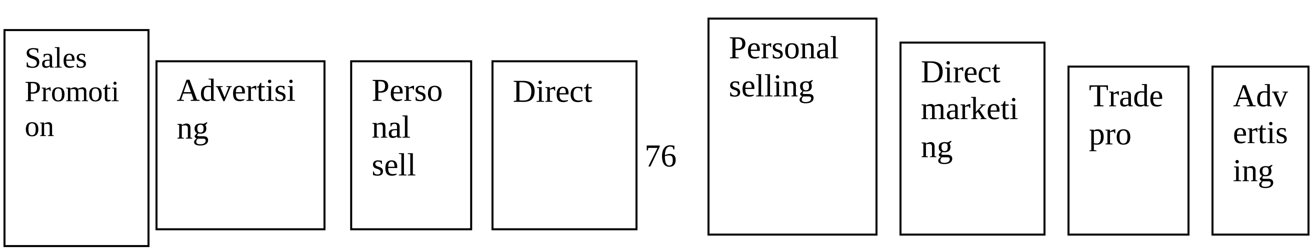
e) **Direct Marketing:** (e.g. direct mail, telemarketing, & internet marketing) The advantages or characteristics of direct marketing include:

- No Public/big audiences — (private address to specific persons)
- Customized messages:- (Prepared to appeal to addressed individuals/ Audience)
- Up-to-date messages (Quick to prepare and designed according to current situations)
- Interactive communication/dialogue (Flexible message i.e. changes depending on personal response).

Factors to Consider In Setting Marketing Communication Mix.

1) **Type of Product Market:** (I.e. Consumer market verse/Business market)

NB: Relative spending on promotional tools in consumer versus business markets differs as illustrated below:



NB personal selling is most relevant when selling complex, expensive and risky goods in especially markets of fewer and bulk sellers (business markets)

2) **Push Vs Pull Strategy**: **Push Strategy** is where manufactures use their sales force and trade promotion to induce intermediaries (channel members) to carry, promote and sell offers to end users. Push strategy is vital where there is no brand loyalty, in impulse goods, brand choice is made in store and product benefits are well understood.

Pull strategy is where manufacturer uses advertisements and consumer promotion to induce consumers to ask intermediaries for the product — intermediaries ordering for it. Pull strategy applies well where products differ and there is high brand loyalty, people perceive differences between brands and where choice of brand is made before going to stores.

3) **Buyer Readiness Stages**: The major Buyer-Readiness stages include: Awareness Building stage, Comprehension stage, Conviction stage, Ordering stage &, Re-order stage. Each of these major stages requires a different communication tool for effective promotion as explained below:

Awareness building stage requires advertisements and/or publicity as the most cost effective tools.

(i) Comprehension stage requires advertisements arid personal selling

(ii) Conviction stage requires personal selling

(iii) Ordering stage requires personal selling and sales promotion, i.e. for closing a sale

(iv) Reordering stage calls for personal selling and sales promotion.

Review Questions

1.

Unit 7

Management of Tue Total Marketing Effort

The modem marketing department evolved through six Stages, and today companies can be found in each stage. In the first stage, companies simply start out with a sales department. In the second stage, a separate marketing department is created to handle the increased number of ancillary marketing functions. In the forth stage, both sales and marketing report to a sales and marketing vice president. In the fifth stage, all of a company's employees are market and customer centered. In the sixth stage, marketing personnel work mainly on cross- disciplinary teams.

- Modem marketing departments can be organized in a number of ways. Some companies are organized by functional specialization, while others focus on geography and regionalization. Still others emphasize product and brand management or market- segment management. Some companies establish a matrix organization consisting of both product and market managers. Finally, some companies have strong corporate marketing, others have limited corporate marketing, and still others place marketing only in the divisions.
- Effective modem marketing organizations are marked by a strong cooperation and customer focus among the company's departments: marketing, R&D, engineering, purchasing, manufacturing, operations, finance, accounting, and credit.
- A brilliant strategic marketing plan counts for little if it is not implemented properly. Implementing market plans calls for skills in recognizing and diagnosing a problem, assessing the company level where the problem exists, implementation skills, and skills in evaluating the results.
- The marketing department has no monitor and control marketing activities continuously. The purpose of annual-plan control is to ensure that the company achieves the sales, profits, and other goals established in its annual plan. The main tools of annual-plan control are sales analysis, market-share analysis, marketing expense-to-sales analysis, financial analysis, and market-based scorecard analysis.

- Profitability control seeks to measure and control the profitability of various products, territories, customer groups, trade channels, and order sizes. An important part of controlling for profitability is assigning costs and generating profit-and-loss statements.
- Efficiency control focuses on finding ways to increase the efficiency of the sales force, advertising, sales promotion, and distribution.
- Strategic control entails a periodic reassessment of the company and its strategic approach to the market place, using the tools of the marketing effectiveness review and the marketing audit. Companies should also undertake marketing excellence reviews and ethical/social responsibility reviews.

Review Questions

1.

READING MATERIALS

Mason. E. Raph *et al* (1995) *Marketing Principles and Practices*.

Hollensen, S.(2001), *Global Marketing*: *Amarket responsive approach,* Financial Times/Prentice Hall,2nd Edition.

McDaniel Jr, S and Gates, R.(1993), *Contemporary Market Research.* Prentice Hall